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, 2016

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, 45 Glover Avenue Norwalk, Connecticut	**06856-4505**
(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 a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company 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 ☒

Class	Outstanding at June 30, 2016
Common Stock, $1 par value	1,013,303,609 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may 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: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters 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 our bids do not accurately estimate the resources and costs required to implement and service very complex, multi-year governmental and commercial contracts, often in advance of the final determination of the full scope and design of such contracts or as a result of the scope of such contracts being changed during the life of such contracts; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; service interruptions; 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 and the relocation of our service delivery centers; 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; the risk in the hiring and retention of qualified personnel; the risk that unexpected costs will be incurred; our ability to recover capital investments; the risk that our Services business could be adversely affected if we are unsuccessful in managing the start-up of new contracts; the collectability of our receivables for unbilled services associated with very large, multi-year contracts; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to expand equipment placements; interest rates, cost of borrowing and access to credit markets; the risk that our products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives; the outcome of litigation and regulatory proceedings to which we may be a party; the possibility that the proposed separation of the Business Process Outsourcing (BPO) business from the Document Technology and Document Outsourcing business will not be consummated within the anticipated time period or at all, including as the result of regulatory, market or other factors; the potential for disruption to our business in connection with the proposed separation; the potential that BPO and Document Technology and Document Outsourcing do not realize all of the expected benefits of the separation, 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, 2016 and our 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). Such factors also include, but are not limited to, the factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section and other sections of the Conduent Incorporated Form 10 Registration Statement filed with the SEC. Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

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For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per-share data)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Revenues				
Sales	$ 1,145	$ 1,224	$ 2,166	$ 2,350
Outsourcing, maintenance and rentals	3,158	3,279	6,335	6,532
Financing	82	87	165	177
Total Revenues	4,385	4,590	8,666	9,059
Costs and Expenses				
Cost of sales	707	776	1,331	1,450
Cost of outsourcing, maintenance and rentals	2,279	2,356	4,623	4,724
Cost of financing	32	32	65	65
Research, development and engineering expenses	128	142	262	283
Selling, administrative and general expenses	862	906	1,744	1,821
Restructuring and related costs	71	157	197	171
Amortization of intangible assets	78	79	167	156
Separation costs	28	—	36	—
Other expenses, net	55	68	112	114
Total Costs and Expenses	4,240	4,516	8,537	8,784
Income before Income Taxes and Equity Income	145	74	129	275
Income tax expense (benefit)	9	(9)	(6)	30
Equity in net income of unconsolidated affiliates	22	29	59	63
Income from Continuing Operations	158	112	194	308
Loss from discontinued operations, net of tax	—	(95)	—	(61)
Net Income	158	17	194	247
Less: Net income attributable to noncontrolling interests	3	5	5	10
Net Income Attributable to Xerox	$ 155	$ 12	$ 189	$ 237
Amounts Attributable to Xerox:				
Net income from continuing operations	$ 155	$ 107	$ 189	$ 298
Net loss from discontinued operations	—	(95)	—	(61)
Net Income Attributable to Xerox	$ 155	$ 12	$ 189	$ 237
Basic Earnings per Share:				
Continuing operations	$ 0.15	$ 0.09	$ 0.17	$ 0.26
Discontinued operations	—	(0.08)	—	(0.06)
Total Basic Earnings per Share	$ 0.15	$ 0.01	$ 0.17	$ 0.20
Diluted Earnings per Share:				
Continuing operations	$ 0.15	$ 0.09	$ 0.17	$ 0.26
Discontinued operations	—	(0.08)	—	(0.06)
Total Diluted Earnings per Share	$ 0.15	$ 0.01	$ 0.17	$ 0.20

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Net income	$ 158	$ 17	$ 194	$ 247
Less: Net income attributable to noncontrolling interests	3	5	5	10
Net Income Attributable to Xerox	155	12	189	237
Other Comprehensive (Loss) Income, Net[(1)]:				
Translation adjustments, net	(77)	194	114	(315)
Unrealized gains (losses), net	24	(19)	33	10
Changes in defined benefit plans, net	20	67	(92)	165
Other Comprehensive (Loss) Income, Net	(33)	242	55	(140)
Less: Other comprehensive (loss) income, net attributable to noncontrolling interests	(1)	1	(1)	—
Other Comprehensive (Loss) Income, Net Attributable to Xerox	(32)	241	56	(140)
Comprehensive Income, Net	125	259	249	107
Less: Comprehensive income, net attributable to noncontrolling interests	2	6	4	10
Comprehensive Income, Net Attributable to Xerox	$ 123	$ 253	$ 245	$ 97

(1) Refer to Note 15 - 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.

XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	June 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 1,203	$ 1,368
Accounts receivable, net	2,477	2,319
Billed portion of finance receivables, net	98	97
Finance receivables, net	1,295	1,315
Inventories	1,017	942
Other current assets	761	644
Total current assets	6,851	6,685
Finance receivables due after one year, net	2,508	2,576
Equipment on operating leases, net	484	495
Land, buildings and equipment, net	973	996
Investments in affiliates, at equity	1,471	1,389
Intangible assets, net	1,605	1,765
Goodwill	8,726	8,823
Other long-term assets	2,023	2,060
Total Assets	$ 24,641	$ 24,789
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 2,029	$ 985
Accounts payable	1,379	1,614
Accrued compensation and benefits costs	646	651
Unearned income	404	428
Other current liabilities	1,437	1,576
Total current liabilities	5,895	5,254
Long-term debt	5,355	6,354
Pension and other benefit liabilities	2,680	2,513
Post-retirement medical benefits	752	785
Other long-term liabilities	394	417
Total Liabilities	15,076	15,323
Commitments and Contingencies (See Note 17)		
Series A Convertible Preferred Stock	349	349
Common stock	1,013	1,013
Additional paid-in capital	3,047	3,017
Retained earnings	9,704	9,686
Accumulated other comprehensive loss	(4,586)	(4,642)
Xerox shareholders' equity	9,178	9,074
Noncontrolling interests	38	43
Total Equity	9,216	9,117
Total Liabilities and Equity	$ 24,641	$ 24,789
Shares of common stock issued and outstanding	1,013,304	1,012,836

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Cash Flows from Operating Activities:				
Net income	$ 158	$ 17	$ 194	$ 247
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	278	297	568	593
Provision for receivables	12	14	27	32
Provision for inventory	6	10	15	16
Net loss (gain) on sales of businesses and assets	4	74	(16)	62
Undistributed equity in net income of unconsolidated affiliates	9	(3)	(28)	(34)
Stock-based compensation	13	23	27	45
Restructuring and asset impairment charges	63	157	186	171
Payments for restructurings	(37)	(30)	(65)	(61)
Defined benefit pension cost	33	32	76	73
Contributions to defined benefit pension plans	(35)	(57)	(71)	(98)
Increase in accounts receivable and billed portion of finance receivables	(83)	(6)	(268)	(245)
Collections of deferred proceeds from sales of receivables	74	62	133	134
Decrease (increase) in inventories	7	(67)	(92)	(193)
Increase in equipment on operating leases	(68)	(69)	(130)	(139)
Decrease in finance receivables	21	6	85	78
Collections on beneficial interest from sales of finance receivables	7	12	15	27
(Increase) decrease in other current and long-term assets	(1)	11	(60)	(60)
Decrease in accounts payable and accrued compensation	(158)	(53)	(305)	(111)
Decrease in other current and long-term liabilities	(119)	(57)	(186)	(83)
Net change in income tax assets and liabilities	(27)	17	(74)	49
Net change in derivative assets and liabilities	(66)	14	(49)	2
Other operating, net	86	(55)	170	(43)
Net cash provided by operating activities	177	349	152	462
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(51)	(77)	(101)	(152)
Proceeds from sales of land, buildings and equipment	1	—	20	16
Cost of additions to internal use software	(22)	(25)	(44)	(45)
Proceeds from sale of businesses	3	930	(53)	933
Acquisitions, net of cash acquired	—	(20)	(18)	(48)
Other investing, net	2	23	4	29
Net cash (used in) provided by investing activities	(67)	831	(192)	733
Cash Flows from Financing Activities:				
Net proceeds on short-term debt	249	310	998	514
Proceeds from issuance of long-term debt	5	10	9	673
Payments on long-term debt	(257)	(267)	(965)	(1,284)
Common stock dividends	(78)	(77)	(149)	(147)
Preferred stock dividends	(6)	(6)	(12)	(12)
Proceeds from issuances of common stock	2	4	3	14
Excess tax benefits from stock-based compensation	—	1	—	3
Payments to acquire treasury stock, including fees	—	(395)	—	(611)
Repurchases related to stock-based compensation	—	—	—	(1)
Distributions to noncontrolling interests	(1)	(2)	(12)	(56)
Other financing	(1)	(1)	(1)	(1)
Net cash used in financing activities	(87)	(423)	(129)	(908)
Effect of exchange rate changes on cash and cash equivalents	(9)	12	4	(57)
Increase (decrease) in cash and cash equivalents	14	769	(165)	230
Cash and cash equivalents at beginning of period	1,189	872	1,368	1,411
Cash and Cash Equivalents at End of Period	$ 1,203	$ 1,641	$ 1,203	$ 1,641

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

Note 1 – Basis of Presentation

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2015 Annual Report on Form 10-K (2015 Annual Report), 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 2015 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.”

Planned Company Separation

On January 29, 2016, Xerox announced plans for the complete legal and structural separation of the Company's Business Process Outsourcing (BPO) business from its Document Technology and Document Outsourcing (DT/DO) business. Each of the businesses will operate as an independent, publicly-traded company. The transaction is intended to be tax-free for Xerox shareholders for federal income tax purposes.

During second quarter 2016, we announced that the new BPO company will be named Conduent Incorporated (Conduent) and that the DT/DO company will retain the Xerox Corporation name. In addition, the CEO for each of the two new companies was announced, and an initial Form 10 registration statement for Conduent was filed with the U.S. Securities and Exchange Commission (SEC) on June 30, 2016. As part of the SEC's standard review process, we expect to receive comments from the SEC and file amendments to this filing to address SEC comments and to provide further information about the new company.

Xerox has begun the process to separate and is finalizing the transaction structure, which is predicated on a spin-off of the BPO business. To effect the separation, Xerox will first undertake a series of internal transactions, following which Conduent Incorporated will hold, directly or through its subsidiaries, the BPO business. The separation will be completed by way of a pro rata distribution of Conduent Incorporated shares held by Xerox to Xerox's shareholders.

Our objective is to complete the separation by year-end 2016, subject to customary regulatory approvals, the effectiveness of a Form 10 registration statement with the SEC, tax considerations, securing any necessary financing and final approval of the Xerox Board of Directors. Until the separation is complete, we will continue to operate and report as a single company, and it will continue to be business as usual for our customers and employees.

In conjunction with the separation, Xerox also began a three-year strategic transformation program targeting a cumulative $2.4 billion of savings across all segments. The program is inclusive of ongoing activities and $600 of incremental transformation initiatives. Refer to Note 9-Restructuring Programs for additional information.

Note 2 – Recent Accounting Pronouncements

Revenue Recognition
In May 2014, the FASB issued **ASU 2014-09**, *Revenue from Contracts with Customers (Topic 606)*, to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues 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. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing 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. ASU 2014-09 is effective for our fiscal year beginning January 1, 2018, with early adoption permitted for fiscal years beginning January 1, 2017. Subsequent to the issuance of ASU 2014-09, the FASB issued the following ASU's which amend or provide additional guidance on topics addressed in ASU 2014-09. In March 2016, the FASB issued ASU 2016-08, Revenue Recognition - Principal versus Agent (reporting revenue gross versus net). In April 2016, the FASB issued ASU 2016-10, Revenue Recognition - Identifying Performance Obligations and Licenses. In May 2016, the FASB issued ASU 2016-12, Revenue Recognition - Narrow Scope Improvements and Practical Expedients. We will adopt this standard beginning January 1, 2018, and we will use the cumulative catch-up transition method. We continue to evaluate the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

Leases
In February 2016, the FASB issued **ASU 2016-02**, *Leases*. This update requires the recognition of leased assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. 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. This update is effective for our fiscal year beginning January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

Stock Compensation
In March 2016, the FASB issued **ASU 2016-09**, *Compensation - Stock Compensation, Improvements to Employee Share-Based payment Accounting (Topic 718).* This update is intended to provide simplification of the accounting for share based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This update is effective for our fiscal year beginning January 1, 2017. We are currently evaluating the impact of the adoption of ASU 2016-09 on our consolidated financial statements.

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.

Equity Method Accounting
In March 2016, the FASB issued **ASU 2016-07**, *Investments - Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting*. This update eliminates the requirement that when an existing cost method investment qualifies for use of the equity method, an investor must restate its historical financial statements, as if the equity method had been used during all previous periods. Under the new guidance, at the point an investment qualifies for the equity method, any unrealized gain or loss in accumulated other comprehensive income/(loss) ("AOCI") will be recognized through earnings. This update is effective for our fiscal year beginning January 1, 2017, with early adoption permitted. The adoption of this update is not expected to have a material impact on our financial condition, results of operations or cash flows.

Accounting for Income Taxes: Balance Sheet Presentation of Deferred Taxes
In November 2015, the FASB issued **ASU 2015-17**, *Income Taxes: Balance Sheet Classification of Deferred Taxes.* This update, which simplifies the presentation of deferred income taxes, requires that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. As allowed by the update, we early adopted ASU 2015-17 effective December 31, 2015 on a prospective basis. Adoption of this update resulted in a reclassification of our net current deferred tax asset and liabilities to the net non-current deferred tax asset and

liabilities in our Consolidated Balance Sheet as of December 31, 2015. Prior periods were not retrospectively adjusted. The current requirement that deferred tax liabilities and assets of a tax-paying component (jurisdiction) of an entity be offset and presented as a single amount is not affected by this update.

Interest

In April 2015, the FASB issued **ASU 2015-03**, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs.* This update requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. In August 2015, the FASB issued ASU 2015-15, which indicated that the SEC staff would not object to an entity deferring and presenting debt issuance costs associated with a line-of-credit arrangement as an asset and subsequently amortizing those costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings. All of our debt issuance costs were reported as deferred charges in Other long-term assets and were $32 at December 31, 2015, $4 of which is related to our credit agreement. Upon adoption of this update effective January 1, 2016, we reclassified $28 of debt issuance costs to long-term debt. Prior periods were retroactively revised. The costs associated with our credit agreement will continue to be reported as a deferred charge in Other long-term assets. The adoption of this standard is not expected to have any effect on our financial condition, results of operations or cash flows.

Other Updates

In 2016 and 2015, the FASB also issued the following Accounting Standards Updates which are not expected to have a material impact on our financial condition, results of operations or cash flows when adopted in future periods. Those updates are as follows:

- ***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.

- ***Derivatives and Hedging:*** **ASU 2016-06**, *Contingent Put and Call Options in Debt Instruments,* which is effective for our fiscal year beginning January 1, 2017 with early adoption permitted.

- ***Derivatives and Hedging:*** **ASU 2016-05**, *Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships,* which is effective for our fiscal year beginning January 1, 2017 with early adoption permitted.

- ***Business Combinations:*** **ASU 2015-16**, *Accounting for Measurement Period Adjustments in a Business Combination*, which was effective for our fiscal year beginning January 1, 2016.

- ***Inventory:*** **ASU 2015-11**, *Simplifying the Subsequent Measurement of Inventory,* which is effective for our fiscal year beginning January 1, 2017.

- ***Intangibles - Goodwill and Other - Internal Use Software:*** **ASU 2015-05**, *Intangibles-Goodwill and Other-Internal Use Software - Customer's Accounting for Fees Paid in a Cloud Computing Arrangement,* which was effective for our fiscal year beginning January 1, 2016.

- ***Consolidation:*** **ASU 2015-02**, *Consolidation (Topic 810): Amendments to the Consolidation Analysis,* which was effective for our fiscal year beginning January 1, 2016.

- ***Derivatives and Hedging:*** **ASU 2014-16**, *Derivatives and Hedging (Topic 815) - Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity,* which was effective for our fiscal year beginning January 1, 2016.

- ***Disclosures of Going Concern Uncertainties:*** **ASU 2014-15**, *Presentation of Financial Statements - Going Concern (Subtopic 205-40); Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which is effective for our fiscal year ending December 31, 2016.

- ***Stock Compensation:*** **ASU 2014-12**, *Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide that a Performance Target Could be Achieved after the Requisite Service Period,* which was effective for our fiscal year beginning January 1, 2016.

Note 3 – Segment Reporting

Our reportable segments are aligned with how we manage the business and view the markets we serve. We report our financial performance based on the following two primary reportable segments – **Services and Document Technology**. Our Services segment operations involve delivery of business process and document outsourcing services for a broad range of customers from small businesses to large global enterprises. Our Document Technology segment includes the sale and support of a broad range of document systems from entry level to high-end.

In the first quarter of 2016, we revised our segment reporting to reflect the following changes:

- The transfer of the Education/Student Loan business from the Services segment to Other as a result of the expected continued run-off of this business. The business does not meet the threshold for separate segment reporting.
- The exclusion of the non-service elements of our defined-benefit pension and retiree-health plan costs from Segment profit.

Prior year amounts were accordingly revised to reflect these changes.

The **Services** segment is comprised of two outsourcing service offerings:

- Business Process Outsourcing (BPO)
- Document Outsourcing (which includes Managed Print Services) (DO)

Business process outsourcing services include service arrangements where we manage a customer's business activity or process. We provide multi-industry offerings such as customer care, transaction processing, finance and accounting, and human resources, as well as industry-focused offerings in areas such as healthcare, transportation, financial services, retail and telecommunications. Document outsourcing services include service arrangements that allow customers to streamline, simplify and digitize their document-intensive business processes through automation and deployment of software applications and tools and the management of their printing needs. Document outsourcing also includes revenues from our partner print services offerings.

Our **Document Technology** segment includes the sale of document systems and supplies, provision of technical service and financing of products. Our products groupings range from:

- **"Entry,"** which includes A4 devices and desktop printers; to
- **"Mid-range,"** which includes A3 devices that generally serve workgroup environments in mid to large enterprises and includes products that fall into the following market categories: Color 41+ ppm priced at less than $100K and Light Production 91+ ppm priced at less than $100K; to
- **"High-end,"** which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

Customers range from small and mid-sized businesses to large enterprises. Customers also include graphic communication enterprises as well as channel partners including distributors and resellers. Segment revenues reflect the sale of document systems and supplies, technical services and product financing.

Other includes several units, none of which meet the thresholds for separate segment reporting. This group includes paper sales in our developing market countries, Wide Format Systems, licensing revenues, Global Imaging Systems (GIS) network integration solutions, Education/Student Loan business, electronic presentation systems and non-allocated corporate items including non-financing interest and other items included in Other expenses, net.

Operating segment revenues and profitability were as follows:

	Three Months Ended June 30,				Six Months Ended June 30,			
	Segment Revenue		Segment Profit (Loss)		Segment Revenue		Segment Profit(Loss)	
2016								
Services	$	2,470	$	236	$	4,952	$	426
Document Technology		1,752		221		3,391		388
Other		163		(80)		323		(146)
Total	$	4,385	$	377	$	8,666	$	668
2015								
Services	$	2,526	$	181	$	4,993	$	368
Document Technology		1,880		235		3,710		467
Other		184		(62)		356		(109)
Total	$	4,590	$	354	$	9,059	$	726

	Three Months Ended June 30,				Six Months Ended June 30,			
Reconciliation to Pre-tax Income	2016		2015		2016		2015	
Segment Profit	$	377	$	354	$	668	$	726
Reconciling items:								
Restructuring and related costs		(71)		(157)		(197)		(171)
Restructuring charges of Fuji Xerox		(1)		(1)		(1)		(2)
Business transformation costs[(1)]		—		(3)		(1)		(7)
Amortization of intangible assets		(78)		(79)		(167)		(156)
Non-service retirement-related costs[(2)]		(32)		(10)		(78)		(52)
Equity in net income of unconsolidated affiliates		(22)		(29)		(59)		(63)
Separation costs[(3)]		(28)		—		(36)		—
Other		—		(1)		—		—
Pre-tax Income	$	145	$	74	$	129	$	275

(1) Business transformation costs represent incremental costs incurred directly in support of our business transformation and restructuring initiatives such as compensation costs for overlapping staff, consulting costs and training costs.

(2) Represents the non-service elements of our defined-benefit pension and retiree-health plan costs. Refer to Note 13 - Employee Benefit Plans for details regarding these elements.

(3) Separation costs are expenses incurred in connection with Xerox's planned separation into two independent, publicly-traded companies. These costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services. Refer to Note 1 - Basis of Presentation for additional information regarding Xerox's planned separation.

Note 4 – Divestitures

Information Technology Outsourcing (ITO)

In 2014, we announced an agreement to sell our ITO business to Atos SE (Atos). As a result of this agreement, we reported the ITO business as held for sale and a discontinued operation up through its date of sale, which was completed on June 30, 2015.

In February 2016, we reached an agreement with Atos on the final adjustments to the closing balance of net assets sold as well as the settlement of certain indemnifications and recorded an additional pre-tax loss on the disposal in 2015 of $24 ($14 after-tax). This additional loss was recorded in the 2015 financial statements because the agreement with Atos was reached before the financial statements had been issued, accordingly no adjustment was required in 2016. In the first quarter 2016, we paid Atos approximately $52, representing a $28 adjustment to the final sales price as a result of this agreement and a payment of $24 due from closing. The payment is reflected in Investing cash flows as an adjustment of the sales proceeds.

Other Discontinued Operations

There were no Discontinued Operations as of June 30, 2016. Summarized financial information for our Discontinued Operations is as follows:

	Three Months Ended June 30, 2015			Six Months Ended June 30, 2015		
	ITO	Other	Total	ITO	Other	Total
Revenues	$ 308	$ —	$ 308	$ 619	$ —	$ 619
Income from operations [(1)]	43	—	43	104	—	104
Loss on disposal	(68)	—	(68)	(72)	—	(72)
Net (loss) income before income taxes	$ (25)	$ —	$ (25)	$ 32	$ —	$ 32
Income tax expense	(70)	—	(70)	(93)	—	(93)
Loss from discontinued operations, net of tax	$ (95)	$ —	$ (95)	$ (61)	$ —	$ (61)

[(1)] ITO Income from operations excludes depreciation and amortization expenses of approximately $41 and $80 (including $7 and $14 of intangible amortization) for the three and six months ended June 30, 2015, respectively, since the business was held for sale.

Note 5 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	June 30, 2016	December 31, 2015
Amounts billed or billable	$ 2,209	$ 2,110
Unbilled amounts	345	289
Allowance for doubtful accounts	(77)	(80)
Accounts Receivable, Net	$ 2,477	$ 2,319

Unbilled receivables include receivables associated with percentage-of-completion accounting and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent month for current services provided are included in amounts billable, and at June 30, 2016 and December 31, 2015 were approximately $826 and $849, respectively.

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. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third parties certain accounts receivable without recourse. The accounts receivable sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances, a portion of the sales proceeds is held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Condensed Consolidated Statements of Cash Flows because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to its short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in Other current assets in the accompanying Condensed Consolidated Balance Sheets and were $59 and $61 at June 30, 2016 and December 31, 2015, respectively.

Under most of the arrangements, we continue to service the sold accounts receivable. When applicable, a servicing liability is recorded for the estimated fair value of the servicing. The amounts associated with the servicing liability were not material.

Of the accounts receivable sold and derecognized from our balance sheet, $603 and $660 remained uncollected as of June 30, 2016 and December 31, 2015, respectively.

Accounts receivable sales were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Accounts receivable sales	$ 648	$ 586	$ 1,328	$ 1,188
Deferred proceeds	59	57	130	119
Loss on sales of accounts receivable	4	3	8	6
Estimated decrease to operating cash flows[1]	(34)	(27)	(57)	(10)

(1) 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.

Note 6 - Finance Receivables, Net

Sale of Finance Receivables

In 2013 and 2012, we transferred our entire interest in certain groups of lease finance receivables to third-party entities for cash proceeds and beneficial interests. The transfers were accounted for as sales with derecognition of the associated lease receivables. There have been no transfers of finance receivables since the year ended December 31, 2013. We continue to service the sold receivables and record servicing fee income over the expected life of the associated receivables.

The following is a summary of our prior sales activity.

	Year Ended December 31,	
	2013	2012
Net carrying value (NCV) sold	$ 676	$ 682
Allowance included in NCV	17	18
Cash proceeds received	635	630
Beneficial interests received	86	101

The principal value of finance receivables derecognized from our balance sheet was $163 and $238 (sales value of approximately $154 and $256) at June 30, 2016 and December 31, 2015, respectively.

Summary

The lease portfolios transferred and sold were from our Document Technology segment. The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interests, which were $26 and $38 at June 30, 2016 and December 31, 2015, respectively, and are included in Other current assets and Other long-term assets in the accompanying Condensed Consolidated Balance Sheets. Beneficial interests of $17 and $30 at June 30, 2016 and December 31, 2015, respectively, are held by bankruptcy-remote subsidiaries and therefore are not available to satisfy any of our creditor obligations. We report collections on the beneficial interests as operating cash flows in the Condensed Consolidated Statements of Cash Flows because such beneficial interests are the result of an operating activity, and the associated interest rate risk is de minimis considering their weighted average lives of less than 2 years.

The net impact from the sales of finance receivables on operating cash flows is summarized below:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Impact from prior sales of finance receivables[1]	$ (51)	$ (89)	$ (110)	$ (194)
Collections on beneficial interest	8	15	18	33
Estimated decrease to operating cash flows	$ (43)	$ (74)	$ (92)	$ (161)

(1) Represents cash that would have been collected had we not sold finance receivables.

Finance Receivables – Allowance for Credit Losses and Credit Quality

Finance receivables include sales-type leases, direct financing leases and installment loans. 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[(2)]	Total
Balance at December 31, 2015[(1)]	$ 54	$ 17	$ 45	$ 2	$ 118
Provision	4	1	5	—	10
Charge-offs	(2)	(2)	(2)	—	(6)
Recoveries and other[(3)]	1	2	1	—	4
Balance at March 31, 2016	$ 57	$ 18	$ 49	$ 2	$ 126
Provision	—	1	7		8
Charge-offs	(3)	(2)	(3)	—	(8)
Recoveries and other[(3)]	—	1	(2)	—	(1)
Balance at June 30, 2016	$ 54	$ 18	$ 51	$ 2	$ 125
Finance receivables as of June 30, 2016 collectively evaluated for impairment[(4)]	$ 2,149	$ 389	$ 1,424	$ 64	$ 4,026
Balance at December 31, 2014[(1)]	$ 51	$ 20	$ 58	$ 2	$ 131
Provision	4	1	5	1	11
Charge-offs	—	(3)	(1)	(1)	(5)
Recoveries and other[(3)]	—	—	(6)	—	(6)
Balance at March 31, 2015	$ 55	$ 18	$ 56	$ 2	$ 131
Provision	3	1	6	—	10
Charge-offs	(3)	(2)	(5)	—	(10)
Recoveries and other[(3)]	(1)	1	3	—	3
Balance at June 30, 2015	$ 54	$ 18	$ 60	$ 2	$ 134
Finance receivables as of June 30, 2015 collectively evaluated for impairment[(1),(4)]	$ 2,074	$ 397	$ 1,619	$ 66	$ 4,156

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(1) *In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified in Other was reclassified to the U.S. Prior year amounts have been revised to conform to current year presentation.*
(2) *Includes developing market countries and smaller units.*
(3) *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.*
(4) *Total Finance receivables exclude the allowance for credit losses of $125 and $134 at June 30, 2016 and 2015, 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 the 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 & Poors (S&P) rating of BBB- or better. Loss rates in this category are normally minimal at 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 on such leases. Loss rates in this category are generally in the range of 2% to 4%.

- **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 status 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 approximately 10%.

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

	June 30, 2016				December 31, 2015[4]			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	$ 183	$ 327	$ 93	$ 603	$ 195	$ 285	$ 91	$ 571
Government and education	554	54	6	614	575	48	7	630
Graphic arts	137	108	107	352	145	92	127	364
Industrial	85	71	24	180	89	62	22	173
Healthcare	82	48	16	146	90	46	19	155
Other	97	104	53	254	121	107	53	281
Total United States	1,138	712	299	2,149	1,215	640	319	2,174
Finance and other services	60	41	9	110	55	35	9	99
Government and education	58	7	1	66	59	7	2	68
Graphic arts	44	39	22	105	45	35	21	101
Industrial	24	13	4	41	23	12	3	38
Other	37	26	4	67	33	23	3	59
Total Canada	223	126	40	389	215	112	38	365
France	191	245	66	502	203	207	101	511
U.K./Ireland	198	83	2	283	235	91	3	329
Central[1]	207	165	23	395	206	186	25	417
Southern[2]	40	133	14	187	36	138	17	191
Nordics[3]	31	24	2	57	24	35	2	61
Total Europe	667	650	107	1,424	704	657	148	1,509
Other	41	20	3	64	41	16	1	58
Total	$ 2,069	$ 1,508	$ 449	$ 4,026	$ 2,175	$ 1,425	$ 506	$ 4,106

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(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.
(4) In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified in Other was reclassified to the U.S. Prior year amounts have been reclassified to conform to current year presentation.

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, 2016						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	$ 9	$ 4	$ 2	$ 15	$ 588	$ 603	$ 12
Government and education	13	4	4	21	593	614	25
Graphic arts	13	1	—	14	338	352	6
Industrial	3	2	1	6	174	180	5
Healthcare	3	2	1	6	140	146	5
Other	9	2	1	12	242	254	6
Total United States	50	15	9	74	2,075	2,149	59
Canada	3	—	—	3	386	389	10
France	4	—	—	4	498	502	29
U.K./Ireland	2	1	—	3	280	283	1
Central(1)	3	1	1	5	390	395	8
Southern(2)	7	2	2	11	176	187	7
Nordics(3)	1	—	—	1	56	57	2
Total Europe	17	4	3	24	1,400	1,424	47
Other	3	—	—	3	61	64	—
Total	$ 73	$ 19	$ 12	$ 104	$ 3,922	$ 4,026	$ 116

	December 31, 2015(4)						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	$ 10	$ 2	$ 2	$ 14	$ 557	$ 571	$ 14
Government and education	12	1	4	17	613	630	37
Graphic arts	12	2	1	15	349	364	8
Industrial	5	1	1	7	166	173	7
Healthcare	4	1	1	6	149	155	9
Other	14	2	2	18	263	281	7
Total United States	57	9	11	77	2,097	2,174	82
Canada	3	—	—	3	362	365	9
France	—	—	—	—	511	511	25
U.K./Ireland	1	—	—	1	328	329	1
Central(1)	3	1	1	5	412	417	7
Southern(2)	8	2	3	13	178	191	10
Nordics(3)	1	—	—	1	60	61	4
Total Europe	13	3	4	20	1,489	1,509	47
Other	1	1	—	2	56	58	—
Total	$ 74	$ 13	$ 15	$ 102	$ 4,004	$ 4,106	$ 138

(1) *Switzerland, Germany, Austria, Belgium and Holland.*
(2) *Italy, Greece, Spain and Portugal.*
(3) *Sweden, Norway, Denmark and Finland.*
(4) *In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified in Other was reclassified to the U.S. Prior year amounts have been reclassified to conform to current year presentation.*

Note 7 – Inventories

The following is a summary of Inventories by major category:

	June 30, 2016	December 31, 2015
Finished goods	$ 855	$ 792
Work-in-process	65	51
Raw materials	97	99
Total Inventories	$ 1,017	$ 942

Note 8 – Investment in Affiliates, at Equity

Our equity in net income of unconsolidated affiliates was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Fuji Xerox	$ 19	$ 25	$ 52	$ 56
Other investments	3	4	7	7
Total Equity in Net Income of Unconsolidated Affiliates	$ 22	$ 29	$ 59	$ 63

Fuji Xerox

Equity in net income 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 that is different from that implied by our 25% ownership interest.

Condensed financial data of Fuji Xerox was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Summary of Operations:				
Revenues	$ 2,450	$ 2,389	$ 5,128	$ 5,120
Costs and expenses	2,329	2,211	4,793	4,731
Income before income taxes	121	178	335	389
Income tax expense	44	63	109	129
Net Income	77	115	226	260
Less: Net income – noncontrolling interests	1	2	3	4
Net Income – Fuji Xerox	$ 76	$ 113	$ 223	$ 256
Weighted Average Exchange Rate[(1)]	107.84	121.39	111.62	120.27

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

Note 9 – Restructuring Programs

During the six months ended June 30, 2016, we recorded net restructuring and asset impairment charges of $186, which included approximately $197 of severance costs related to headcount reductions of approximately 6,100 employees worldwide, $4 of lease cancellation costs and $2 of asset impairments. These costs were offset by $12 of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives, as well as a gain of $5 from the sale of real estate impaired in prior periods.

We also recorded $11 of costs during the six months ended June 30, 2016, primarily related to professional support services associated with the implementation of the strategic transformation program.

Information related to restructuring program activity during the six months ended June 30, 2016 is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments(2)	Total
Balance at December 31, 2015	$ 22	$ 2	$ —	$ 24
Provision	197	4	2	203
Reversals	(12)	—	(5)	(17)
Net Current Period Charges(1)	185	4	(3)	186
Charges against reserve and currency	(64)	(5)	3	(66)
Balance at June 30, 2016	$ 143	$ 1	$ —	$ 144

(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.

Reconciliation to the Condensed Consolidated Statements of Cash Flows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Charges against reserve	$ (39)	$ (175)	$ (66)	$ (212)
Asset impairments	2	146	2	146
Effects of foreign currency and other non-cash items	—	(1)	(1)	5
Restructuring Cash Payments	$ (37)	$ (30)	$ (65)	$ (61)

The following table summarizes the total amount of costs incurred in connection with these restructuring programs by segment:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Services (1)	$ 25	$ 149	$ 62	$ 154
Document Technology	42	8	128	17
Other	(4)	—	(4)	—
Total Net Restructuring Charges	$ 63	$ 157	$ 186	$ 171

(1) The three and six months ended June 30, 2015 includes $146 of software asset impairment charges.

Note 10 – Debt

Term Loan Facility

On March 4, 2016, Xerox Corporation entered into a $1.0 billion senior unsecured term facility. The facility was fully drawn by April 1, 2016 ($750 was drawn on March 11, 2016 and $250 on April 1, 2016) and must be repaid on the earlier of 364 days or upon receipt of financing related to the separation of Xerox into two independent publicly traded companies. Refer to Note 1- Basis of Presentation for information regarding the planned Company separation. Borrowings under the facility currently bear interest at a rate of LIBOR plus 1.50% and current interest rates vary between 2.13% and 2.16%.

The proceeds of the facility were used to repay maturing debt of $950 ($700 of 6.40% Senior Notes on March 15, 2016 and $250 of 7.20% Notes on April 1, 2016).

Interest Expense and Income

Interest expense and interest income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense[(1)]	$ 81	$ 88	$ 169	$ 177
Interest income[(2)]	84	89	169	181

(1) Includes Equipment financing interest as well as non-financing interest expense that is included in Other expenses, net in the Condensed Consolidated Statements of Income.
(2) Includes Finance income as well as other interest income that is included in Other expenses, net in the Condensed Consolidated Statements of Income.

Note 11 – 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, 2016, pay variable/receive fixed interest rate swaps with notional amounts of $300 and net asset fair value of $18 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.

The following is a summary of our fair value hedges at June 30, 2016:

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	$ 18	2.52%	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, 2016 and December 31, 2015, we had outstanding forward exchange and purchased option contracts with gross notional values of $2,843 and $3,212 respectively, with terms less than 12 months. The associated currency exposures being hedged at June 30, 2016 were consistent with year-end, and 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 expenses. The net asset/(liability) fair value of these contracts were $37 and $(1) as of June 30, 2016 and December 31, 2015, respectively.

Summary of Derivative Instruments Fair Value

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

Designation of Derivatives	Balance Sheet Location	June 30, 2016	December 31, 2015
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 39	$ 4
	Other current liabilities	(2)	(4)
Foreign currency options	Other current liabilities	—	(1)
Interest rate swaps	Other long-term assets	18	7
	Net Designated Derivative Asset	$ 55	$ 6
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 115	$ 51
	Other current liabilities	(12)	(8)
	Net Undesignated Derivative Asset	$ 103	$ 43
Summary of Derivatives	Total Derivative Assets	$ 172	$ 62
	Total Derivative Liabilities	(14)	(13)
	Net Derivative Asset	$ 158	$ 49

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	2016	2015	2016	2015
Fair Value Hedges - Interest rate contracts				
Derivative gain (loss) recognized in interest expense	$ 2	$ (4)	$ 11	$ —
Hedged item (loss) gain recognized in interest expense	(2)	4	(11)	—
Cash Flow Hedges - Foreign exchange forward contracts and options				
Derivative gain (loss) recognized in OCI (effective portion)	$ 41	$ (24)	$ 57	$ 7
Derivative gain (loss) reclassified from AOCI to income - Cost of sales (effective portion)	8	—	7	(10)

During the three and six months ended June 30, 2016 and 2015, no amount of ineffectiveness was recorded in earnings for these designated cash flow hedges and all components of each derivative's gain (loss) was 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.

At June 30, 2016, a net after-tax gain of $33 was recorded in accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

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

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

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Foreign exchange contracts – forwards	Other expense – Currency gains (loss), net	$ 78	$ (50)	$ 149	$ (35)

Net currency gains and losses are included in Other expenses, net and 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. For the three and six months ended June 30, 2016, currency gains (losses), net were $3 and $(1), respectively. For the three and six months ended June 30, 2015, currency gains (losses), net were $5 and $(1), respectively.

Note 12 – 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, 2016	December 31, 2015
Assets:		
Foreign exchange contracts - forwards	$ 154	$ 55
Interest rate swaps	18	7
Deferred compensation investments in cash surrender life insurance	94	92
Deferred compensation investments in mutual funds	35	33
Total	$ 301	$ 187
Liabilities:		
Foreign exchange contracts - forwards	$ 14	$ 12
Foreign currency options	—	1
Deferred compensation plan liabilities	127	125
Total	$ 141	$ 138

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 Company-owned life insurance is reflected at cash surrender value. Fair value for our deferred compensation plan investments in mutual funds is based on quoted market prices for actively traded investments similar to those held by the plan. Fair value for deferred compensation plan liabilities is based on the fair value of investments corresponding to employees' investment selections, based on quoted prices for similar assets in actively traded markets.

Summary of Other Financial Assets and Liabilities Not Measured at Fair Value on a Recurring Basis

The estimated fair values of our other financial assets and liabilities not measured at fair value on a recurring basis were as follows:

	June 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,203	$ 1,203	$ 1,368	$ 1,368
Accounts receivable, net	2,477	2,477	2,319	2,319
Short-term debt	2,029	2,048	985	976
Long-term debt	5,355	5,394	6,354	6,395

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 and Long-term debt was estimated based on the current rates offered to us for debt of similar maturities (Level 2). The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 13 – 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:	2016	2015	2016	2015	2016	2015
Service cost	$ 1	$ 1	$ 10	$ 9	$ 2	$ 2
Interest cost	35	38	53	53	8	8
Expected return on plan assets	(36)	(38)	(69)	(74)	—	—
Recognized net actuarial loss	7	6	17	21	—	1
Amortization of prior service credit	(1)	—	(1)	(2)	(1)	(8)
Recognized settlement loss	17	18	—	—	—	—
Recognized curtailment gain	—	—	—	—	—	(22)
Defined Benefit Plans	23	25	10	7	9	(19)
Defined contribution plans	15	15	10	11	n/a	n/a
Net Periodic Benefit Cost	38	40	20	18	9	(19)
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Loss (Income):						
Net actuarial loss (gain)(2)	134	(140)	—	(2)	(34)	(58)
Amortization of prior service credit	1	—	1	2	1	8
Amortization of net actuarial loss	(24)	(24)	(17)	(21)	—	(1)
Curtailment gain - recognition of net prior service credit	—	—	—	—	—	22
Total Recognized in Other Comprehensive Loss (Income)(3)	111	(164)	(16)	(21)	(33)	(29)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Loss (Income)	$ 149	$ (124)	$ 4	$ (3)	$ (24)	$ (48)

	Six Months Ended June 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2016	2015	2016	2015	2016	2015
Service cost	$ 2	$ 2	$ 16	$ 17	$ 3	$ 4
Interest cost	73	76	105	106	16	17
Expected return on plan assets	(76)	(76)	(133)	(147)	—	—
Recognized net actuarial loss	12	13	34	40	1	1
Amortization of prior service credit	(1)	(1)	(2)	(2)	(2)	(15)
Recognized settlement loss	46	45	—	—	—	—
Recognized curtailment gain	—	—	—	—	—	(22)
Defined Benefit Plans	56	59	20	14	18	(15)
Defined contribution plans[1]	29	31	20	20	n/a	n/a
Net Periodic Benefit Cost	85	90	40	34	18	(15)
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Loss (Income):						
Net actuarial loss (gain)[2]	257	(52)	—	(2)	(34)	(58)
Amortization of prior service credit	1	1	2	2	2	15
Amortization of net actuarial loss	(58)	(58)	(34)	(40)	(1)	(1)
Curtailment gain - recognition of net prior service credit	—	—	—	—	—	22
Total Recognized in Other Comprehensive Loss (Income)[3]	200	(109)	(32)	(40)	(33)	(22)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Loss (Income)	$ 285	$ (19)	$ 8	$ (6)	$ (15)	$ (37)

(1) The six months ended June 30, 2015 excludes defined contribution expense of $4 related to our ITO business, which was reported as a discontinued operation up to its sale on June 30, 2015. Refer to Note 4 - Divestitures for additional information regarding this sale.
(2) The net actuarial loss (gain) for U.S. Plans primarily reflects (i) the remeasurement of our primary U.S. pension plans as a result of the payment of periodic settlements; and (ii) adjustments for the actuarial valuation results based on January 1st plan census data.
(3) Amounts represent the pre-tax effect included within Other comprehensive loss. Refer to Note 15 - Other Comprehensive (Loss) Income for related tax effects and the after-tax amounts.

Contributions

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

	Six Months Ended June 30,		Year Ended December 31,	
	2016	2015	Est. 2016[1]	2015
U.S. Plans	$ 13	$ 13	$ 25	$ 177
Non-U.S. Plans	58	85	115	132
Total	$ 71	$ 98	$ 140	$ 309
Retiree Health	$ 30	$ 29	$ 65	$ 63

(1) These full year estimates are based on current expectations that we will make additional 2016 cash contributions of $69 ($12 U.S. and $57 Non-U.S) to our defined benefit pension plans and $35 to our retiree health benefit plans.

The 2016 expected pension plan contributions do not include any planned contributions for our domestic tax-qualified defined benefit plans because none are required to meet the minimum funding requirements. However, the desirability of making additional contributions will continue to be assessed, and we may voluntarily decide to contribute to these plans later in 2016.

Plan Amendments

In June 2015, we amended our U.S. Retiree Health Plan to eliminate future benefit accruals for active salaried employees effective December 31, 2015. There was no change in benefits for union employees or existing retirees or employees that retire before December 31, 2015. As a result of this plan amendment, we recognized a pre-tax curtailment gain of $22 in the second quarter 2015. The gain represents the recognition of deferred gains from other prior-year amendments ("prior service credits") as a result of the discontinuation of the future benefit or service accrual period for active salaried employees.

Note 14 – Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL[3]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2015	$ 1,013	$ 3,017	$ 9,686	$ (4,642)	$ 9,074	$ 43	$ 9,117
Comprehensive income, net	—	—	189	56	245	4	249
Cash dividends declared - common[1]	—	—	(159)	—	(159)	—	(159)
Cash dividends declared - preferred[2]	—	—	(12)	—	(12)	—	(12)
Stock option and incentive plans, net	—	30	—	—	30	—	30
Distributions to noncontrolling interests	—	—	—	—	—	(9)	(9)
Balance at June 30, 2016	$ 1,013	$ 3,047	$ 9,704	$ (4,586)	$ 9,178	$ 38	$ 9,216

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[3]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2014	$ 1,124	$ 4,283	$ (105)	$ 9,535	$ (4,159)	$ 10,678	$ 75	$ 10,753
Comprehensive income (loss), net	—	—	—	237	(140)	97	10	107
Cash dividends declared - common[1]	—	—	—	(155)	—	(155)	—	(155)
Cash dividends declared - preferred[2]	—	—	—	(12)	—	(12)	—	(12)
Stock option and incentive plans, net	3	54	—	—	—	57	—	57
Payments to acquire treasury stock, including fees	—	—	(611)	—	—	(611)	—	(611)
Cancellation of treasury stock	(30)	(370)	400	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(42)	(42)
Balance at June 30, 2015	$ 1,097	$ 3,967	$ (316)	$ 9,605	$ (4,299)	$ 10,054	$ 43	$ 10,097

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(1) *Cash dividends declared on common stock of $0.0775 per share in each quarter of 2016 and $0.07 per share in each quarter of 2015.*
(2) *Cash dividends declared on preferred stock of $20.00 per share in each quarter of 2016 and 2015.*
(3) *Refer to Note 15 - 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 second quarter 2016.

Note 15 - Other Comprehensive (Loss) Income

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments (Losses) Gains	$ (75)	$ (77)	$ 191	$ 194	$ 118	$ 114	$ (315)	$ (315)
Unrealized Gains (Losses):								
Changes in fair value of cash flow hedges - gains (losses)	41	30	(24)	(18)	57	39	7	7
Changes in cash flow hedges reclassed to earnings(1)	(8)	(5)	—	(1)	(7)	(5)	10	4
Other (losses) gains	(1)	(1)	1	—	(1)	(1)	—	(1)
Net Unrealized Gains (Losses)	32	24	(23)	(19)	49	33	17	10
Defined Benefit Plans (Losses) Gains:								
Net actuarial (losses) gains	(100)	(62)	200	123	(223)	(138)	112	69
Prior service amortization(2)	(3)	(2)	(32)	(19)	(5)	(3)	(40)	(24)
Actuarial loss amortization/settlement(2)	41	28	46	32	93	63	99	67
Fuji Xerox changes in defined benefit plans, net(3)	(25)	(25)	8	8	(100)	(100)	27	27
Other gains (losses)(4)	81	81	(76)	(77)	86	86	27	26
Changes in Defined Benefit Plans (Losses) Gains	(6)	20	146	67	(149)	(92)	225	165
Other Comprehensive (Loss) Income	(49)	(33)	314	242	18	55	(73)	(140)
Less: Other comprehensive (loss) income attributable to noncontrolling interests	(1)	(1)	1	1	(1)	(1)	—	—
Other Comprehensive (Loss) Income Attributable to Xerox	$ (48)	$ (32)	$ 313	$ 241	$ 19	$ 56	$ (73)	$ (140)

(1) Reclassified to Cost of sales - refer to Note 11 - Financial Instruments for additional information regarding our cash flow hedges.
(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 13 - 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, 2016	December 31, 2015
Cumulative translation adjustments	$ (2,287)	$ (2,402)
Other unrealized gains, net	34	1
Benefit plans net actuarial losses and prior service credits(1)	(2,333)	(2,241)
Total Accumulated Other Comprehensive Loss Attributable to Xerox	$ (4,586)	$ (4,642)

(1) Includes our share of Fuji Xerox.

Note 16 – Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share of common stock (shares in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Basic Earnings per Share:				
Net income from continuing operations attributable to Xerox	$ 155	$ 107	$ 189	$ 298
Accrued dividends on preferred stock	(6)	(6)	(12)	(12)
Net Income From Continuing Operations Available to Common Shareholders	149	101	177	286
Net loss from discontinued operations attributable to Xerox	—	(95)	—	(61)
Net Income Available to Common Shareholders	$ 149	$ 6	$ 177	$ 225
Weighted average common shares outstanding	1,013,284	1,087,720	1,013,164	1,098,370
Basic Earnings per Share:				
Continuing operations	$ 0.15	$ 0.09	$ 0.17	$ 0.26
Discontinued operations	—	(0.08)	—	(0.06)
Total	$ 0.15	$ 0.01	$ 0.17	$ 0.20
Diluted Earnings per Share:				
Net income from continuing operations attributable to Xerox	$ 155	$ 107	$ 189	$ 298
Accrued dividends on preferred stock	(6)	(6)	(12)	(12)
Net Income From Continuing Operations Available to Common Shareholders	$ 149	$ 101	$ 177	$ 286
Net loss from discontinued operations attributable to Xerox	—	(95)	—	(61)
Net Income Available to Common Shareholders	$ 149	$ 6	$ 177	$ 225
Weighted average common shares outstanding - Basic	1,013,284	1,087,720	1,013,164	1,098,370
Common shares issuable with respect to:				
Stock options	822	1,409	837	1,615
Restricted stock and performance shares	7,915	16,140	7,156	15,300
Convertible preferred stock	—	—	—	—
Weighted Average Common Shares Outstanding - Diluted	1,022,021	1,105,269	1,021,157	1,115,285
Diluted Earnings per Share:				
Continuing operations	$ 0.15	$ 0.09	$ 0.17	$ 0.26
Discontinued operations	—	(0.08)	—	(0.06)
Total	$ 0.15	$ 0.01	$ 0.17	$ 0.20
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	1,944	2,590	1,930	2,384
Restricted stock and performance shares	15,909	13,981	16,669	14,820
Convertible preferred stock	26,966	26,966	26,966	26,966
Total Anti-Dilutive Securities	44,819	43,537	45,565	44,170
Dividends per Common Share	$ 0.0775	$ 0.0700	$ 0.1550	$ 0.1400

Note 17 – Contingencies and Litigation

Legal Matters

We are involved in a variety of claims, lawsuits, investigations and proceedings concerning securities law, intellectual property law, environmental law, employment law, commercial and contracts law, the Employee Retirement Income Security Act (ERISA) and regulatory matters. 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, gross revenue taxes and import taxes and duties. We are disputing these tax matters and intend to vigorously defend our position. 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, 2016, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $751, with the increase from December 31, 2015 balance of approximately $577 primarily related to currency and interest. With respect to the unreserved balance of $751, 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, 2016, we had $87 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of $18, and additional letters of credit and surety bonds of approximately $143 and $88, respectively, which include associated indexation. 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 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

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 "Xerox Defendants") violated the Texas Medicaid Fraud Prevention Act in the administration of its contract with the Texas Department of Health and Human Services (“HHSC”). The State alleges that the Xerox 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 Xerox Defendants filed their Answer in June, 2014 denying all allegations. The Xerox Defendants will continue to vigorously defend themselves in this matter. We do not believe it is probable that we will incur a material loss in excess of the amount accrued for this matter. In the course of litigation, we periodically engage in discussions with plaintiff’s counsel for possible resolution of the matter. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement for a significant amount, 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 Matters

On January 5, 2016, the Consumer Financial Protection Bureau (CFPB) notified Xerox Education Services, Inc. (XES) that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise (NORA) process, the CFPB's Office of Enforcement is considering recommending that the CFPB take legal action against XES, alleging that XES violated the Consumer Financial Protection Act's prohibition of unfair practices. Should the CFPB commence an action, it may seek restitution, civil monetary penalties, injunctive relief or other corrective action. The purpose of a NORA letter is to provide a party being investigated an opportunity to present its position to the CFPB before an enforcement action is recommended or commenced. This notice stems from an inquiry that commenced in 2014 when the Company, through XES, received and responded to a Civil Investigative Demand containing a broad request for information. During this process, XES self-disclosed to the Department of Education and the CFPB certain adjustments it had become aware that had not been timely made relating to its servicing of a small percentage of third-party student loans under outsourcing arrangements for various financial institutions. The CFPB and the Department of Education, as well as certain states' attorney general offices and other regulatory agencies, began similar reviews. The Company has cooperated and continues to fully cooperate with all regulatory agencies, and XES has submitted its NORA response. The Company cannot provide assurance that the CFPB or another party will not ultimately commence a legal action against XES in this matter nor is the Company able to predict the likely outcome of the investigations into this matter.

Other Contingencies

We have issued or provided the following guarantees as of June 30, 2016:

- $367 for letters of credit issued to (i) guarantee our performance under certain services contracts; (ii) support certain insurance programs; and (iii) support our obligations related to the Brazil tax and labor contingencies.
- $783 for outstanding surety bonds. Certain contracts, primarily those involving public sector customers, 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 of default in our performance of 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.

We have service arrangements where we service third party student loans in the Federal Family Education Loan program (FFEL) on behalf of various financial institutions. We service these loans for investors under outsourcing arrangements and do not acquire any servicing rights that are transferable by us to a third party. At June 30, 2016, we serviced a FFEL portfolio of approximately 1.7 million loans with an outstanding principal balance of approximately $25.5 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of June 30, 2016, other current liabilities included reserves of approximately $4 for losses on defaulted loans purchased. In addition to potential purchase obligations arising from servicing errors, various laws and regulations applicable to student loan borrowers could give rise to fines, penalties and other liabilities associated with loan servicing errors.

Indemnifications

We have indemnified, subject to certain deductibles and limits, the purchasers of businesses or divested assets for the occurrence of specified events under certain of our divestiture agreements. Where appropriate, an obligation for such indemnifications is recorded as a liability. Since the obligated amounts of these types of indemnifications are often not explicitly stated and/or are contingent on the occurrence of future events, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have not historically made significant payments for these indemnifications.

Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets are achieved post-closing. We have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. Contingent obligations related to indemnifications arising from our divestitures and contingent consideration provided for by our acquisitions are not expected to be material to our financial position, results of operations or cash flows.

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

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

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

Currency Impact

To understand the trends in the business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as "constant currency"; “currency impact” or “the impact from currency.” This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency. In 2016 we revised our calculation of the currency impact on revenue growth, or constant currency revenue growth, to include the currency impacts from the developing market countries (Latin America, Brazil, Middle East, India, Eurasia and Central-Eastern Europe), which had been previously excluded from the calculation. As a result of economic changes in these markets over the past few years, we currently manage our exchange risk in our developing market countries in a similar manner to the exchange risk in our developed market countries, and therefore, the exclusion of the developing market countries from the calculation of the currency effect is no longer warranted. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

Overview

Planned Company Separation

On January 29, 2016, Xerox announced plans for the complete legal and structural separation of the Company's Business Process Outsourcing (BPO) business from its Document Technology and Document Outsourcing (DT/DO) business. Each of the businesses will operate as an independent, publicly-traded company. The transaction is intended to be tax-free for Xerox shareholders for federal income tax purposes.

During second quarter 2016, we announced that the new BPO company will be named Conduent Incorporated (Conduent) and that the DT/DO company will retain the Xerox Corporation name. The CEO for each of the two new companies was announced, and an initial Form 10 registration statement for Conduent was filed with the U.S. Securities and Exchange Commission (SEC) on June 30, 2016. As part of the SEC's standard review process, we expect to receive comments from the SEC and file amendments to this filing to address SEC comments and to provide further information about the new company.

Xerox has begun the process to separate and is finalizing the transaction structure, which is predicated on a spin-off of the BPO business. To effect the separation, Xerox will first undertake a series of internal transactions, following which Conduent will hold, directly or through its subsidiaries, the BPO business. The separation will be completed by way of a pro rata distribution of Conduent Incorporated shares held by Xerox to Xerox's shareholders.

Our objective is to complete the separation by year-end 2016, subject to customary regulatory approvals, the effectiveness of the Form 10 registration statement with the SEC, tax considerations, securing any necessary financing and final approval of the Xerox Board of Directors. Until the separation is complete, we will continue to operate and report as a single company, and it will continue to be business as usual for our customers and employees.

In conjunction with the separation, Xerox also began a three-year strategic transformation program targeting a cumulative $2.4 billion of savings across all segments. The program is inclusive of ongoing activities and $600 million of incremental transformation initiatives.

Second Quarter 2016 Review

Second quarter 2016 results reflected solid progress. Although year over year revenues declined in total and in both segments, operating margin, earnings and segment margins all improved primarily reflecting cost and productivity improvements, including benefits from our strategic cost transformation program.

Total revenue of $4.4 billion for the second quarter 2016 declined 4% from second quarter 2015 with minimal overall negative impact from currency. Services segment revenues of $2.5 billion, which represented 56% of total revenues, decreased 2% with a 1-percentage point negative impact from currency. An increase in Document Outsourcing revenues was offset by a decrease in Business Processing Outsourcing revenues. Services segment margin of 9.6% increased 2.4-percentage points from second quarter 2015, primarily reflecting improvements in our BPO business. Document Technology segment revenues of $1.8 billion decreased by 7%, with a 1-percentage point negative impact from currency and represented a moderation in the rate of revenue decline as compared to prior periods. Document Technology segment margin of 12.6% increased 0.1-percentage point as compared to prior year and 2.4-percentage points from the prior quarter.

Total revenue of $8.7 billion for the six months ended June 30, 2016 declined 4% from the prior year including a 1-percentage point negative impact from currency. Services segment revenues of $5.0 billion, which represented 57% of total revenues, decreased 1% with a 1-percentage point negative impact from currency. Services segment margin of 8.6% increased 1.2-percentage points from the prior year. Document Technology segment revenues of $3.4 billion decreased by 9%, with a 2-percentage point negative impact from currency. Document Technology segment margin of 11.4% decreased 1.2-percentage points as compared to prior year.

Net income from continuing operations attributable to Xerox for the three and six months ended June 30, 2016 was $155 million and $189 million, respectively, and included after-tax costs of $156 million and $353 million, respectively, related to the amortization of intangible assets, restructuring and related costs, non-service retirement-related costs and separation costs, resulting in adjusted net income of $311 million and $542 million, respectively. Net income from continuing operations attributable to Xerox for the three and six months ended June 30, 2015 was $107 million and $298 million, respectively, and included $157 million and $244 million, respectively, related to the amortization of intangible assets, restructuring and related costs and non-service retirement-related costs, resulting in adjusted net income of $264 million and $542 million, respectively. The increase in adjusted net income for the second quarter 2016 primarily reflects lower income taxes and improved operating profits. Year-to-date adjusted net income was flat as compared to the prior year as lower operating profit was offset by lower income taxes.

Cash provided by operating activities was $152 million for the six months ended June 30, 2016, as compared to cash provided by operating activities of $462 million in the prior year period. The $310 million decrease is primarily due to lower pre-tax earnings, increased working capital, payments related to the prior year Health Enterprise settlement and separation costs. Cash used in investing activities of $192 million includes a $52 million dollar payment to Atos, reflecting the final working capital adjustments associated with the 2015 sale of the ITO business, and capital expenditures (including internal use software) of $145 million. Cash used in financing activities of $129 million primarily reflects $161 million for dividends and $12 million of distributions to noncontrolling interests partially offset by $42 million of net proceeds on debt.

2016 Outlook

We continue to expect total revenues to decline 2 to 4% in 2016, excluding the impact of currency which at June 30, 2016 exchange rates, is expected to have about a 1-percentage point negative impact on total revenues in 2016. We continue to expect margin improvements in the Services segment and a Document Technology segment margin in the 12 to 14% range.

2016 full-year earnings are expected to be negatively impacted by separation costs estimated at $175 million to $200 million as well as restructuring and related costs of about $300 million. We also expect to incur additional tax costs related to the separation, which are currently estimated to be in the range of $40 million to $50 million. Reported and adjusted earnings expectations remain unchanged for the full-year.

We expect full year 2016 cash flows from operations to be between $950 million and $1.2 billion reflecting increased cash requirements for separation costs and restructuring. Capital expenditures are expected to be approximately $350 million, which includes approximately $50 million for separation activities.

Recent Developments

On June 23, 2016, a referendum was held in the United Kingdom in which it was decided that the United Kingdom would withdraw from the European Union ("Brexit"). The uncertainty related to the impact of Brexit caused financial market volatility during the current period, and we anticipate this volatility will likely continue into the future. Brexit did not, however, have a material impact on our financial statements for the period ended June 30, 2016. Approximately 5% of the Company's total revenues are pound sterling-denominated, and approximately 15% are Euro-denominated.

Financial Review

Revenues

	Three Months Ended June 30,				Six Months Ended June 30,				Six Months Ended June 30,	
(in millions)	2016	2015	% Change	CC % Change	2016	2015	% Change	CC % Change	% of Total Revenue 2016	% of Total Revenue 2015
Equipment sales	$ 675	$ 719	(6)%	(5)%	$ 1,235	$ 1,343	(8)%	(7)%	14%	15%
Annuity revenue	3,710	3,871	(4)%	(3)%	7,431	7,716	(4)%	(2)%	86%	85%
Total Revenue	**$ 4,385**	**$ 4,590**	**(4)%**	**(4)%**	**$ 8,666**	**$ 9,059**	**(4)%**	**(3)%**	**100%**	**100%**
Reconciliation to Condensed Consolidated Statements of Income:										
Sales	$ 1,145	$ 1,224	(6)%	(5)%	$ 2,166	$ 2,350	(8)%	(6)%		
Less: Supplies, paper and other sales	(470)	(505)	(7)%	(5)%	(931)	(1,007)	(8)%	(5)%		
Equipment Sales	**$ 675**	**$ 719**	**(6)%**	**(5)%**	**$ 1,235**	**$ 1,343**	**(8)%**	**(7)%**		
Outsourcing, maintenance and rentals	$ 3,158	$ 3,279	(4)%	(3)%	$ 6,335	$ 6,532	(3)%	(2)%		
Add: Supplies, paper and other sales	470	505	(7)%	(5)%	931	1,007	(8)%	(5)%		
Add: Financing	82	87	(6)%	(5)%	165	177	(7)%	(5)%		
Annuity Revenue	**$ 3,710**	**$ 3,871**	**(4)%**	**(3)%**	**$ 7,431**	**$ 7,716**	**(4)%**	**(2)%**		

CC - See "Non-GAAP Financial Measures" section for description of Constant Currency.

Total revenue for second quarter 2016 decreased 4% as compared to second quarter 2015, with minimal overall negative impact from currency. On a revenue-weighted basis, our major European currencies and the Canadian Dollar were approximately 1% weaker against the U.S. Dollar as compared to the prior year. Revenues from these major foreign currencies comprise approximately 25% of our total consolidated revenues (including revenues from the Pound Sterling, which represent approximately 5% of the total), while overall non-U.S. revenues represent almost one third of the total. Second quarter 2016 total revenues reflect the following:

- **Annuity revenue** decreased 4% as compared to second quarter 2015, with a 1-percentage point negative impact from currency. Annuity revenue is comprised of the following:
  - Outsourcing, maintenance and rentals revenue of $3,158 million includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment. These revenues declined 4%, with a 1-percentage point negative impact from currency, primarily due to a continued decline in the Document Technology segment as well as a modest decline in the Services segment.

- Supplies, paper and other sales of $470 million includes unbundled supplies and other sales, primarily within our Document Technology segment. The 7% decline in these revenues included a 2-percentage point negative impact from currency, reduced supplies demand as a result of lower equipment sales in prior periods, continued weakness in developing markets and lower OEM supplies sales.
- Financing revenue is generated from financed equipment sale transactions primarily within the Document Technology segment. The 6% decline in these revenues reflected a 1-percentage point negative impact from currency and a declining finance receivables balance due to lower equipment sales in prior periods.

- **Equipment sales revenue** is reported primarily within our Document Technology segment and the Document Outsourcing (DO) business within our Services segment. Equipment sales revenue decreased 6% as compared to second quarter 2015, with a 1-percentage point negative impact from currency. The decline was driven by continued developing markets weakness as well as overall price declines that continue to be within our historical range of 5% to 10%.

Total revenue for the six months ended June 30, 2016 decreased 4% as compared to the prior period, with a 1-percentage point negative impact from currency. On a revenue-weighted basis, our major European currencies and the Canadian Dollar were approximately 3% weaker against the U.S. Dollar as compared to the prior year. Revenues from these major foreign currencies comprise approximately 25% of our total consolidated revenues, while overall non-U.S. revenues represent almost one third of the total. Total revenue for the six months ended June 30, 2016 reflects the following:

- **Annuity revenue** for the six months ended June 30, 2016 decreased 4% as compared to the prior year period, with a 2-percentage point negative impact from currency. Annuity revenue is comprised of the following:
  - Outsourcing, maintenance and rentals revenue of $6,335 million includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue both primarily within our Document Technology segment. These revenues declined 3%, with a 1-percentage point negative impact from currency, primarily due to a continued decline in the Document Technology segment as well as a modest decline in the Services segment.
  - Supplies, paper and other sales of $931 million includes unbundled supplies and other sales, primarily within our Document Technology segment. The 8% decline in these revenues included a 3-percentage point negative impact from currency, reduced supplies demand as a result of lower equipment sales in prior periods, continued weakness in developing markets and lower OEM supplies sales.
  - Financing revenue is generated from financed equipment sale transactions primarily within the Document Technology segment. The 7% decline in these revenues reflected a 2-percentage point negative impact from currency and a declining finance receivables balance due to lower equipment sales in prior periods.
- **Equipment sales revenue** is reported primarily within our Document Technology segment and the Document Outsourcing (DO) business within our Services segment. Equipment sales revenue decreased 8% as compared to the prior year period, with a 1-percentage point negative impact from currency. The decline was driven by continued developing markets weakness and product launch timing as well as overall price declines that continue to be within our historical range of 5% to 10%.

Additional analysis of the change in revenue for each business segment is included in the “Segment Review” section.

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,					
	Reported			Adjusted (1)		
	2016	2015	B/(W)	2016	2015	B/(W)
Total Gross Margin	31.2%	31.1%	0.1 pts.	31.4%	31.2%	0.2 pts.
RD&E as a % of Revenue	2.9%	3.1%	0.2 pts.	2.8%	3.1%	0.3 pts.
SAG as a % of Revenue	19.7%	19.7%	— pts.	19.3%	19.6%	0.3 pts.
Pre-tax Income Margin	3.3%	1.6%	1.7 pts.	N/A	N/A	N/A
Operating Margin (1)	N/A	N/A	N/A	9.3%	8.5%	0.8 pts.

	Six Months Ended June 30,					
	Reported			Adjusted (1)		
	2016	2015	B/(W)	2016	2015	B/(W)
Total Gross Margin	30.5%	31.1%	(0.6) pts.	30.9%	31.4%	(0.5) pts.
RD&E as a % of Revenue	3.0%	3.1%	0.1 pts.	2.9%	3.0%	0.1 pts.
SAG as a % of Revenue	20.1%	20.1%	— pts.	19.7%	19.8%	0.1 pts.
Pre-tax Income Margin	1.5%	3.0%	(1.5) pts.	N/A	N/A	N/A
Operating Margin (1)	N/A	N/A	N/A	8.3%	8.5%	(0.2) pts.

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

Pre-tax Income Margin

Second quarter 2016 pre-tax income margin of 3.3% increased 1.7-percentage points as compared to second quarter 2015 primarily due to an improved operating margin (see below) as well as lower restructuring and related costs and Other expenses, net. Partially offsetting these items were an increase in non-service retirement related costs of $22 million, due primarily to a $22 million curtailment gain recorded in the second quarter 2015, and separation costs.

Pre-tax income margin for the six months ended June 30, 2016 of 1.5% decreased 1.5-percentage points as compared to prior year primarily due to separation costs, higher restructuring and related costs and amortization of intangible assets, which are all discussed in subsequent sections. In addition, an increase in non-service retirement related costs of $26 million, due primarily to the $22 million curtailment gain recorded in the second quarter 2015, also contributed to the decline in pre-tax margin.

Additional analysis on changes in restructuring and related costs, amortization of intangible assets, separation costs and other expenses, net are included in subsequent sections.

Operating Margin

Second quarter 2016 operating margin[1] of 9.3% increased 0.8-percentage points as compared to second quarter 2015 driven by Services improvement, where cost and productivity improvements offset revenue declines.

Operating Margin[1] for the six months ended June 30, 2016 of 8.3% decreased 0.2-percentage points as compared to the prior year period as the operating margin decline in Document Technology, where productivity improvements only partially offset revenue declines and currency impacts, was only partially offset by Services improvement, where cost and productivity improvements more than offset revenue declines.

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

Gross Margin

Second quarter 2016 gross margin of 31.2% increased 0.1-percentage points as compared to second quarter 2015. On an adjusted[1] basis, gross margin of 31.4% increased by 0.2-percentage points. Services gross margin improved by 1.8-percentage points year-over-year while Document Technology gross margin increased 0.1-percentage point. These increases were partially offset by the higher proportion of our revenue from Services (which historically has a lower gross margin).

Gross Margin for the six months ended June 30, 2016 of 30.5% decreased 0.6-percentage points as compared to the prior year period. On an adjusted[1] basis, gross margin of 30.9% decreased by 0.5-percentage points. Services gross margin improved by 0.9-percentage point year-over-year while Document Technology gross margin decreased 0.4-percentage points. The overall decrease is primarily due to the higher proportion of our revenue from Services (which historically has a lower gross margin).

Additional analysis of the change in gross margin for each business segment is included in the "Segment Review" section.

Research, Development and Engineering Expenses (RD&E)

	Three Months Ended June 30,			Six Months Ended June 30,		
(in millions)	2016	2015	Change	2016	2015	Change
R&D	$ 104	$ 112	$ (8)	$ 213	$ 221	$ (8)
Sustaining engineering	24	30	(6)	49	62	(13)
Total RD&E Expenses	**$ 128**	**$ 142**	**$ (14)**	**$ 262**	**$ 283**	**$ (21)**

Second quarter 2016 RD&E as a percentage of revenue of 2.9% decreased 0.2-percentage point from second quarter 2015. On an adjusted[1] basis, RD&E was 2.8% of revenue and decreased 0.3-percentage points due to restructuring and a higher mix of Services revenue (which historically has lower RD&E as a percentage of revenue).

RD&E of $128 million decreased by $14 million compared to second quarter 2015. On an adjusted[1] basis, RD&E of $122 million decreased by $19 million.

RD&E as a percentage of revenue for the six months ended June 30, 2016 of 3.0% decreased 0.1-percentage points from the prior year period. On an adjusted[1] basis, RD&E was 2.9% of revenue and decreased 0.1-percentage points due to restructuring and a higher mix of Services revenue (which historically has lower RD&E as a percentage of revenue).

RD&E of $262 million decreased by $21 million compared to the six months ended June 30, 2015. On an adjusted[1] basis, RD&E of $248 million decreased by $27 million. We strategically coordinate R&D with Fuji Xerox.

Selling, Administrative and General Expenses (SAG)

SAG as a percentage of revenue of 19.7% was flat from second quarter 2015. On an adjusted[1] basis, SAG was 19.3% of revenue and decreased 0.3-percentage points. Restructuring and productivity improvements and a higher mix of Services revenue (which historically has lower SAG as a percentage of revenue) offset higher marketing and communications spending, due primarily to our participation at the Drupa printing trade show, and the decline in total company revenue.

SAG of $862 million was $44 million lower than second quarter 2015. On an adjusted[1] basis, SAG of $848 million decreased $53 million, included a $10 million favorable impact from currency, and reflected the following:

- $22 million decrease in selling expenses.
- $27 million decrease in general and administrative expenses.
- $4 million decrease in bad debt expense. Second quarter 2016 bad debt expense remained at less than one percent of receivables.

SAG as a percentage of revenue for six months ended June 30, 2016 of 20.1% was flat from the prior year period. On an adjusted[1] basis, SAG was 19.7% of revenue and decreased 0.1-percentage point from the prior year period. Restructuring and productivity improvements, a higher mix of Services revenue (which historically has lower SAG as a percentage of revenue), and lower bad debt expense offset higher marketing and communications spending, due primarily to our participation at the Drupa printing trade show.

The decline in total company revenue and higher marketing and communications spend was more than offset by restructuring and productivity improvements, lower bad debt expense and a higher mix of Services revenue (which historically has lower SAG as a percentage of revenue).

SAG of $1,744 million for six months ended June 30, 2016 was $77 million lower than the prior year period. On an adjusted[1] basis, SAG of $1,709 million decreased $88 million, included a $28 million favorable impact from currency, and reflected the following:

- $43 million decrease in selling expenses.
- $35 million decrease in general and administrative expenses.
- $10 million decrease in bad debt expense. Second quarter 2016 bad debt expense remained at less than one percent of receivables.

Restructuring and Related Costs

During second quarter 2016, Restructuring and related costs of $71 million included restructuring and asset impairment charges of $63 million as well as $8 million of additional costs primarily related to professional support services associated with the implementation of the strategic transformation program.

Second quarter 2016 net restructuring and asset impairment charges of $63 million included $73 million of severance costs related to headcount reductions of approximately 1,300 employees worldwide, $2 million of lease cancellation costs and $2 million of asset impairments. These costs were partially offset by $9 million of net reversals for changes in estimated reserves from prior period initiatives as well as a $5 million gain from the sale of real estate impaired in prior periods.

During the six months ended June 30, 2016 Restructuring and related costs of $197 million included restructuring and asset impairment charges of $186 million as well as $11 million of additional costs primarily related to professional support services associated with the implementation of the strategic transformation program.

During the six months ended June 30, 2016, we recorded net restructuring and asset impairment charges of $186 million, which included $197 million of severance costs related to headcount reductions of approximately 6,100 employees worldwide, $4 million of lease cancellation costs and $2 million of asset impairments. These costs were partially offset by $12 million of net reversals for changes in estimated reserves from prior period initiatives as well as a $5 million gain from the sale of real estate impaired in prior periods.

Approximately 65% of the 2016 charges related to our Document Technology segment, and 35% to our Services segment. 2016 actions impacted several functional areas, with approximately 55% of the costs focused on gross margin improvements and approximately 40% on SAG reductions with the remainder focused on RD&E optimization.

During second quarter 2015, we recorded net restructuring and asset impairment charges of $157 million. Net restructuring charges of $11 million included $17 million of severance costs related to headcount reductions of approximately 420 employees worldwide and $2 million of lease cancellation costs partially offset by $8 million of net reversals for changes in estimated reserves from prior period initiatives. Asset impairment charges of $146 million were associated with software asset impairments resulting from a change in our Government Healthcare Solutions strategy in the Services segment. See Services section within "Segment Review" for further discussion.

During the six months ended June 30, 2015, we recorded net restructuring and asset impairment charges of $171 million. Net restructuring charges of $25 million included $38 million of severance costs related to headcount reductions of approximately 1,000 employees worldwide and $3 million of lease cancellation costs partially offset by $16 million of net reversals for changes in estimated reserves from prior period initiatives. Asset impairment charges of $146 million were associated with software asset impairments resulting from a change in our Government Healthcare Solutions strategy in the Services segment. See Services section within "Segment Review" for further discussion.

The restructuring reserve balance as of June 30, 2016 for all programs was $144 million, of which $139 million is expected to be spent over the next twelve months.

We expect to incur restructuring and related costs of approximately $40 million in third quarter 2016 for actions and initiatives that have not yet been finalized. We expect to incur restructuring and related costs totaling approximately $300 million for full-year 2016.

Refer to Note 9 - Restructuring Programs, in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Separation costs

Separation costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services related to the separation transaction as well as costs associated with the operational separation of the two companies, such as those related to human resources, brand management, real estate and information management to the extent not capitalized. Separation costs also include the costs associated with bonuses and restricted stock grants awarded to employees for retention through the separation.

During the three and six months ended June 30, 2016, we recorded separation costs of $28 and $36 million, respectively. For full-year 2016, we have refined our estimates and now expect to incur separation costs of approximately $175 to $200 million, which exclude tax-related separation costs discussed below in *Income Taxes*. We continue to anticipate separation-related capital spending of approximately $50 million for full-year 2016.

Amortization of Intangible Assets

Amortization of intangible assets for the six months ended June 30, 2016 of $167 million increased $11 million compared to the prior year period primarily due to the impairment of a customer relationship asset resulting from a lost contract.

Worldwide Employment

Worldwide employment was approximately 131,800 as of June 30, 2016 and decreased by 11,800 from December 31, 2015, due primarily to the impact of seasonal reductions as well as restructuring and productivity-related reductions.

Other Expenses, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Non-financing interest expense	$ 49	$ 56	$ 104	$ 112
Interest income	(2)	(2)	(4)	(4)
Losses (gains) on sales of businesses and assets[(1)]	4	6	(16)	(10)
Currency (gains) losses, net	(3)	(5)	1	1
Litigation matters	6	3	13	2
Loss on sales of accounts receivable	4	3	8	6
Deferred compensation investment gains	(3)	—	(3)	(4)
All other expenses, net	—	7	9	11
Total Other Expenses, Net	**$ 55**	**$ 68**	**$ 112**	**$ 114**

[(1)] *Excludes the loss on sale of the ITO business reported in Discontinued Operations*

Note: Total Other Expenses, Net with the exception of Deferred compensation investment (gains) losses are included in the Other segment. Deferred compensation investment (gains) losses are included in the Services segment together with the related deferred compensation expense/income.

Non-Financing Interest Expense: Non-financing interest expense for the three and six months ended June 30, 2016 of $49 million and $104 million, respectively, was $7 million and $8 million, respectively, lower than the prior year comparable periods. When combined with financing interest expense (cost of financing), total company interest expense declined by $7 million and $8 million, respectively, from the prior year comparable period, primarily driven by a lower average cost of debt, primarily due to a lower rate on our one-year $1.0 billion senior unsecured term facility, and a lower debt balance.

Gains on Sales of Businesses and Assets: The six months ended June 30, 2016 and 2015 include gains on the sale of surplus technology assets of $17 million and $14 million, respectively.

Litigation Matters: The six months ended June 30, 2016 and 2015 litigation matters reflect probable losses and reserves for various legal matters.

Income Taxes

Second quarter 2016 effective tax rate was 6.2%. On an adjusted[1] basis, second quarter 2016 tax rate was 17.8%. Both rates were lower than the U.S. statutory tax rate primarily due to the redetermination of certain unrecognized tax positions upon conclusion of several audits as well as foreign tax credits resulting from anticipated dividends from our foreign subsidiaries. The effective tax rate of 6.2% also included tax-related separation costs, which are discussed below.

The effective tax rate for the six months ended June 30, 2016 was (4.7%). On an adjusted[1] basis, the six months ended June 30, 2016 tax rate was 19.8%. Both rates were lower than the U.S. statutory tax rate primarily due to the redetermination of certain unrecognized tax positions upon conclusion of several audits, foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, and the geographical mix of profits.

Second quarter 2015 effective tax rate was (12.2%) and was negative primarily due to the discrete tax benefit of the software impairment charge. On an adjusted[1] basis, second quarter 2015 tax rate was 25.3%, which was lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, the geographical mix of profits and the reversal of a deferred tax valuation allowance.

The effective tax rate for the six months ended June 30, 2015 was 10.9% primarily due to the discrete tax benefit of the second quarter 2015 software impairment charges. On an adjusted[1] basis, the six months ended June 30, 2015 tax rate was 25.5%, which was lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, the geographical mix of profits and the reversal of a deferred tax valuation allowance.

Xerox operations are widely dispersed. The statutory tax rate in most non-U.S. jurisdictions is lower than the combined U.S. and state tax rate. The amount of income subject to these lower foreign rates relative to the amount of U.S. income will impact our effective tax rate. However, no one country outside of the U.S. is a significant factor to our overall effective tax rate. Certain foreign income is subject to U.S. tax net of any available foreign tax credits. Our estimated full year effective tax rate includes a benefit of approximately 20-percentage points from these non-U.S. operations, which is a result of our current geographical mix of pre-tax income adjusted for any available foreign tax credit benefits.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our estimated effective tax rate will change based on discrete or other nonrecurring events that may not be predictable. Excluding the effects of intangibles amortization, restructuring and related costs, non-service retirement-related costs, separation costs and other discrete items, we anticipate that our adjusted[1] effective tax rate will be approximately 26% to 28% for the second half of 2016 and approximately 24% to 26% for full-year 2016.

Tax-related Separation Costs

We recorded a deferred tax benefit/asset of $14 million on our separation costs for the six months ended June 30, 2016. We expect a portion of this deferred tax asset will be eliminated at the time the separation is executed, as certain separation costs will be non-deductible.

In connection with the actual legal separation of the company, we expect to effect certain internal reorganizations of, and transactions among, our wholly-owned subsidiaries and operating activities in preparation for the legal form of separation. Although we believe that, for the most part, this reorganization of entities can be completed in a tax-free manner, we do expect to incur incremental income tax expense associated with certain elements of the reorganization. Accordingly, in second quarter 2016, we recorded $26 million for the estimated income tax on the book/tax basis differences currently associated with our investments in certain subsidiaries that are expected to be impacted by these internal reorganizations. Upon final separation of the company, we also expect to recognize additional income tax expense in certain state and international jurisdictions primarily related to the change in realizability of certain deferred tax assets. At present, we estimate that this additional income tax expense will be approximately $15 to $25 million, for a total of $40 to $50 million for full-year 2016.

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

Equity in Net Income of Unconsolidated Affiliates

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Total equity in net income of unconsolidated affiliates	$ 22	$ 29	$ 59	$ 63
Fuji Xerox after-tax restructuring costs included in equity income	1	1	1	2

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox net income. The decrease in equity income of $7 million and $4 million for the three and six months ended June 30, 2016, respectively, is primarily due to our share of Fuji Xerox's lower net income, partially offset by translation currency impacts.

Net Income from Continuing Operations

Second quarter 2016 net income from continuing operations attributable to Xerox was $155 million, or $0.15 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $311 million, or $0.30 per diluted share. Second quarter 2016 adjustments to net income include the amortization of intangible assets, restructuring and related costs, non-service retirement-related costs, and separation costs.

Second quarter 2015 net income from continuing operations attributable to Xerox was $107 million, or $0.09 per diluted share. On an adjusted basis[1], net income from continuing operations attributable to Xerox was $264 million, or $0.23 per diluted share. Second quarter 2015 adjustments to net income include the amortization of intangible assets, restructuring and related costs, and non-service retirement-related costs.

Net income from continuing operations attributable to Xerox for the six months ended June 30, 2016 was $189 million or $0.17 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $542 million, or $0.52 per diluted share, and reflects the adjustments for the amortization of intangible assets, restructuring and related costs, non-service retirement-related costs, and separation costs.

Net income from continuing operations attributable to Xerox for the six months ended June 30, 2015 was $298 million, or $0.26 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $542 million, or $0.47 per diluted share, and reflects the adjustments for amortization of intangible assets, restructuring and related costs, and non-service retirement-related costs.

Refer to Note 16 - Earnings per Share, in the Condensed Consolidated Financial Statements, for additional information regarding the calculation of basic and diluted earnings per share.

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

Discontinued Operations

Information Technology Outsourcing (ITO):

In fourth quarter 2014, we announced an agreement to sell the ITO business to Atos and began reporting it as a Discontinued Operation. All prior periods were accordingly revised to conform to this presentation. The sale was completed on June 30, 2015. There were no Discontinued Operations as of June 30, 2016.

Refer to Note 4 - Divestitures, in the Condensed Consolidated Financial Statements for additional information regarding discontinued operations.

Net Income

Second quarter 2016 net income attributable to Xerox was $155 million, or $0.15 per diluted share. Second quarter 2015 net income attributable to Xerox was $12 million, or $0.01 per diluted share.

Net income attributable to Xerox for the six months ended June 30, 2016 was $189 million, or $0.17 per diluted share. Net income attributable to Xerox for the six months ended June 30, 2015 was $237 million, or $0.20 per diluted share.

Other Comprehensive Income (Loss)

Second quarter 2016 Other comprehensive loss attributable to Xerox was $32 million as compared to income of $241 million in the second quarter 2015. The change of $273 million, is primarily due to a $271 million change from the translation of our foreign currency denominated net assets. The second quarter 2016 reflects translation losses of $77 million primarily as a result of the weakening of the Euro and Pound Sterling as compared to the U.S. Dollar at quarter-end spot rates. Second quarter 2015 reflects translation gains of $194 million primarily due to a strengthening of those same foreign currencies against the U.S. dollar in the prior year. In addition, net gains from changes in defined benefit plans decreased by $47 million to a gain of $20 million in the second quarter 2016 from a gain of $67 million in the second quarter 2015. The reduction in benefit plan gains in the second quarter 2016 was primarily due to a decrease in discount rates partially offset by currency adjustments on accumulated defined benefit plan losses. Offsetting these impacts was a $43 million increase in unrealized gains primarily from foreign currency derivatives.

Other Comprehensive income attributable to Xerox for the six months ended June 30, 2016 was $56 million as compared to a loss of $140 million in the prior year period. The change of $196 million, is primarily due to a $429 million change from the translation of our foreign currency denominated net assets. The six months ended June 30, 2016 reflects translation gains of $114 million primarily as a result of the strengthening of the Brazilian Real, Japanese Yen and Canadian Dollar as compared to the U.S. Dollar as the Euro and Pound Sterling were essentially flat in the first half of 2016. The six months ended June 30, 2015 reflects translation losses of $315 million primarily due to a significant weakening across all foreign currencies against the U.S. dollar. Offsetting the change in translation were net losses from changes in defined benefit plans of $92 million in the six months ended June 30, 2016 as compared to net gains of $165 million in the six months ended June 30, 2015. The benefit plan losses in the six months ended June 30, 2016 were primarily due to a decrease in discount rates. In addition, unrealized gains increased by $23 million in the six months ended June 30, 2016 as compared to the prior year primarily from foreign currency derivatives.

Refer to Note 11 - Financial Instruments, in the Condensed Consolidated Financial Statements, for additional information regarding foreign currency derivatives, and Refer to Note 13 - Employee Benefit Plans, in the Condensed Consolidated Financial Statements, for additional information regarding net changes in our defined benefit plans and related losses and gains.

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

Segment Review

In first quarter 2016, we revised our segment reporting to reflect the following changes:

- The transfer of the Education/Student Loan business from the Services segment to Other as a result of the expected continued run-off of this business. The business does not meet the threshold for separate segment reporting.
- The exclusion of the non-service elements of our defined-benefit pension and retiree-health plan costs from Segment profit.

Prior year amounts were revised accordingly to reflect these changes.

	Three Months Ended June 30,					
(in millions)	Equipment Sales Revenue	Annuity Revenue	Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2016						
Services	$ 133	$ 2,337	$ 2,470	56%	$ 236	9.6 %
Document Technology	512	1,240	1,752	40%	221	12.6 %
Other	30	133	163	4%	(80)	(49.1)%
Total	**$ 675**	**$ 3,710**	**$ 4,385**	**100%**	**$ 377**	**8.6 %**
2015						
Services	$ 134	$ 2,392	$ 2,526	55%	$ 181	7.2 %
Document Technology	550	1,330	1,880	41%	235	12.5 %
Other	35	149	184	4%	(62)	(33.7)%
Total	**$ 719**	**$ 3,871**	**$ 4,590**	**100%**	**$ 354**	**7.7 %**

(in millions)	Six Months Ended June 30, Equipment Sales Revenue	Annuity Revenue	Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2016						
Services	$ 242	$ 4,710	$ 4,952	57%	$ 426	8.6 %
Document Technology	944	2,447	3,391	39%	388	11.4 %
Other	49	274	323	4%	(146)	(45.2)%
Total	**$ 1,235**	**$ 7,431**	**$ 8,666**	**100%**	**$ 668**	**7.7 %**
2015						
Services	$ 231	$ 4,762	$ 4,993	55%	$ 368	7.4 %
Document Technology	1,059	2,651	3,710	41%	467	12.6 %
Other	53	303	356	4%	(109)	(30.6)%
Total	**$ 1,343**	**$ 7,716**	**$ 9,059**	**100%**	**$ 726**	**8.0 %**

Services

Our Services segment comprises two service offerings: Business Process Outsourcing (BPO) and Document Outsourcing (DO).

Revenue

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	2016	2015	% Change	CC % Change	2016	2015	% Change	CC % Change
Business Process Outsourcing	$ 1,630	$ 1,693	(4)%	(3)%	$ 3,320	$ 3,380	(2)%	(1)%
Document Outsourcing	840	833	1 %	2 %	1,632	1,613	1 %	3 %
Total Services Revenue	**$ 2,470**	**$ 2,526**	**(2)%**	**(1)%**	**$ 4,952**	**$ 4,993**	(1)%	— %

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Note: The above table excludes intercompany revenue.
CC - See "Non-GAAP Financial Measures" section for description of Constant Currency

Second quarter 2016 Services revenue of $2,470 million was 56% of total revenue and decreased 2% from second quarter 2015, with a 1-percentage point negative impact from currency.

- BPO revenue decreased 4% from second quarter 2015, with a 1-percentage point negative impact from currency, and represented 66% of total Services revenue. The decline was driven by our third quarter 2015 decision to not fully complete the Health Enterprise (HE) Medicaid platform implementations in California and Montana, which had just over a 1-percentage point negative impact. In addition, revenues decreased due to lower volumes and lost business as well as overall price declines that were consistent with prior periods. These areas of decline were partially offset by growth from acquisitions and new contracts.
  - In second quarter 2016, BPO revenue mix across the major business areas was as follows: Commercial Industries (excluding healthcare) - 44%; Healthcare - 25%; Public Sector - 27%; and all other (including our HE Medicaid platform implementations) - 4%.
- DO revenue increased 1% with a 1-percentage point negative impact from currency and represented 34% of Services revenue. Growth was driven from our partner print services offerings.

Services revenue for the six months ended June 30, 2016 of $4,952 million was 57% of total revenue and decreased 1% from the prior year period, with a 1-percentage point negative impact from currency.

- BPO revenue decreased 2% from the prior year period, with a 1-percentage point negative impact from currency, and represented 67% of total Services revenue. The decline reflects our third quarter 2015 decision to not fully complete the HE Medicaid platform implementations in California and Montana. In addition, revenues decreased due to lower volumes and lost business as well as overall price declines that were consistent with prior periods. These areas of decline were partially offset by growth from acquisitions and new contracts, particularly in Healthcare.
  - BPO revenue mix for the six months ended June 30, 2016 across the major business areas was as follows: Commercial Industries (excluding healthcare) - 44%; Healthcare - 26%; Public Sector - 26%; and all other (including our HE Medicaid platform implementations) - 4%.

- DO revenue increased 1% with a 2-percentage point negative impact from currency and represented 33% of Services revenue. Growth was driven from our partner print services offerings, reflected in both equipment and annuity revenue, and from strong equipment sales.

Segment Margin

Second quarter 2016 Services segment margin of 9.6% increased by 2.4-percentage points from second quarter 2015. The increase reflected restructuring and productivity improvements in BPO and DO, which more than offset price declines, as well as anticipated year-over-year benefits from lower expenses associated with our HE platform implementations and a higher portion of DO revenue. These benefits were partially offset by continuing margin pressures in our customer care offering.

Services segment margin for the six months ended June 30, 2016 of 8.6% increased by 1.2-percentage points from the prior year period. The increase reflected restructuring and productivity improvements in BPO and DO, which more than offset price declines, as well as anticipated year-over-year benefits from lower expenses associated with our HE platform implementations and a higher portion of DO revenue. These benefits were partially offset by continuing margin pressures in our customer care offering. BPO margin does not reflect the impact of our student loan business, which is included in Other.

Metrics

Signings: Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Second quarter 2016 Services signings were $2.9 billion in Total Contract Value (TCV).

Signings were as follows:

(in billions)	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
BPO	$ 2.2	$ 3.7
DO	0.7	1.3
Total Signings	**$ 2.9**	**$ 5.0**

Signings declined 9% from second quarter 2015, with a 2-percentage point negative impact from currency, primarily reflecting lower contribution from new business. On a trailing twelve month (TTM) basis, signings increased 2% at constant currency from the comparable prior year period. New business TCV at constant currency decreased 56% from second quarter 2015 and decreased 6% on a TTM basis; prior year included the large New York Medicaid Management Information System new business signing. DO signings do not include signings from our growing partner print services offerings.

Note: TCV is the estimated total contractual revenue related to signed contracts.

Renewal Rate (Total Services): 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. The combined second quarter 2016 contract renewal rate for BPO and DO contracts was 82%, slightly below our target range of 85%-90%. The year-to-date renewal rate is 85%.

Signings and renewal rate reflect in part our decision to not pursue opportunities with lower margin and return profiles.

Government Healthcare Charge

In 2015 we determined that we would not fully complete the implementation of the HE platform in California and Montana. As a result we recorded a 2015 pre-tax charge of $389 million ($241 million after-tax) reflecting write-offs and estimated settlement costs as well as other impacts from this determination.

Although our settlement negotiations with California and Montana have been finalized, we continue to negotiate with various subcontractors on a final settlement. We believe we have recorded our best estimate of the required liability for the settlement of this matter; however, the estimate is subject to change when negotiations are finalized. We remain committed to the implementation and ongoing operation of the HE platform for our four other state clients, including our largest state client, New York.

Document Technology

Our Document Technology segment includes the sale of products and supplies, as well as the associated maintenance and financing of those products.

Revenue

	Three Months Ended June 30,				Six Months Ended June 30,			
(in millions)	2016	2015	% Change	CC % Change	2016	2015	% Change	CC % Change
Equipment sales	$ 512	$ 550	(7)%	(6)%	$ 944	$ 1,059	(11)%	(10)%
Annuity revenue	1,240	1,330	(7)%	(6)%	2,447	2,651	(8)%	(6)%
Total Revenue	**$ 1,752**	**$ 1,880**	**(7)%**	**(6)%**	**$ 3,391**	**$ 3,710**	**(9)%**	**(7)%**

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CC - See "Non-GAAP Financial Measures" section for description of Constant Currency

Second quarter 2016 Document Technology revenue of $1,752 million decreased 7% from second quarter 2015, with a 1-percentage point negative impact from currency. Document Technology revenues exclude Document Outsourcing. Inclusive of Document Outsourcing, second quarter 2016 aggregate document-related revenue decreased 4% from second quarter 2015, with a 1-percentage point negative impact from currency. Document Technology segment revenue results included the following:

- Equipment sales revenue declined 7% from second quarter 2015, with a 1-percentage point negative impact from currency. The decline was driven by continued weakness in developing markets and continued migration of customers to our partner print services offering (included in our Services segment) as well as overall price declines that continue to be within our historical range of 5 to 10%. These declines were partially offset by benefits from recent product launches primarily in our mid-range category.
- Annuity revenue decreased by 7% from second quarter 2015, with a 1-percentage point negative impact from currency. The annuity revenue reduction reflects lower equipment sales in prior periods resulting in ongoing page declines and lower supplies demand, as well as the continued migration of customers to our partner print services offering (included in our Services segment). These areas of decline were partially offset by annuity growth in our high-end color product group.

Document Technology revenue mix was 58% mid-range, 24% high-end and 18% entry, consistent with recent quarters.

Document Technology revenue of $3,391 million for the six months ended June 30, 2016 decreased 9% from the prior year period, with a 2-percentage point negative impact from currency. Document Technology revenues exclude Document Outsourcing. Inclusive of Document Outsourcing, aggregate document-related revenue for the six months ended June 30, 2016 decreased 6% from the prior year period, with a 2-percentage point negative impact from currency. Document Technology segment revenue results included the following:

- Equipment sales revenue declined 11% from the prior year period, with a 1-percentage point negative impact from currency. The decline was driven by continued weakness in developing markets, continued migration of customers to our partner print services offering (included in our Services segment) as well as overall price declines that continue to be within our historical range of 5 to 10%. These declines were partially offset by benefits from recent product launches primarily in our mid-range category.
- Annuity revenue decreased by 8% from the prior year period, with a 2-percentage point negative impact from currency. The annuity revenue reduction reflects lower equipment sales in prior periods, resulting in ongoing page declines and lower supplies demand, as well as the continued migration of customers to our partner print services offering (included in our Services segment). These areas of decline were partially offset by annuity growth in our high-end color product group.

Document Technology revenue mix was 57% mid-range, 24% high-end and 19% entry, consistent with recent quarters.

Total revenue in the Document Technology segment is expected to continue to decline over the next three years as we continue to migrate the business to more services-based offerings. These services-based offerings are reported within our Services segment as part of our Document Outsourcing business. This segment also continues to be impacted by lower equipment placements and price declines as well as related supplies and page declines. We expect to continue to mitigate these declines through focus on productivity and cost improvements, as well as investments in growth areas of the market.

Segment Margin

Second quarter 2016 Document Technology segment margin of 12.6% improved 0.1-percentage points from second quarter 2015, including a 0.1-percentage point improvement in gross margin. The gross margin increase reflects restructuring and productivity improvements partially offset by price declines. SAG increased as a percent of revenue primarily due to higher spending related to our participation at the Drupa printing trade show.

Document Technology segment margin for the six months ended June 30, 2016 of 11.4% declined 1.2-percentage points from the prior year period, including a 0.4-percentage point reduction in gross margin. The gross margin decrease reflects restructuring and productivity improvements more than offset by unfavorable currency impacts and price declines. SAG increased as a percent of revenue, primarily due to higher spending related to our participation at the Drupa printing trade show, as well as overall lower revenue which was only partially matched by productivity improvements, due in part to no second half 2015 restructuring.

Total Installs (Document Technology and Document Outsourcing[1])

Install activity includes Document Outsourcing and Xerox-branded products shipped to Global Imaging Systems. Details by product groups is shown below:

Installs for the second quarter 2016:

Entry[(2)]:
- 9% decrease in color multifunction devices driven by declines in developing markets.
- 2% increase in black-and-white multifunction devices.

Mid-Range:
- 6% increase in mid-range color installs including the benefit of recent product launches.
- 14% decrease in mid-range black-and-white reflecting continued declines in developing markets and a transition to color devices.

High-End:
- 14% increase in high-end color systems, excluding Fuji Xerox digital front-end sales, as growth in Versant Color Press 80 products was partially offset by declines in other production color products.
- 21% decrease in high-end black-and-white systems consistent with overall market declines.

Installs for the six months ended June 30, 2016:

Entry[(2)]:
- 4% decrease in color multifunction devices driven by a decline in developing markets.
- 8% decrease in black-and-white multifunction devices reflecting continued declines in developing markets.

Mid-Range:
- 4% increase in mid-range color installs, including the benefit of recent product launches.
- 14% decrease in mid-range black-and-white reflecting continued declines in developing markets and a transition to color devices.

High-End:
- 31% increase in high-end color systems, excluding Fuji Xerox digital front-end sales, as growth in Color Press 800 and 1000 products as well as Versant Color Press 80 products was partially offset by declines in other production color products, reflecting product launch timing.
- 15% decrease in high-end black-and-white systems consistent with overall market declines.

Note: Descriptions of “Entry”, “Mid-range” and “High-end” are defined in Note 3 - Segment Reporting, in the Condensed Consolidated Financial Statements.

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(1) Revenue from Document Outsourcing installations is reported in our Services segment.

(2) Entry installations exclude OEM sales; including OEM sales, Entry color multifunction devices increased 74% and 93% for the three and six months ended June 30, 2016, respectively, while Entry black-and-white multifunction devices increased 28% and 20% for the three and six months ended June 30, 2016, respectively.

Other

Revenue

Second quarter 2016 Other revenue of $163 million decreased 11% from second quarter 2015, with a 1-percentage point negative impact from currency. The decrease is driven by the anticipated run-off of the student loan business, now reported in Other, and lower paper and wide-format revenues. Total paper revenue (all within developing markets) and the student loan business combined comprise approximately 50% of Other revenue.

Other revenue for the six months ended June 30, 2016 of $323 million decreased 9% from the prior year period, with a 2-percentage point negative impact from currency. The decrease is driven by the anticipated run-off of the student loan business, now reported in Other, and lower paper and wide-format revenues. Total paper revenue (all within developing markets) and the student loan business combined comprise approximately 50% of Other revenue.

Other Loss

Second quarter 2016 Other loss of $80 million increased $18 million from second quarter 2015. Non-financing interest expense as well as all Other expenses, net (excluding Deferred compensation investment gains) are reported within Other and were $58 million in second quarter 2016 as compared to $68 million in second quarter 2015. The $10 million decrease was primarily due to a decrease in non-financing interest expense. Remaining Other loss of $22 million in second quarter 2016 increased $28 million from second quarter 2015 primarily related to lower profitability in the student loan business.

Other loss for the six months ended June 30, 2016 of $146 million increased $37 million from the prior year period. Non-financing interest expense as well as all Other expenses, net (excluding Deferred compensation investment gains) are reported within Other and were $115 million for the six months ended June 30, 2016 as compared to $118 million for the six months ended June 30, 2015. Remaining Other loss of $31 million for the six months ended June 30, 2016 increased $40 million from the six months ended June 30, 2015, primarily related to lower profitability in the student loan business.

Capital Resources and Liquidity

As of June 30, 2016 and December 31, 2015, total cash and cash equivalents were $1,203 million and $1,368 million, respectively. There were no borrowings under our Commercial Paper Program, or letters of credit under our $2 billion Credit Facility at June 30, 2016 or December 31, 2015, respectively.

We continue to expect cash flows from operations will be between $950 million and $1.2 billion in 2016.

Cash Flow Analysis

The following table summarizes our cash and cash equivalents:

	Six Months Ended June 30,		
(in millions)	2016	2015	Change
Net cash provided by operating activities	$ 152	$ 462	$ (310)
Net cash (used in) provided by investing activities	(192)	733	(925)
Net cash used in financing activities	(129)	(908)	779
Effect of exchange rate changes on cash and cash equivalents	4	(57)	61
(Decrease) increase in cash and cash equivalents	(165)	230	(395)
Cash and cash equivalents at beginning of period	1,368	1,411	(43)
Cash and Cash Equivalents at End of Period	**$ 1,203**	**$ 1,641**	**$ (438)**

Cash Flows from Operating Activities

Net cash provided by operating activities was $152 million for the six months ended June 30, 2016. The $310 million decrease in operating cash from the prior year period was primarily due to the following:

- $104 million decrease in pre-tax income before depreciation and amortization, restructuring charges, curtailment gain, gains on sales of businesses and assets and separation-related costs.
- $191 million decrease in accounts payable and accrued compensation primarily related to a reduction in days payable outstanding.
- $24 million decrease from accounts receivable primarily due to the timing of collections.

- $76 million decrease reflecting settlement payments associated with our third quarter 2015 decision to not fully complete the HE implementations in California and Montana.
- $39 million decrease due to the prior year source of cash in the discontinued ITO business.
- $11 million decrease due to payments for separation-related costs.
- $101 million increase primarily due to lower inventory requirements as well as lower levels of in transit inventory.
- $27 million increase due to lower pension contributions.

Cash Flows from Investing Activities

Net cash used in investing activities was $192 million for the six months ended June 30, 2016. The $925 million decrease in cash from the prior year period was primarily due to the following:

- $986 million decrease primarily due to a $52 million payment to Atos in 2016, reflecting final working capital adjustments associated with the 2015 ITO divestiture, compared to $930 million of net proceeds from the sale of the ITO business in 2015.
- $52 million increase due to lower capital expenditures (including internal use software) primarily due to the sale of the ITO business.

Cash Flows from Financing Activities

Net cash used in financing activities was $129 million for the six months ended June 30, 2016. The $779 million increase in cash from the prior year period was primarily due to the following:

- $611 million increase, as there were no share repurchases in 2016.
- $139 million increase from net debt activity. 2016 reflects net proceeds of $1 billion from a Senior Unsecured Term Facility offset by payments of $700 million on Senior Notes and $250 million on Notes. 2015 reflects payment of $1,250 million on Senior Notes offset by net proceeds of $648 million from the issuance of Senior Notes and an increase of $511 million in Commercial Paper.
- $44 million increase from lower distributions to noncontrolling interests.

Customer Financing Activities and Debt

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

(in millions)	June 30, 2016	December 31, 2015
Total finance receivables, net[(1)]	$ 3,901	$ 3,988
Equipment on operating leases, net	484	495
Total Finance Assets, net[(2)]	**$ 4,385**	**$ 4,483**

(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, 2015 includes an increase of $22 million due to currency across all Finance Assets.

The following summarizes our debt:

(in millions)	June 30, 2016	December 31, 2015
Principal debt balance[(1)]	$ 7,402	$ 7,365
Net unamortized discount	(47)	(52)
Debt issuance cost[(2)]	(25)	(28)
Fair value adjustments[(3)]		
- terminated swaps	36	47
- current swaps	18	7
Total Debt	**$ 7,384**	**$ 7,339**

(1) Includes Notes Payable of $2 million and $3 million as of June 30, 2016 and December 31, 2015, respectively.
(2) Reflects the adoption of ASU 2015-03, Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs effective January 1, 2016, which requires debt issuance costs to be presented as a direct deduction from the carrying amount of the corresponding debt liability. Prior year amounts were revised to reflect the new presentation.
(3) 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.

Refer to Note 10 - Debt, in the Condensed Consolidated Financial Statements for additional information.

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

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

(in millions)	June 30, 2016	December 31, 2015
Financing debt[(1)]	$ 3,837	$ 3,923
Core debt	3,547	3,416
Total Debt	**$ 7,384**	**$ 7,339**

(1) Financing debt includes $3,413 million and $3,490 million as of June 30, 2016 and December 31, 2015, respectively, of debt associated with total finance receivables, net and is the basis for our calculation of "Equipment financing interest" expense. The remainder of the financing debt is associated with Equipment on operating leases.

Sales of Accounts Receivable

Refer to Note 5 - Accounts Receivable, Net, in the Condensed Consolidated Financial Statements for additional information.

Sales of Finance Receivables

Refer to Note 6 - Finance Receivables, Net, in the Condensed Consolidated Financial Statements for additional information.

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 ten years as follows:

(in millions)	Amount
2016 Q3	$ 10
2016 Q4	1,007
2017	1,028
2018	1,020
2019	1,162
2020	1,208
2021	1,067
2022	—
2023	—
2024	300
2025 and thereafter	600
Total	$ 7,402

Treasury Stock

There were no share repurchases during the second quarter 2016 or through the date of our filing on August 4, 2016.

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 Yen, Euro and Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency 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.

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 11 – Financial Instruments, in the Condensed Consolidated Financial Statements for further discussion and information on our financial risk management strategies.

Non-GAAP Financial Measures

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

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.

A reconciliation of these non-GAAP financial measures and the most directly comparable measures calculated and presented in accordance with U.S. GAAP are set forth on the following tables. These reconciliations also include the income tax effects for our non-GAAP performance measures in total, to the extent applicable. The income tax effects are calculated under the same accounting principles as applied to our reported pre-tax performance measures under ASC 740, which employs an annual effective tax rate method. The noted income tax effect for our non-GAAP performance measures is effectively the difference in income taxes for reported and adjusted pre-tax income calculated under the annual effective tax rate method.

NOTE: In 2016 we revised our calculation of Adjusted Earnings Measures to exclude the following items in addition to the amortization of intangibles:

- Restructuring and related costs including those related to Fuji Xerox.
- The non-service related elements of our defined benefit pension and retiree health plan costs (retirement-related).
- Separation costs

When these measures are presented in 2016, the prior year measures will be revised accordingly to conform to the changes.

Adjusted Earnings Measures

- Net income and Earnings per share (EPS)
- Effective tax rate
- Gross margin, RD&E and SAG (adjusted for non-service retirement-related costs only)

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) amortized actuarial gains/losses and (iv) 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. Adjusted earnings will continue to include the elements of our retirement costs related to current employee service (service cost and amortization of prior service cost) as well as the cost of our defined contribution plans.

Separation costs:

Separation costs are expenses incurred in connection with Xerox's planned separation into two independent, publicly traded companies. Separation costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services related to the separation transaction as well as costs associated with the operational separation of the two companies, such as those related to human resources, brand management, real estate and information management to the extent not capitalized. Separation costs also include the costs associated with bonuses and restricted stock grants awarded to employees for retention through the separation as well as incremental income tax expense related to the reorganization of legal entities and operations in order to effect the legal separation of the Company. These costs are incremental to normal operating charges and are being incurred solely as a result of the separation transaction. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.

Operating Income and Margin

We also calculate and utilize operating income and margin earnings measures by adjusting our pre-tax income and margin amounts to exclude certain items. In addition to the costs noted for our Adjusted Earnings measures, operating income and margin also exclude Other expenses, net. Other expenses, net is primarily comprised of non-financing interest expense and also includes certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Constant Currency (CC)

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

Summary

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

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

Net Income and EPS reconciliation:

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
(in millions; except per share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS	Net Income	EPS
Reported[1]	$ 155	$ 0.15	$ 107	$ 0.09	$ 189	$ 0.17	$ 298	$ 0.26
Adjustments:								
Amortization of intangible assets	78		79		167		156	
Restructuring and related costs - Xerox	71		157		197		171	
Non-service retirement-related costs	32		10		78		52	
Separation costs	28		—		36		—	
Income tax adjustments[2]	(80)		(90)		(152)		(137)	
Tax related separation costs[2]	26		—		26		—	
Restructuring charges - Fuji Xerox	1		1		1		2	
Adjusted	$ 311	$ 0.30	$ 264	$ 0.23	$ 542	$ 0.52	$ 542	$ 0.47
Weighted average shares for adjusted EPS[3]		1,049		1,132		1,048		1,142
Fully diluted shares at end of period[4]		1,049						

(1) *Net income and EPS from continuing operations.*
(2) *Refer to Effective Tax Rate reconciliation.*
(3) *Average shares for the calculations of adjusted EPS include 27 million shares associated with our Series A convertible preferred stock and therefore the related quarterly dividend of $6 million was excluded.*
(4) *Represents common shares outstanding at June 30, 2016, as well as shares associated with our Series A convertible preferred stock plus potential dilutive common shares used for the calculation of diluted earnings per share for the second quarter 2016.*

Effective Tax Rate reconciliation:

	Three Months Ended June 30,												Six Months Ended June 30,											
	2016						2015						2016						2015					
(in millions)	Pre-Tax Income		Income Tax Expense		Effective Tax Rate		Pre-Tax Income		Income Tax (Benefit) Expense		Effective Tax Rate		Pre-Tax Income		Income Tax (Benefit) Expense		Effective Tax Rate		Pre-Tax Income		Income Tax Expense		Effective Tax Rate	
Reported[(1)]	$	145	$	9	6.2%		$	74	$	(9)	(12.2)%		$	129	$	(6)	(4.7)%		$	275	$	30	10.9%	
Non-GAAP Adjustments[(2)]		209		80				246		90				478		152				379		137		
Tax related separation costs		—		(26)				—		—				—		(26)				—		—		
Adjusted - revised[(3)]	$	354	$	63	17.8%		$	320	$	81	25.3 %		$	607	$	120	19.8 %		$	654	$	167	25.5%	

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(1) Pre-Tax Income and Income Tax Expense (Benefit) from continuing operations.
(2) Refer to Net Income/EPS reconciliation for details. Amounts exclude Fuji Xerox restructuring as these amounts are net of tax.
(3) The tax impact on Adjusted Pre-Tax Income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income under ASC 740, which employs an annual effective tax rate method to the results.

Operating Income / Margin reconciliation:

	Three Months Ended June 30,										Six Months Ended June 30,									
	2016					2015					2016					2015				
(in millions)	Profit		Revenue		Margin	Profit		Revenue		Margin	Profit		Revenue		Margin	Profit		Revenue		Margin
Reported Pre-tax Income[(1)]	$	145	$	4,385	3.3%	$	74	$	4,590	1.6%	$	129	$	8,666	1.5%	$	275	$	9,059	3.0%
Adjustments:																				
Amortization of intangible assets		78					79					167					156			
Restructuring and related costs - Xerox		71					157					197					171			
Non-service retirement-related costs		32					10					78					52			
Separation costs		28					—					36					—			
Other expenses, net		55					68					112					114			
Adjusted Operating Income/Margin	$	409	$	4,385	9.3%	$	388	$	4,590	8.5%	$	719	$	8,666	8.3%	$	768	$	9,059	8.5%

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(1) Profit and revenue from continuing operations.

Key Financial Ratios reconciliation:

	Three Months Ended June 30,											
	2016						2015					
(in millions)	As Reported[(1)]		Non-service retirement-related costs		Adjusted		As Reported[(1)]		Non-service retirement-related costs		Adjusted	
Gross Profit	$	1,367	$	12	$	1,379	$	1,426	$	4	$	1,430
RD&E		128		(6)		122		142		(1)		141
SAG		862		(14)		848		906		(5)		901
Gross Margin		31.2%				31.4%		31.1%				31.2%
RD&E as a % of Revenue		2.9%				2.8%		3.1%				3.1%
SAG as a % of Revenue		19.7%				19.3%		19.7%				19.6%

	Six Months Ended June 30,					
	2016			2015		
(in millions)	As Reported[(1)]	Non-service retirement-related costs	Adjusted	As Reported[(1)]	Non-service retirement-related costs	Adjusted
Gross Profit	$ 2,647	$ 29	$ 2,676	$ 2,820	$ 20	$ 2,840
RD&E	262	(14)	248	283	(8)	275
SAG	1,744	(35)	1,709	1,821	(24)	1,797
Gross Margin	30.5%		30.9%	31.1%		31.4%
RD&E as a % of Revenue	3.0%		2.9%	3.1%		3.0%
SAG as a % of Revenue	20.1%		19.7%	20.1%		19.8%

(1) *Profit and revenue from continuing operations.*

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

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

(b) Changes in Internal Controls

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 17 – 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 2015 Annual Report. The Risk Factors remain applicable from our 2015 Annual Report.

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

(a) Sales of Unregistered Securities during the Quarter ended June 30, 2016

During the quarter ended June 30, 2016, 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 29, 2016: Registrant issued 5,709 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: Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Sara Martinez Tucker and Mary Agnes Wilderotter.

c. The DSUs were issued at a deemed purchase price of $11.12 per DSU (aggregate price $63,484), 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, 2016

Board Authorized Share Repurchases Programs:

There were no repurchases of Xerox Common Stock pursuant to Board authorized share repurchase programs during the second quarter 2016 or through the date of our filing on August 4, 2016.

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	23,047	$ 11.10	n/a	n/a
May 1 through 31	—	—	n/a	n/a
June 1 through 30	—	—	n/a	n/a
Total	**23,047**			

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

(2) Exclusive of fees and costs.

ITEM 6 — EXHIBITS

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on February 21, 2013.
	Incorporated by reference to Exhibit 3(a) to Registrant's Annual Report on Form 10-K dated for the fiscal year ended December 31, 2012.
3(b)	By-Laws of Registrant, as amended through December 4, 2015.
	Incorporated by reference to Exhibit 3(b) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015.
10(c)	Letter Agreement dated May 20, 2016 between Registrant and Ursula M. Burns, Registrant's Chairman of the Board and Chief Executive Officer.
10(e)(27)	Registrant's 2004 Performance Incentive Plan, as amended and restated effective as of May 20, 2016.
10(e)(28)	Amendment to Certain [RSU Retention] Agreements Pursuant to Registrant's 2004 Performance Incentive Plan.
10(e)(29)	2016 CEO Executive Long-Term Incentive Program Award Agreement (Performance Shares and Restricted Stock Units)
10(e)(30)	2017 CEO Executive Long-Term Incentive Program Award Agreement (Restricted Stock Units)
10(t)	Agreement dated June 27, 2016 between the Icahn Group and Registrant re: voting provisions and election of a director to Registrant's Board.
	Incorporated by reference to Exhibit 10(b) to Registrant's Current Report on Form 8-K dated June 27, 2016. See SEC File Number 001-04471.
12	Computation of Ratio of Earnings to Fixed Charges.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

SIGNATURES

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

XEROX CORPORATION
(Registrant)

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

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

Date: August 4, 2016

EXHIBIT INDEX

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EXHIBIT 10(c)

Ursula M. Burns

May 20, 2016

Dear Ursula,

This letter sets forth our agreement with respect to your continued role as Chief Executive Officer and Chairman of the Board of Xerox Corporation (the "Company"), in connection with the proposed spin-off of the Company's Business Process Outsourcing (BPO) business from its Document Technology and Document Outsourcing business such that each of the businesses will operate as an independent public company (the spun off BPO company shall be referred to as "SpinCo" and the Document Technology and Document Outsourcing business shall be referred to as "RemainCo"). Xerox has begun the process of the separation and its objective is to complete the separation by year-end 2016, subject to customary regulatory approvals, the effectiveness of a Form 10 registration statement with the U.S. Securities and Exchange Commission, tax considerations, securing any necessary financing and final approval of the Board of Directors of Xerox (the "Board") (the consummation of such transactions, the "Separation" and such date the "Separation Date").

1. Term.
    a. CEO Term. From the date hereof until the earlier of January 31, 2017 or the Separation Date (the " CEO Term"), you shall continue to (i) be the Chief Executive Officer and Chairman of the Board of the Company, and (ii) have the duties and authorities consistent with your current position, provided that you shall focus additionally on completing the Separation and assisting with the search for a new Chief Executive Officer of RemainCo, and such other duties and responsibilities as reasonably requested by the Board.
    b. Chairman Term. Effective upon the expiration of the CEO Term, you shall cease to be the Chief Executive Officer but you shall continue to remain an employee and the Chairman of RemainCo (or the Company, if the Separation has not occurred) until the annual shareholder meeting in 2017 (the "Annual Meeting") anticipated to be in May 2017 such period (the " Chairman Term"). During the Chairman Term, your primary responsibilities, will include assistance in connection with the transition to the new CEO of RemainCo and other advisory services consistent with your positon as requested by the Board. You will retire from your role as Chairman and a member of the Board at the Annual Meeting and your retirement shall also serve as the termination of your employment, provided that such retirement shall be treated as if you had retired effective July 1, 2017 for all purposes hereunder (a "Qualifying Retirement"). For the avoidance of doubt, you shall not become employed by nor a member of the

Board or Chairman of SpinCo. You agree to promptly execute any letters of resignation or similar documents necessary to effectuate the foregoing.

2. Compensation during CEO Term. During the CEO Term, (i) you will continue to receive your annual salary at your current rate ($1,100,000 per annum) and (ii) your target annual bonus under the APIP shall continue to be 200%. Your Annual Performance Incentive Plan bonus goal shall be consistent with the bonus goals previously established for 2016, such that 60% is based on achieving the pre-established financial metrics and 40% is based upon the Separation metrics. The bonus, if any, that is earned for 2016 shall be payable solely in cash and shall be payable in 2017 at the same time bonuses are paid to other senior executive officers of the Company. During the CEO Term you will also be eligible to participate in the same employee benefits and perquisites that you currently participate in, or are provided, in each case subject to the terms of such plans or arrangements as may be amended, modified or terminated from time to time.

3. 2016 LTI Award. For 2016, on or around July 1, 2016 you will receive a long term incentive grant (the "2016 Award"), substantially in the form attached as Exhibit A with a target value of $9.7 million, with the 2016 Award composed of (i) 50% restricted stock units that will vest based upon service and (ii) 50% performance shares of the Company that will vest based on the achievement of the 2016 revenue growth, adjusted EPS and adjusted operating cash flows goals as further set forth on Exhibit A (consistent with the goals for 2016 LTI awards made to other executive officers of the Company). The 2016 Award, to the extent vested, shall be payable in RemainCo stock on July 1, 2019 (if, then publicly traded), subject to the terms of the 2016 Award.

4. Compensation during Chairman Term. During the Chairman Term, your base salary shall be at a rate of $900,000 per annum (for the avoidance of doubt, you shall receive a prorated amount of your base salary through the date of your termination or the effective date of your Qualifying Retirement, if applicable. During the Chairman Term, you will not receive any Board retainer or meeting fees. During the Chairman Term your target annual bonus will be 150% of your base salary (at a rate of $900,000). The bonus criteria shall be determined by the compensation committee of the Board in 2017 and will generally be consistent with the bonus criteria for the new Chief Executive Officer of RemainCo (if then applicable) as well as your providing transition and support to such individual. The amount of the bonus earned, if any, shall be pro-rated based on the length of time in 2017 that you work through the termination date or the date of your Qualifying Retirement, if applicable. The bonus, if any, that is earned for 2017 shall be payable solely in cash and shall be payable in 2018 at the same time bonuses are paid to other senior executive officers of the Company or RemainCo, as the case may be. During the Chairman Term, you will also be eligible to participate in the same employee benefits and perquisites that you currently participate in, or are provided, in each case subject to the

terms of such plans or arrangements as may be amended, modified or terminated from time to time (it being understood that you shall not be permitted to use the Company aircraft unless authorized in advance by the Board).

5. 2017 LTI Award. For 2017, on or around January 1, 2017 you shall receive a special one-time grant of time-vested restricted stock units in recognition of your commitment to the Separation and transition support to the new CEO of RemainCo (the "2017 Award"), substantially in the form attached as Exhibit B, with a grant date value of $5 million. The Award will vest pro rata over the number of full months that you work in 2017 through your termination date or the date of your Qualifying Retirement, if applicable. The payout date of any vested awards shall be on the third anniversary of the grant date, intended to be January 1, 2020. The 2017 Award, to the extent vested, shall be payable in RemainCo stock (if, then publicly traded), subject to the terms of the 2017 Award.

6. SERP Benefit. The treatment of your benefit under the Company's Unfunded Supplemental Executive Retirement Plan ("SERP") shall be consistent with the action taken by unanimous written consent of the Compensation Committee on March 29, 2016, such that your retirement at any time after the expiration of the CEO Term shall be treated as a retirement date that is acceptable to the Company for such purpose.

7. Prior LTI Awards. Your outstanding equity awards granted prior to 2016 shall vest pro rata through the date of your termination (in accordance with the terms of such outstanding awards).

8. Qualifying Termination. Notwithstanding anything in this letter agreement to the contrary, your employment with the Company and RemainCo continues to be at-will and you or the Company may terminate your employment at any time (including, without limitation during the CEO Term or the Chairman Term).
    a. If your employment is terminated in a Qualifying Termination (as defined below), then (i) you shall continue to receive the payment of your base salary and target bonus as if your employment had not terminated until the end of the Chairman Term, and (ii) you shall receive all rights and benefits that you would have been eligible to receive hereunder in connection with a Qualifying Termination.
    b. For purposes of this Agreement, "Good Reason" means a (i) material reduction in your base salary or target bonus, other than as contemplated by this letter agreement or (ii) the requirement that you relocate your primary place of employment to a location more than 50 miles from your current location provided, however, that it will not be considered Good Reason unless you

provide notice of such alleged breach to the Company in writing within 60 days of your knowledge of such breach, and the Company or RemainCo, has failed to cure such breach within 30 days of receiving such written notice. Unless you give the Company or RemainCo, as applicable written notice of any such breach within 30 days of the initial existence of such breach which, after any applicable notice and the lapse of any applicable 30-day grace period, would constitute Good Reason, such breach will cease to be an event constituting Good Reason. For the avoidance of doubt, you acknowledge and agree that the discussion regarding this letter agreement, the execution of this agreement and the changes contemplated by this agreement shall not individually or in the aggregate constitute Good Reason.

c. For purposes of this Agreement, "Qualifying Termination" means a (i) termination of your employment with the Company or RemainCo by the Company or RemainCo without Cause (as defined in the 2016 Award) (other than due to death, disability, or your retirement or resignation) or (ii) a voluntary resignation of your employment for Good Reason on or prior to December 31, 2016 (and Good Reason shall not be applicable after December 31, 2016).

9. CIC Agreement. While you are employed by the Company or RemainCo, you will continue to be covered by the terms of that certain Change in Control Severance Letter Agreement dated effective as of January 1, 2012 ("CIC Letter").

10. Early Termination. If you voluntarily resign (other than for Good Reason) prior to the commencement of a new CEO of RemainCo or prior to the Annual Meeting (unless such resignation is requested by the Board), then notwithstanding anything in this agreement, you will not continue to vest in the 2016 Award beyond the date of termination and you will forfeit the 2017 Award.

11. Restrictive Covenants. You agree to be bound by the restrictive covenants in favor of the Company pursuant to your Employment, Non-Competition and Non-Solicitation Agreement, dated as of February 25, 2010.

12. Cooperation. You agree that, upon reasonable notice and without the necessity of the Company obtaining a subpoena or court order, you shall provide cooperation in connection with any suit, action or proceeding (or any appeal from any suit, action or proceeding), and any investigation and/or defense of any claims asserted against the Company, or any of their respective predecessors or successors, or current or former directors, officers, shareholders, partners, members, agents or representatives, which relates to events occurring during any period during which you provided services to the Company as to which you may have relevant information (including but not limited to

furnishing relevant information and materials to the Company or its designee and/or providing testimony at depositions and at trial), provided that the Company shall reimburse you for expenses reasonably incurred in connection therewith, and further provided that any such cooperation occurring after the termination of your services shall be scheduled to the extent reasonably practicable so as not to unreasonably interfere with your business or personal affairs.

13. Release. Notwithstanding anything in this agreement to the contrary, as a condition to the receipt, of salary continuation payments and or continued vesting of equity awards in accordance with the terms of this Agreement, you shall be required to enter into the Company's standard form of release of claims and separation agreement in favor of the Company and its affiliates (as amended from time to time) and such release must be effective and irrevocable within 53 days after the date of your termination of employment. All payments and benefits that would otherwise be paid prior to the sixtieth (60th) day after your termination of employment shall be paid in a lump sum as soon as reasonably practicable following the sixtieth (60th) day after such termination of employment.

14. Section 409A. The parties intend that this agreement is intended to be administered in accordance with or exempt from Section 409A of the Internal Revenue Code ("Section 409A"). Each payment pursuant to this agreement is intended to constitute a separate payment for purposes of Section 409A. Section 14 of the CIC Letter is incorporated herein by reference. The payment of any deferred compensation subject to Section 409A shall be as set forth in the underlying agreements governing such deferred compensation. The parties agree that this Agreement may be amended, as reasonably requested by either party, and as may be necessary to fully comply with Section 409A and all related rules and regulations in order to preserve the payments and benefits provided hereunder without additional cost to either party. The Company makes no representation or warranty and shall have no liability to you or any other person if any provisions of this agreement are determined to constitute deferred compensation subject to Section 409A but do not satisfy an exemption from, or the conditions of, Section 409A.

15. Further Assurances. You and the Company, and RemainCo, as applicable hereby agree, at the request of any other party, to execute and deliver all such other and additional instruments and documents and to do such other acts and things as may be reasonably necessary or appropriate to carry out the intent and purposes of this Agreement.

16. Indemnification. You will continue to be covered by the indemnification provisions to the fullest extent as provided in accordance with the charter and by-laws of the Company and RemainCo, as the case may be, during and following your service with the Company and RemainCo. You shall continue to be covered under directors and officers liability

insurance policies to the same extent as provided to officers and directors of the Company and RemainCo, as the case may be.

17. Miscellaneous. No provision of this agreement or any related document will be construed against or interpreted to the disadvantage of any party hereto by any court or other governmental or judicial authority by reason of such party having or being deemed to have structured or drafted such provision. No waiver by either party hereto at any time of any breach by the other party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which is not expressly set forth in this Agreement. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles. This agreement may not be modified or amended, nor may any rights under it be waived, except in a writing signed and agreed to by you and the Company, or RemainCo, as applicable and specifically referencing the provision being so modified, amended or waived. The Company and RemainCo, as applicable, shall be entitled to withhold from any amounts to be paid or benefits provided to you any federal, state, local or foreign withholding or other taxes or charges which it is from time to time required to withhold.

If this letter reflects our mutual understanding, kindly date and countersign the letter agreement.

By:	***<u>/s/ Ursula M. Burns</u>***
Name:	Ursula M. Burns
Title:	Chief Executive Officer and Chairman of Xerox
Date:	May 20, 2016

XEROX CORPORATION

By:	***<u>/s/ Darrell L. Ford</u>***
Name:	Darrel L. Ford
Title:	Senior Vice President
Date:	May 20, 2016

By:	***<u>/s/ Ann N. Reese</u>***
Name:	Ann N. Reese
Title:	Lead Independent Director
Date:	May 20, 2016

EXHIBIT 10(e)(27)

XEROX CORPORATION
2004 PERFORMANCE INCENTIVE PLAN

2016 AMENDMENT AND RESTATEMENT

1. Purpose

The purpose of the Xerox Corporation 2004 Performance Incentive Plan as set forth herein or in any amendments hereto (the “2004 Plan” or the “Plan”) is to advance the interests of Xerox Corporation (the “Company”) and to increase shareholder value by providing officers and employees of the Company, its subsidiaries and its Affiliates (as hereinafter defined) with a proprietary interest in the growth and performance of the Company and with incentives for current or future service with the Company, its subsidiaries and Affiliates. The Plan is a successor plan to (i) the Xerox Corporation 1991 Long-Term Incentive Plan, (ii) the Xerox Corporation 1998 Employee Stock Option Plan, (iii) the Xerox Executive Performance Incentive Insurance Plan, (iv) the Xerox Mexicana, S.A. de C.V. Executive Rights Plan and (v) the Xerox Canada Inc. Executive Rights Plan, any or all of which may be referred to as a “Predecessor Plan”.

2. Effective Date and Term

The Plan shall be effective as of May 20, 2004 (the “Effective Date”), subject to the approval of the Company’s shareholders at the 2004 annual meeting. Subject to the approval of the Company’s shareholders at the 2016 meeting, no awards or grants can be made after December 31, 2021, unless terminated sooner pursuant to Section 13 by the Company’s Board of Directors (the “Board”). Effective May 20, 2004, no further awards were made under a Predecessor Plan, but outstanding awards under any Predecessor Plan remained outstanding in accordance with their applicable terms and conditions. This Amendment and Restatement shall be effective as of the date hereof and dates set forth herein.

3. Plan Administration

(a) The independent Compensation Committee of the Board, or such other independent committee as the Board shall determine, comprised of not less than three members, shall be responsible for administering the Plan (the “Compensation Committee”). To the extent specified by the Compensation Committee, it may delegate its administrative responsibilities to a subcommittee of the Compensation Committee comprised of not less than three members (the Compensation Committee, such subcommittee, and any individual to whom powers are delegated pursuant to subsection (c), being hereinafter referred to as the “Committee”). The Committee shall be qualified to administer the Plan as contemplated by (i) Rule 16b-3 under the Securities Exchange Act of 1934 (the “1934 Act”) or any successor rule, (ii) Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), and the regulations thereunder, and (iii) any rules and regulations of a stock exchange on which Common Stock (as defined in Section 5) of the Company is listed.

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

(c) Except for the power to amend the Plan as provided in Section 13 and except for determinations regarding employees who are subject to Section 16 of the 1934 Act or certain key employees who are, or may become, as determined by the Committee, subject to the Code Section 162(m) compensation deductibility limit (the “Covered Employees”), and except as may otherwise be required under applicable New York Stock Exchange rules, the Committee may delegate any or all of its duties, powers and authority under the Plan pursuant to such conditions or limitations as the Committee may establish to any officer or officers of the Company. The term “Committee” herein shall include any individual exercising powers to the extent delegated pursuant to the preceding sentence.

4. Eligibility

Any employee of the Company shall be eligible to receive an award under the Plan. For purposes of this Section 4, “Company” shall include any entity that is directly or indirectly controlled by the Company or any entity in which the Company has a significant equity interest, as determined by the Committee (“Affiliate”). If a participant who is an employee or former employee of the Company is determined, such determination made prior to a Change in Control, not to have satisfied any of the conditions set forth in the Award Agreement, the awards granted shall be cancelled as set forth in the Award Agreement. If a participant who is an employee or former employee of the Company is deemed by the Committee, in the Committee’s sole discretion exercised prior to a Change in Control, to have engaged in detrimental activity against the Company, any awards granted to such employee or former employee on or after January 1, 2006, whether or not Nonforfeitable as hereinafter defined, shall be canceled and be of no further force or effect and any payment or delivery of an award from six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the participant shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Committee. If an accounting restatement is required to correct any material non-compliance with financial reporting requirements under relevant securities laws, the Company may recover any excess incentive-based compensation (in excess of what would have been paid under the accounting restatement), as provided in Section 7(f) hereof.

5. Shares of Stock Subject to the Plan

(a) A total number of approximately 58 million (58,000,000) (as of December 31, 2015, a total number of approximately 41.5 million (41,500,000)) shares of common stock, par value $1.00 per share, of the Company (“Common Stock”) are available for issuance under the Plan. Any shares available for grant under any Predecessor Plan on the Effective Date not subject to outstanding awards shall be available for issuance under the Plan. In addition, any shares underlying awards outstanding on May 20, 2004 under any Predecessor Plan that are cancelled, are forfeited, or lapse shall become available for issuance under the Plan.

(b) For purposes of the preceding paragraph, the following shall not be counted against shares available for issuance under the Plan: (i) payment of stock appreciation rights (“SAR”) in cash or any form other than shares and (ii) payment in shares of dividends and dividend equivalents in conjunction with outstanding awards. Any shares that are issued by the Company, and any awards that are granted by, or become obligations of, the Company, through the assumption by the Company or an affiliate of, or in substitution for, outstanding awards previously granted by an acquired company shall not be counted against the shares available for issuance under the Plan.

(c) In determining shares available for issuance under the Plan, any awards granted under the Plan that are cancelled, are forfeited, or lapse shall become eligible again for issuance under the Plan. In addition, shares withheld to pay taxes pursuant to Section 14, but not sold, and shares tendered to exercise stock options, shall be treated as shares again eligible for issuance under the Plan.

(d) Except as subject to adjustment as provided in Section 6, from the Effective Date through May 19, 2010, there were no more than (i) 10.0 million (10,000,000) shares of Common Stock available for issuance pursuant to the exercise of incentive stock options (“ISOs”) awarded under the Plan; and (ii) 15.0 million (15,000,000) shares of Common Stock made the subject of awards under any combination of awards under Sections 7(b), 7(c) or 7(d) of the Plan to any single individual, of which no more than10.0 million (10,000,000) were shares of restricted stock. SARs whether paid in cash or shares of Common Stock were counted against the limit set forth in (ii).

From May 20, 2010 through December 31, 2021, except as subject to adjustment as provided in Section 6, shall more than (i) 10.0 million (10,000,000) shares of Common Stock be available for issuance pursuant to the exercise of incentive stock options (“ISOs”) awarded under the Plan; and (ii) 22.0 million (22,000,000) shares of Common Stock be made the subject of awards under any combination of awards under Sections 7(b), 7(c) or 7(d) of the Plan to any single individual, of which no more than 13.0 million (13,000,000) may be shares of restricted stock. SARs whether paid in cash or shares of Common Stock shall be counted against the limit set forth in (ii).

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

6. Adjustments and Reorganizations

(a) If the Company shall at any time change the number of issued shares without new consideration to the Company (such as by stock dividend, stock split, recapitalization, reorganization, exchange of shares, liquidation, combination or other change in corporate structure affecting the shares) or make a distribution of cash or property which has a substantial impact on the value of issued shares (other than by normal cash dividends), such change shall be made with respect to (i) the aggregate number of shares that may be issued under the Plan; (ii) the number of shares subject to awards of a specified type or to any individual under the Plan; and/or (iii) the price per share for any outstanding stock options, SARs and other awards under the Plan.

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

(c) In the case of any sale of all or substantially all assets, merger, consolidation or combination of the Company with or into another corporation other than a transaction in which the Company is the continuing or surviving corporation and which does not result in the outstanding shares being converted into or exchanged for different securities, cash or other property, or any combination thereof (an “Acquisition”), any individual holding an outstanding award under the Plan, including any Optionee who holds an outstanding Option, shall have the right (subject to the provisions of the Plan and any limitation applicable to the award) thereafter, and for Optionees during the term of the Option upon the exercise thereof, to receive the Acquisition Consideration (as defined below) receivable upon the Acquisition by a holder of the number of applicable shares which would have been obtained upon exercise of the Option or portion thereof or obtained pursuant to the terms of the applicable award, as the case may be, immediately prior to the Acquisition. The term "Acquisition Consideration" shall mean the kind and amount of shares of the surviving or new corporation, cash, securities, evidence of indebtedness, other property or any combination thereof receivable in respect of one share of the Company upon consummation of an Acquisition.

(d) No adjustment or modification to any outstanding award pursuant to this Section 6 shall cause such award to be treated as the grant of a new stock right or a change in the form of payment of the existing stock right for purposes of Code Section 409A, as set forth in Treasury guidance.

7. Awards

(a) The Committee shall determine the type or types of award(s) to be made to each participant under the Plan and shall approve the terms and conditions governing such awards in accordance with Section 12. Awards may include but are not limited to those listed in this Section 7. Awards may be granted singly, in combination or in tandem so that the settlement or payment of one automatically reduces or cancels the other. Awards may also be made in combination or in tandem with, in replacement of, as alternatives to, or as the payment form for, grants or rights under any other employee or compensation plan of the Company, including the plan of any acquired entity. However, under no circumstances may stock option awards be made which provide by their terms for the automatic award of additional stock options upon the exercise of such awards, including, without limitation, "reload options".

(b) A Stock Option is a grant of a right to purchase a specified number of shares of Common Stock during a specified period. The purchase price of each option shall be not less than 100% of Fair Market Value (as defined in Section 10) on the effective date of grant. A Stock Option may be exercised in whole or in installments, which may be cumulative. A Stock Option may be in the form of an ISO which complies with Section 422 of the Internal Revenue Code of 1986, as amended, and the regulations thereunder at the time of grant. The price at which shares of Common Stock may be purchased under a Stock Option shall be paid in full at the time of the exercise in cash or such other method as provided by the Committee at the time of grant or as provided in the form of agreement approved in accordance herewith, including tendering (either constructively or by attestation) Common Stock, surrendering a stock award valued at market value at the time of surrender, surrendering a cash award, or any combination thereof. Other than pursuant to Section 6, the Committee shall not without the approval of the Company's shareholders (a) lower the exercise price per share of a Stock Option after it is granted, (b) cancel a Stock Option when the exercise price per share exceeds the Fair Market Value of one share in exchange for cash or another award (other than in connection with a Change in Control), or (c) take any other action with respect to a Stock Option that would be treated as a repricing under the rules and regulations of the New York Stock Exchange. The Company may not repurchase a Stock Option for value (in cash, substitutions, cash buyouts or otherwise) from a Stock Option-holder if the current Fair Market Value of the shares underlying the Stock Option is lower than the exercise price per share of the Stock Option. The foregoing two sentences are collectively referred to herein as the "Repricing Prohibition".

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

(d) Stock Award is an award made in stock or denominated in units of stock. All or part of any Stock Award may be subject to conditions established by the Committee, and set forth in the award agreement, which may include, but are not limited to, continuous service with the Company, achievement of specific business objectives, and other measurements of individual, business unit or Company performance. A restricted stock award made pursuant to this Section 7(d) shall be subject to a vesting schedule of no less than three (3) years unless such award is performance based, in which case vesting shall be no less than one (1) year.

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

(i) an annual incentive award in connection with which the Committee will establish specific performance periods (not to exceed twelve months) to provide cash awards for the purpose of motivating participants to achieve goals for the performance period. An annual incentive award shall specify the minimum, target and maximum amounts of awards for a performance period for a participant or any groups of participants, and, to the extent applicable to Covered Employees, comply with the requirements of Section 23; or

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

(iii) Cash Awards under this Section 7(e) to any single Covered Employee, including dividend equivalents in cash or shares of Common Stock payable based upon attainment of specific performance goals, may not exceed in the aggregate $10,000,000 in the case of the Chief Executive Officer and $5,000,000 in the case of any other participant, with respect to any calendar year.

(f) The Committee shall have the discretion with respect to any award granted under the Plan to establish upon its grant conditions under which (i) the award may be later forfeited, cancelled, rescinded, suspended, withheld or otherwise limited or restricted; or (ii) gains realized by the grantee in connection with an award or an award's exercise may be recovered; provided that such conditions and their consequences are clearly set forth in the grant agreement or other grant document and fully comply with applicable laws. These conditions may include, without limitation, actions by the participant which constitute a conflict of interest with the Company, are prejudicial to the Company's interests, or are in violation of any non-compete agreement or obligation, any confidentiality agreement or obligation, the Company's applicable policies, its Code of Business Conduct and Ethics, or the participant's terms and conditions of employment.

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

8. Dividends and Dividend Equivalents

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

9. Deferrals and Settlements

Payment of awards may be in the form of cash, stock, other awards, or in such combinations thereof as the Committee shall determine at the time of grant, and with such restrictions as it may impose. Except as provided in Section 24 herein, the Committee may also require or permit participants to elect to defer the issuance of shares or the payment of awards in cash under such rules and procedures as it may establish under the Plan, provided that such rules and procedures comply with the requirements of Code Section 409A, if applicable. It may also provide that deferred payments include the payment or crediting of interest on the deferral amounts or the payment or crediting of dividend equivalents on deferred payments denominated in shares.

10. Fair Market Value

Fair Market Value for all purposes under the Plan shall mean, effective February 15, 2007, the closing price of Common Stock as reported in The Wall Street Journal in the New York Stock Exchange Composite Transactions or similar successor consolidated transactions reports for the relevant date, or if no sales of Common Stock were made on said exchange on that date, the closing price of Common Stock as reported in said composite transaction report for the preceding day on which sales of Common Stock were made on said exchange. Under no circumstances shall Fair Market Value be less than the par value of the Common Stock.

11. Transferability and Exercisability

Except as otherwise provided in this Section 11, all awards under the Plan shall be nontransferable and shall not be assignable, alienable, saleable or otherwise transferable by the participant other than by will or the laws of descent and distribution except pursuant to a domestic relations order entered by a court of competent jurisdiction. Notwithstanding the preceding sentence, the Committee may provide that any award of non-qualified Stock Options may be transferable by the recipient to family members or family trusts established by the recipient. The Committee may also provide that, in the event that a participant terminates employment with the Company to assume a position with a governmental, charitable, educational or similar non-profit institution, a third party, including but not limited to a “blind” trust, may be authorized by the Committee to act on behalf of and for the benefit of the respective participant with respect to any outstanding awards. Except as otherwise provided in this Section 11, during the life of the participant, awards under the Plan shall be exercisable only by him or her except as otherwise determined by the Committee. In addition, if so permitted by the Committee, a participant may designate a beneficiary or beneficiaries to exercise the rights of the participant and receive any distributions under the Plan upon the death of the participant.

12. Award Agreements; Notification of Award

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

13. Plan Amendment and Termination

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

(a) The Compensation Committee may amend the Plan as it deems necessary or appropriate, except that no such amendment which would cause the Plan not to comply with the requirements of (i) Code Section 162(m) with respect to performance-based compensation, (ii) the Code with respect to ISOs or (iii) the New York Business Corporation Law as in effect at the time of such amendment shall be made without the approval of the Company's shareholders. No such amendment shall adversely affect any outstanding awards under the Plan without the consent of all of the holders thereof.

(b) Notwithstanding the foregoing, an amendment that constitutes a "material revision", as defined by the rules of the New York Stock Exchange, shall be submitted to the Company's shareholders for approval. In addition, any revision that deletes or limits the scope of the provision in Section 7 prohibiting repricing of options without shareholder approval will be considered a material revision.

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

14. Tax Withholding

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

Regardless of any action the Company or employee's employer (the "Employer") takes with respect to any or all income tax, social insurance, payroll tax, payment on account or other tax-related items related to employee's participation in the Plan and legally applicable to employee ("Tax-Related Items"), the ultimate liability for all Tax-Related Items is and remains employee's responsibility and may exceed the amount actually withheld by the Company or the Employer. The Company and/or the Employer (1) make no representations or undertakings regarding the treatment of any Tax-Related Items in connection with any aspect of awards under the Plan, including, but not limited to, the making of awards, the issuance of shares of Common Stock of awards, subsequent sale of shares of Common Stock acquired pursuant to such issuance and the receipt of any dividends or dividend equivalents; and (2) do not commit to and are under no obligation to structure the terms of the grant or any aspect of the awards to reduce or eliminate employee's liability for Tax-Related Items or achieve any particular tax result. The Company and/or the Employer, or their respective agents, at their discretion, are authorized to satisfy the obligations with regard to all Tax-Related Items by one or a combination of the following: (1) withholding from employee's wages or other cash compensation paid to employee by the Company and/or the Employer; or (2) withholding from the proceeds of the sale of shares of Common Stock acquired upon vesting/settlement of the awards through option exercise either through a voluntary sale or through a mandatory sale arranged by the Company (on employee's behalf pursuant to this authorization); or (3) withholding in shares of Common Stock to be issued upon vesting/settlement of the awards and option exercises.

Employee shall pay to the Company or the Employer any amount of Tax-Related Items that the Company or the Employer may be required to withhold or account for as a result of employee's participation in the

Plan that cannot be satisfied by the means previously described. The Company may refuse to issue or deliver the shares or the proceeds of the sale of shares of Common Stock if employee fails to comply with employee's obligations in connection with the Tax-Related Items.

15. Other Company Benefit and Compensation Programs

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

16. Unfunded Plan

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

17. Future Rights

No person shall have any claim or right to be granted an award under the Plan, and no participant shall have any right by reason of the grant of any award under the Plan to continued employment by the Company or any subsidiary of the Company. The Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time. Awards hereunder are voluntary and occasional and do not create any contractual or other right to receive future awards, or benefits in lieu of awards, even if awards have been granted repeatedly in the past. All decisions with respect to future awards under the Plan, if any, will be at the sole discretion of the Committee.

18. General Restriction

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

19. Governing Law

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

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

20. Successors and Assigns

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

21. Rights as a Shareholder

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

22. Change in Control

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

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

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

(aa) any "Person" is or becomes a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding securities;

(bb) the following individuals (referred to herein as the "Incumbent Board") cease for any reason to constitute a majority of the directors then serving: (1) individuals who, as of the date hereof, constitute the Board, and (2) any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or nomination for election by the Company's shareholders was approved or recommended by a vote of at least two-thirds of the directors then still in office who were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(cc) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, other than (1) a merger or consolidation which results in the directors of the Company who were members of the Incumbent Board immediately before such merger or consolidation continuing to constitute at least a majority of the board of directors of the Company, the surviving entity or any parent thereof, or (2) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the beneficial owner, directly or indirectly, of securities of the Company (not including in the securities beneficially owned by such Person any securities acquired directly from the Company or its affiliates) representing 20% or more of the combined voting power of the Company's then outstanding voting securities; or

(dd) the shareholders of the Company approve a plan of complete liquidation or dissolution of the Company, or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 50% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately before such sale. For purposes of this definition of Change in Control, Person shall have the meaning given in Section 3(a)(9) of the 1934 Act, as modified and used in Section 13(d) and 14(d) of the 1934 Act, except that such term shall not include Excluded Persons. "Excluded Persons" shall mean (1) the Company and its subsidiaries, (2) any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any subsidiary of the Company, (3) any company owned, directly or indirectly, by the shareholders of the Company in substantially the same proportions as their ownership of stock of the Company, (4) any person who becomes a beneficial owner in connection with a transaction described in sub clause (1) of clause (cc) above, (5) an underwriter temporarily holding securities of the Company pursuant to an offering of such securities, or (6) an individual, entity or group who is permitted to, and actually does, report its beneficial ownership on Schedule 13G (or any successor Schedule), provided that if any Excluded Person described in this clause (6) subsequently becomes required to or does report its beneficial ownership on Schedule 13D (or any successor Schedule), then, for purposes of this definition, such individual, entity or group shall no longer be considered an Excluded Person and shall be deemed to have first acquired beneficial ownership of securities of the Company on the first date on which such individual, entity or group becomes required to or does so report on such Schedule.

(ii) "CIC Price" shall mean either (1) the highest price paid for a share of the Company's Common Stock in the transaction or series of transactions pursuant to which a Change in Control of the Company shall have occurred, or (2) if the Change in Control occurs without such a transaction or series of transactions, the closing price for a share of the Company's Common Stock on the date immediately preceding the date upon which the event constituting a Change in Control shall have occurred as reported in The Wall Street Journal in the New York Stock Exchange Composite Transactions or similar successor consolidated transactions reports.

(iii) An award is "Nonforfeitable" in whole or in part to the extent that, under the terms of the Plan or the award agreement or summary under the Plan, (aa) the award is vested in whole or part, or (bb) an entitlement to present or future payment of such award in whole or part has otherwise arisen.

(iv) A "Key Employee" is identified in the following manner: There shall be identified every employee who, at any time during a 12-month period ending December 31, is one of the 50 highest paid officers of the Company (or any member of its controlled group, as defined by Code Section 414(b)) having compensation in excess of the amount specified in Code Section 416(i)(1)(A) as indexed by Treasury guidance. Every individual so identified for any period ending December 31 is a Key Employee for the 12-month period beginning on the first April 1 following such December 31, and ending on the next March 31.

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

(vi) A "Termination for Good Reason" by a participant shall mean the termination of employment of a participant within two years of the occurrence of any of the following circumstances, provided that (1) such circumstance occurs without the participant's express written consent after a Change in Control, and (2) the participant gives the Company notice of the occurrence of the offending circumstance(s) within 90 days of the first occurrence of the circumstance(s), and the Company fails to cure the circumstance(s) within 30 days of receipt of this notice (or the Company notifies participant in writing prior to the expiration of such 30-day period that the circumstance(s) will not be cured):

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

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

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

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

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

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

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

All SARs, stock awards, stock options (to the extent the CIC Price exceeds the exercise price), cash awards, dividends and dividend equivalents outstanding shall become 100% Nonforfeitable with respect to a participant upon a Termination for Good Reason or an involuntary termination of employment (other than a termination For Cause, as defined in the award agreement, according to a determination made before the Change in Control) that occurs after a Change in Control.

(c) Payment Schedule. In accordance with the uniform payment rule set forth in subsection (c) of Section 24 hereof,

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

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

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

(d) Cancellation. Upon payment under this Section, such awards and any related stock options shall be cancelled.

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

(f) The amount of cash to be paid shall be determined by multiplying the number of such awards, as the case may be, by: (i) in the case of stock awards, the CIC Price; (ii) in the case of SARs, the difference between the per share strike price of the SAR and the CIC Price; (iii) in the case of cash awards where the award period, if any, has not been completed upon the occurrence of a Change in Control, the pro-rata target value of such awards or such higher amount as determined by the Committee, without regard to the performance criteria, if any, applicable to such award; (iv) in the case of stock options, the difference between the exercise price of the option and the CIC Price; and (v) in the case of cash awards where the award period, if any, has been completed on or prior to the occurrence of a Change in Control: (aa) where the cash award is payable in cash, the value of such award as determined in accordance with the award agreement, and (bb) where the cash award is payable in shares of Common Stock, the CIC Price.

(g) Notwithstanding the foregoing, any SARs and any stock-based award held by an officer or director subject to Section 16 of the 1934 Act which have been outstanding less than six months (or such other period as may be required by the 1934 Act) upon the occurrence of an event constituting a Change in Control shall not be paid in cash until the expiration of such period, if any, as shall be required pursuant to such Section, and the amount to be paid shall be determined by multiplying the number of SARs, stock awards, or unexercised shares under such stock options, as the case may be, by the CIC Price determined as though the event constituting the Change in Control had occurred on the first day following the end of such period.

23. Certain Provisions Applicable to Awards to Covered Employees

Performance-based awards made to Covered Employees shall be made by the Committee within the time period required under Section 162(m) for the establishment of performance goals and shall specify, among other things, the performance period(s) for such award, the performance criteria and the performance targets. The performance criteria shall be any one or more of the following as determined by the Committee and may differ as to type of award and from one performance period to another: earnings per share, cash flow, cost reduction, days sales outstanding, cash conversion cycle, cash management (including, without limitation, inventory and/or capital expenditures), total shareholder return, return on shareholders' equity, return on invested capital, economic value added measures, return on assets, pre-or post-currency revenue, pre-or post-currency performance profit, profit before tax, profit after tax, operating profit, operating margin, stock price and return on sales. Payment or vesting of awards to Covered Employees shall be contingent upon satisfaction of the performance criteria and targets as certified by the Committee by resolution of the Committee. To the extent provided at the time of an award, the Committee may in its sole discretion reduce any award to any Covered Employee to any amount, including zero. Any performance-based awards made pursuant to this Section 23 may include annual incentive awards and long-term awards.

24. Section 409A Compliance

(a) No Taxation Under Code Section 409A. It is intended that no awards under the Plan shall cause any amount to be taxable under Code Section 409A with respect to any individual. All provisions of this Plan and of any agreement, award or award summary thereunder shall be construed in a manner consistent with this intent. Any provision of and amendment to this Plan, or of any agreement, award or award summary thereunder, that would cause any amount to be taxable under Section 409A of the Internal Revenue Code with respect to any individual is void and without effect. Any election by any participant, and any administrative action by the Committee that would cause any amount to be taxable under Section 409A of the Code with respect to any individual is void and without effect under the Plan.

(b) Election Rule. A participant may elect to defer awards under the Plan only if the election is made not later than December 31 of the year preceding the year in which the award is granted, except to the extent otherwise permitted by Section 409A and Treasury guidance thereunder (where such exceptions include but are not limited to initial deferral elections with respect to Nonforfeitable rights, deferral elections in the first year in which an employee becomes eligible to participate, and deferral elections with respect to performance-based compensation).

(c) Uniform Payment Rule

(i) All awards shall be paid on the date that is the earlier of (1) or (2) below, where

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

(2) is the Vesting Date specified in the award summary.

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

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

(d) Accelerations. In the case of an award that is deferred compensation for purposes of Code Section 409A, acceleration of payment is not permitted, except that, if permitted by the Committee, acceleration of payment is permitted in order to (i) allow the participant to comply with a certificate of divestiture (within the meaning of Code Section 1043); (ii) pay payroll and withholding taxes with respect to amounts deferred, to the extent permitted by Treasury guidance; or (iii) effect any other purpose that is a permitted Code Section 409A acceleration event under Treasury guidance.

(e) Permitted Payment Delays. At the Committee's sole discretion, payment of awards may be delayed beyond the date specified in subsection (c) under the following circumstance. The Committee reserves the right to amend an award granted on or after January 1, 2006 if the Committee determines that the deduction for such payment would be limited by Code Section 162(m), except that such payment will be made on the earliest date on which the Committee determines that such limitation no longer exists.

(f) CEO Delegation. The Chief Executive Officer of Xerox Corporation, or her delegate, may amend the Plan as she, in her sole discretion, deems necessary or appropriate to comply with Section 409A of the Internal Revenue Code and guidance thereunder.

25. Limitation of Actions. Any action brought in state or federal court (other than an alleged breach of fiduciary duty action under the Employee Retirement Income Security Act of 1974 ("ERISA") which shall be governed by the terms of ERISA Section 413, if applicable) must be commenced within one year after the cause of action accrues. This one-year limitation period includes, but is not limited to, any action for alleged: wrongful denial of Plan benefits, and any wrongful interference, modification, or termination of Plan benefits, rights, or features.

IN WITNESS WHEREOF, the Company has caused this Amendment and Restatement to be signed as of the 2^{nd} day of June 2016, effective as of May 20, 2016, and dates set forth herein.

XEROX CORPORATION

By: ***/s/ Darrell L. Ford***
Darrel L. Ford
Chief Human Resources Officer

AMENDMENT TO CERTAIN AGREEMENTS PURSUANT TO
THE XEROX CORPORATION
2004 PERFORMANCE INCENTIVE PLAN AS AMENDED OR RESTATED FROM TIME TO TIME

WHEREAS, Xerox Corporation (the “Company”) has established the Xerox Corporation 2004 Performance Incentive Plan, as amended and/or restated from time to time (the “Plan”);

WHEREAS, the Company has entered into agreements pursuant to the Plan (“Agreements”) with certain Employees awarding them Restricted Stock Units (“RSUs”) under the terms of which the RSUs are cancelled if the Employee ceases to be an Employee of the Employer for any reason other than death and the RSUs have not vested in accordance with Paragraph 2 of the Agreement (“Retention RSUs”);

WHEREAS, the Company desires to amend the Agreements for all Retention RSUs that as of June 15, 2016 have been granted and have not been cancelled; and

WHEREAS, each Agreement provides that the Committee or its authorized delegate as applicable may amend such Agreement in a manner not inconsistent with the Plan;

NOW, THEREFORE, in consideration of the promises and for other good and valuable consideration, the Company hereby agrees:

(1) In every Agreement for any Retention RSU that as of June 15, 2016 has been granted and has not been cancelled, the Section entitled “Effect of Termination of Employment or Death,” with its appropriate section number, is hereby amended to read in its entirety as follows:

“Effect of Termination of Employment or Death.

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

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

(ii) involuntarily ceases to be an Employee of the Employer for any reason, other than death or for Cause, or voluntarily ceases to be an Employee of the Employer due to a reduction in workforce, shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon the Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro-rata basis in accordance with the Paragraph herein entitled “Entitlement to Shares,” based on the Employee’s actual months of service, and vesting will be calculated as follows: multiply the total award granted by a fraction, the numerator of which will be the number of full months of service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date;

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

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

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

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

(2) Terms used herein that are defined in the Plan or in the Agreement amended hereby shall have the meanings assigned to them in the Plan or such Agreement.

Except as amended hereby, each Agreement under the Plan, and each Award Summary covered by the Agreement, shall remain unchanged.

In accordance with the Plan, the Committee or the CEO, as applicable, has authorized the execution and delivery of this amendment.

IN WITNESS WHEREOF, the Company has executed this amendment as of June 15, 2016.

XEROX CORPORATION

By: ***/s/ Darrell L. Ford***
Senior Vice President and
Chief Human Resources Officer

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

AGREEMENT, by Xerox Corporation, a New York corporation (the "Company"), dated as of the date that appears in the applicable award summary that provides the value (or number of Performance Shares and Restricted Stock Units, as applicable) and vesting provisions of the applicable award (together, the "Award Summaries") in favor of the individual whose name appears on the applicable Award Summary, who is an employee of the Company, one of the Company's subsidiaries or one of its affiliates (the "Employee").

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

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

The Award Summaries contain the details of the awards covered by this Agreement and are incorporated herein in their entirety.

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

AWARDS

1. General. Subject to all terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee on the date indicated on the applicable Award Summary (i) the number of Performance Shares (individually, the "PS") and (ii) the number of Restricted Stock Units (individually, the "RSU"), in each case, as shown on the applicable Award Summary. Notwithstanding anything herein to the contrary, only active Employees and those Employees on Short Term Disability Leave, Social Service Leave, Family Medical Leave or Paid Uniform Services Leave (pursuant to the Company's Human Resources Policies or similar policies of the Company's subsidiaries or affiliates) on the effective date of the award, as shown on the applicable Award Summary, shall be eligible to receive the awards.

For the avoidance of doubt, the transaction or series of transactions initially approved in principle by the Company's board of directors in January 2016 to separate the Company's BPO business from the Company's Document Technology and Document Outsourcing business and create two independent, publicly-traded companies (the "Transaction") shall constitute a transaction subject to Section 6(b) of the Plan and shall not constitute a Change in Control. As a result, in the event the Transaction is consummated, the Committee shall authorize the issuance, continuation or assumption of the then-outstanding PSs and RSUs, or provide for other equitable adjustments to such PSs and RSUs, upon such terms and conditions as it may deem necessary to preserve the rights of the Company and the Employee under the Plan.

TERMS OF THE PERFORMANCE SHARES

2. Entitlement to Shares. As soon as practicable on or after the vesting date indicated on the applicable Award Summary, or the date of death if sooner, (the "PS Vesting Date") in connection with the PSs, the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of vested PSs (subject to reduction for withholding of Employee's taxes in relation to the award as described in Paragraph 12 below). No fractional shares shall be issued as a result of such tax withholding. Instead, the Company shall apply the equivalent of any fractional share amount to amounts withheld for taxes.

The Committee shall set performance goals and review performance against such goals in connection with determining the payout of PSs. The award of PSs covered hereby shall be earned based on achieving one or more performance measures, as shall be determined by the Committee. To the extent the applicable performance measure is achieved at one hundred percent (100%) of "target" (as determined by the Committee), the PSs subject to such performance measure will be earned at the target number of shares set forth in the applicable Award Summary. To the extent the applicable performance measure is achieved below "threshold" (as determined by the Committee), none of the PSs subject to such performance measure will be earned; to the extent the applicable performance measure is achieved between "threshold" and "target", the PSs subject to such performance measure will be earned between 50% and 100% of the target number of shares set forth in the applicable Award Summary; and to the extent the applicable performance measure is achieved between "target" and "maximum" (as determined by the Committee), the PSs subject to such performance measure will be earned between 100% and 200% of the target number of shares set forth in the applicable Award Summary, in each case calculated on a linear basis.

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

3. Dividend Equivalents. The Employee shall become entitled to receive from the Company on the PS Vesting Date a cash payment equaling the same amount(s) that the holder of record of a number of shares of Common Stock equal to the number of PSs covered by this Agreement (relating exclusively to PSs earned, based on actual achievement of the applicable performance measures, not to exceed the applicable target award amount shown on the applicable Award Summary), that are held by the Employee on the close of business on the business day immediately preceding the PS Vesting Date, would have been entitled to receive as dividends on such Common Stock during the period commencing on the effective date hereof and ending on the PS Vesting Date, as provided under Paragraph 2. Payments under this Paragraph shall be net of any required withholding taxes. Notwithstanding anything herein to the contrary, for any Employee who is no longer an employee on the payroll of any subsidiary or affiliate of the Company on the payment date of the dividend equivalents, and such subsidiary or affiliate has determined, with the approval of the Corporate Vice President, Human Resources of the Company, that it is not administratively feasible for such subsidiary or affiliate to pay such dividend equivalents, the Employee will not be entitled to receive such dividend equivalents or other payment in lieu thereof.

TERMS OF THE RESTRICTED STOCK UNITS

4. Entitlement to Shares. Upon the vesting date indicated on the applicable Award Summary, or the date of death if sooner, (the "RSU Vesting Date") in connection with the RSUs, the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of vested RSUs (subject to reduction for withholding of Employee's taxes in relation to the award as described in Paragraph 12 below). No fractional shares shall be issued as a result of such tax withholding. Instead, the Company shall apply the equivalent of any fractional share amount to amounts withheld for taxes.

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

5. Dividend Equivalents. The Employee shall become entitled to receive from the Company on the RSU Vesting Date a cash payment equaling the same amount(s) that the holder of record of a number of shares of Common Stock equal to the number of RSUs covered by this Agreement that are held by the Employee on the close of business on the business day immediately preceding the RSU Vesting Date, would have been entitled to receive as dividends on such Common Stock during the period commencing on the effective date hereof and ending on the RSU Vesting Date, as provided under Paragraph 4. Payments under this Paragraph shall be net of any required withholding taxes. Notwithstanding anything herein to the contrary, for any Employee who is no longer an employee on the payroll of any subsidiary or affiliate of the Company on the payment date of the dividend equivalents, and such subsidiary or affiliate has determined, with the approval of the Corporate Vice President, Human Resources of the Company, that it is not administratively feasible for such subsidiary or affiliate to pay such dividend equivalents, the Employee will not be entitled to receive such dividend equivalents or other payment in lieu thereof.

OTHER TERMS

6. Ownership Guidelines. Guidelines pertaining to the Employee's required ownership of Common Stock shall be determined by the Committee or its authorized delegate, as applicable, in its sole discretion from time to time as communicated to Employee in writing.

7. Holding Requirements. The Employee must retain fifty percent (50%) of the net shares of Common Stock acquired in connection with the PSs and the RSUs (net of withholding tax and any applicable fees) until ownership guidelines are met under Paragraph 6 hereof, subject to any ownership and holding requirements policies established by the Committee from time to time. Such shares shall be held in the Employee's Morgan Stanley account or in another account acceptable to the Company. In addition, shares used to maintain the Employee's ownership level pursuant to this award should be held with Morgan Stanley or in another account acceptable to the Company.

If employment terminates due to the death of the Employee, such holding requirements shall cease at the date of death. If the Employee is a Corporate officer of the Company and terminates for any other reason, the holding requirement will be applicable for a six month period for the Chief Executive Officer of the Company (the "CEO"), and a three month period for all other officers, following termination.

8. Rights of a Shareholder. Employee shall have no rights as a shareholder with respect to any shares covered by this Agreement until the date of issuance of a stock certificate to him for such shares. Except as otherwise provided herein, no

adjustment shall be made for dividends or other rights for which the record date is prior to the date such stock certificate is issued.

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

10. Effect of Termination of Employment or Death.

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

(i) voluntarily ceases to be an Employee of the Company or any subsidiary or affiliate (the Company, subsidiary or affiliate, together, the "Employer") for any reason other than retirement, and the PSs have not vested in accordance with Paragraph 2 or the RSUs have not vested in accordance with Paragraph 4, the PSs or RSUs, as applicable, shall be cancelled on the date of such voluntary termination of employment;

(ii) involuntarily ceases to be an Employee of the Employer for any reason (including Disability as provided pursuant to Paragraph 10(b) below or under a disability policy of any subsidiary or affiliate, as applicable), other than death or for Cause, or voluntarily ceases to be an Employee of the Employer due to a reduction in workforce, shares will vest on a pro rata basis, calculated as follows, and which vesting may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company:

(1) in the case of PSs, multiply (x) the total number of PSs outstanding as of the effective date of such termination of employment by (y) the percentage of such PSs earned based on the actual achievement of the applicable performance measures, as determined by the Company, by (z) a fraction, the numerator of which is the number of full months of service completed by the Employee from the effective date hereof through the effective date of such termination of employment and the denominator of which is 36; and

(2) in the case of RSUs, multiply (x) the total number of RSUs outstanding as of the effective date of such termination of employment by (y) a fraction, the numerator of which is the number of full months of service completed by the Employee from the effective date hereof through the effective date of such termination of employment and the denominator of which is 36.

Payment shall occur as soon as practicable following the PS Vesting Date or RSU Vesting Date, as applicable.

(iii) ceases to be an Employee of the Employer by reason of death, 100% of the PSs and the RSUs shall vest on the date of death and the certificates for shares shall be delivered in accordance with Paragraph 2 or Paragraph 4, as applicable, to the personal representatives, heirs or legatees of the deceased Employee;

(iv) ceases to be an Employee of the Employer by reason of retirement (i.e., for purposes of this Agreement only, "retirement" for U.S. employees shall mean termination of employment at or above age 55 with 10 years of service or age 60 with 5 years of service with the Employer), shares will vest on a pro rata basis, calculated as follows, and which vesting may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company:

(1) in the case of PSs, multiply (x) the total number of PSs outstanding as of the effective date of such termination of employment by (y) the percentage of such PSs earned based on the actual achievement of the applicable performance measures, as determined by the Company, by (z) a fraction, the numerator of which is the number of full months of service completed by the Employee from the effective date hereof through the effective date of such termination of employment and the denominator of which is 36; and

(2) in the case of RSUs, multiply (x) the total number of RSUs outstanding as of the effective date of such termination of employment by (y) a fraction, the numerator of which is the number of full months of service completed by the Employee from the effective date hereof through the effective date of such termination of employment and the denominator of which is 36.

Notwithstanding the above, if the Employee remains an Employee of the Employer until at least the date on which the last of the following three events has occurred: (1) the Company has separated into two independent companies (as set forth in Section 1 above); (2) a successor CEO to the Company has been appointed; and (3) the 2017 Annual Meeting of Shareholders of Xerox Corporation has been held, then 100% of the PSs and RSUs shall be eligible for continued vesting as if such retirement had not occurred and the amount of PSs and RSUs earned shall be based on the actual achievement of the applicable performance measures, as determined by the Company. The Employee's retirement on the date of the 2017 Annual Meeting shall be treated as if Employee had retired on July 1, 2017.

Payment shall occur as soon as practicable following the PS Vesting Date or RSU Vesting Date, as applicable.

(v) ceases to be an Employee of the Employer due to termination for Cause, the PSs and the RSUs, as applicable, shall, subject to any Plan provisions to the contrary, be cancelled on the date of such termination of employment.

(b) Disability. Cessation of active employment due to commencement of long-term disability under the Employer's long-term disability plan shall not be deemed to constitute a termination of employment for purposes of this Paragraph 10 and, during the continuance of such Employer-sponsored long-term disability plan benefits, the Employee shall be deemed to continue active employment with the Employer. If the Employee is terminated because the Employee has received the maximum coverage under an Employer-provided long-term disability plan, the vesting of PSs and RSUs shall be provided pursuant to Paragraph 10(a)(ii) above.

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

11. General Restrictions. If at any time the Committee or its authorized delegate, as applicable, shall determine, in its discretion, that the listing, registration or qualification of any shares subject to this Agreement upon any securities exchange or under any state or Federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the awarding of the PSs or the RSUs or the issue or purchase of shares hereunder, the certificates for shares may not be issued in respect of PSs or RSUs in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee or its authorized delegate, as applicable, and any delay caused thereby shall in no way affect the date of termination of the PSs or the RSUs.

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

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

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time in a manner consistent with Section 13 of the Plan regarding Plan amendment and termination and, in addition, the PSs and RSUs are subject to modification and adjustment under Section 6(b) of the Plan;

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

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

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

(e) Employee is voluntarily participating in the Plan;

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

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

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

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

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

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

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

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

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

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

18. Recoupments.

(a) If an Employee or former Employee of the Employer is reasonably deemed by the Committee or its authorized delegate, as applicable, to have engaged in detrimental activity against the Employer, any awards granted to such Employee or former Employee shall be cancelled and be of no further force or effect and any payment or delivery of an award from six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the Employee shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Committee or its authorized delegate, as applicable. Detrimental activity may include:

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

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

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

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

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

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

(b) If an accounting restatement by the Company is required in order to correct any material noncompliance with financial reporting requirements under relevant securities laws, the Company will have the authority to recover from executive officers or former executive officers, whether or not still employed by the Employer, any excess incentive-based compensation (in excess of what would have been paid under the accounting restatement), including entitlement to shares, provided under this Agreement to executive officers of the Employer, that was based on such erroneous data and paid during the three-year period preceding the date on which the Company is required to prepare the accounting restatement. Notwithstanding anything herein to the contrary, the Company may implement any policy or take any action with respect to the recovery of excess incentive-based compensation, including entitlement to shares, that the Company determines to be necessary or advisable in order to comply with the requirements of the Dodd-Frank Wall Street Financial Reform and Consumer Protection Act.

19. Cancellation and Rescission of Award. Without limiting the foregoing Paragraph regarding non-engagement in detrimental activity against the Employer, the Company may cancel any award provided hereunder if the Employee is not in compliance with all of the following conditions:

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

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

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

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

(d) Failure to comply with the provision of subparagraphs (a), (b) or (c) of this Paragraph 19 prior to, or during the six months after, any payment or delivery shall cause such payment or delivery to be rescinded. The Company shall notify the Employee in writing of any such rescission within two years after such payment or delivery. Within ten days after receiving such a notice from the Company, the Employee shall pay to the Company the amount of any payment received as a result of the rescinded payment or delivery pursuant to an award. Such payment to the Company by the Employee shall be made either in cash or by returning to the Company the number of shares of common stock that the Employee received in connection with the rescinded payment or delivery.

20. Notices. Notices hereunder shall be in writing and if to the Company shall be mailed to the Company at P.O. Box 4505, 45 Glover Avenue, 6th Floor, Norwalk, Connecticut 06856-4505, addressed to the attention of Stock Plan Administrator (or such other person specified hereafter by the Company), and if to the Employee shall be delivered personally or mailed to the Employee at his address as the same appears on the records of the Company.

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

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

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

24. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and the successors and assigns of the Company and to the extent provided in Paragraph 9 to the personal representatives, legatees and heirs of the Employee.

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

This grant is made and/or administered in the United States. For purposes of litigating any dispute that arises under this grant or the Agreement the parties hereby submit to and consent to the jurisdiction of the state of New York, agree that such litigation shall be conducted in the courts of Monroe County, New York, or the federal courts for the United States for the Western District of New York.

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

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

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

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

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

XEROX CORPORATION

By: ***/s/ Don H. Liu***
Signature

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

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

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

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

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

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

AWARDS

1. Award of Restricted Stock Units. Subject to all terms and conditions of the Plan and this Agreement, the Company has awarded to the Employee on the date indicated on the Award Summary the number of Restricted Stock Units (individually, the "RSU") as shown on the Award Summary. Notwithstanding anything herein to the contrary, only active Employees and those Employees on Short Term Disability Leave, Social Service Leave, Family Medical Leave or Paid Uniform Services Leave (pursuant to the Company's Human Resources Policies or similar policies of the Company's subsidiaries or affiliates) on the effective date of the award as shown on the Award Summary shall be eligible to receive the award.

TERMS OF THE RESTRICTED STOCK UNITS

2. Entitlement to Shares. Upon the vesting date indicated on the Award Summary, or the date of death if sooner, (the "Vesting Date") in connection with the RSUs, the Company shall, without transfer or issue tax to the person entitled to receive the shares, deliver to such person a certificate or certificates for a number of shares of Common Stock equal to the number of vested RSUs (subject to reduction for withholding of Employee's taxes in relation to the award as described in Paragraph 10 below). No fractional shares shall be issued as a result of such tax withholding. Instead, the Company shall apply the equivalent of any fractional share amount to amounts withheld for taxes.

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

3. Dividend Equivalents. The Employee shall become entitled to receive from the Company on the Vesting Date a cash payment equaling the same amount(s) that the holder of record of a number of shares of Common Stock equal to the number of RSUs covered by this Agreement, that are held by the Employee on the close of business on the business day immediately preceding the Vesting Date, would have been entitled to receive as dividends on such Common Stock during the period commencing on the effective date hereof and ending on the Vesting Date as provided under Paragraph 2. Payments under this Paragraph shall be net of any required withholding taxes. Notwithstanding anything herein to the contrary, for any Employee who is no longer an employee on the payroll of any subsidiary or affiliate of the Company on the payment date of the dividend equivalents, and such subsidiary or affiliate has determined, with the approval of the Corporate Vice President, Human Resources of the Company, that it is not administratively feasible for such subsidiary or affiliate to pay such dividend equivalents, the Employee will not be entitled to receive such dividend equivalents.

OTHER TERMS

4. Ownership Guidelines. Guidelines pertaining to the Employee's required ownership of Common Stock shall be determined by the Committee or its authorized delegate, as applicable, in its sole discretion from time to time as communicated to Employee in writing.

5. Holding Requirements. The Employee must retain fifty percent (50%) of the net shares of Common Stock acquired in connection with the RSUs (net of withholding tax and any applicable fees) until ownership guidelines are met under Paragraph 4 hereof, subject to any ownership and holding requirements policies established by the Committee from time to time. Such shares shall be held in the Employee's Morgan Stanley account or in another account acceptable to the Company. In addition, shares used to maintain the Employee's ownership level pursuant to this award should be held with Morgan Stanley or in another account acceptable to the Company.

If employment terminates due to the death of the Employee, such holding requirements shall cease at the date of death. If the Employee is a Corporate officer of the Company and terminates for any other reason, the holding requirement will be applicable for a six month period for the Chief Executive Officer of the Company (the "CEO") and a three month period for all other officers, following termination.

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

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

8. Effect of Termination of Employment or Death.

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

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

(ii) involuntarily ceases to be an Employee of the Employer for any reason (including Disability as provided pursuant to Paragraph 8(b) below or under a disability policy of any subsidiary or affiliate, as applicable), other than death or for Cause, or voluntarily ceases to be an Employee of the Employer due to a reduction in workforce, shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro-rata basis in accordance with Paragraph 2, based on the Employee's actual months of service and vesting will be calculated as follows: multiply the total award granted by a fraction, the numerator of which will be the number of full months of service during the three years and the denominator of which will be 36. Payout shall occur as soon as practicable following the Vesting Date;

(iii) ceases to be an Employee of the Employer by reason of death, 100% of the RSUs pursuant to this grant shall vest on the date of death and the certificates for shares shall be delivered in accordance with Paragraph 7 to the personal representatives, heirs or legatees of the deceased Employee;

(iv) ceases to be an Employee of the Employer by reason of retirement (i.e., for purposes of this Agreement only, "retirement" for U.S. employees shall mean termination of employment at or above age 55 with 10 years of service or age 60 with 5 years of service with the Employer), shares will vest on a pro rata basis, which may, at the discretion of the Company, be contingent upon Employee executing a general release, and which may include an agreement with respect to engagement in detrimental activity, in a form acceptable to the Company. Such shares will vest on a pro-rata basis in accordance with Paragraph 2, based on the Employee's actual months of service, and vesting will be calculated as follows: multiply the total award granted by a fraction, the numerator of which will be the number of full months of service during the twelve months following the effective date of the award and the denominator of which will be 12. Notwithstanding the preceding sentence, if Employee retires prior to the latest of the date on which the last of the following three events has occurred: (1) the Company has separated into two independent companies as set forth in Section 1 above); (2) a successor CEO to the Company has been appointed; and (3) the 2017 Annual Meeting of Shareholders of Xerox Corporation has been held, then all RSUs (whether vested or unvested) shall be cancelled as of the date of such retirement. The Employee's retirement on the date of the 2017 Annual Meeting shall be treated as if Employee had retired on July 1, 2017. Payout shall occur as soon as practicable following the Vesting Date; and

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

(b) Disability. Cessation of active employment due to commencement of long-term disability under the Employer's long-term disability plan shall not be deemed to constitute a termination of employment for purposes of this Paragraph 8 and, during the continuance of such Employer-sponsored long-term disability plan benefits, the Employee shall be deemed to continue active employment with the Employer. If the Employee is terminated because the Employee has received the maximum coverage under an Employer-provided long-term disability plan, the vesting of RSUs shall be provided pursuant to Paragraph 8(a)(ii) above.

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

9. General Restrictions. If at any time the Committee or its authorized delegate, as applicable, shall determine, in its discretion, that the listing, registration or qualification of any shares subject to this Agreement upon any securities exchange or under any state or Federal law, or the consent or approval of any government regulatory body, is necessary or desirable as a condition of, or in connection with, the awarding of the RSUs or the issue or purchase of shares hereunder, the certificates for shares may not be issued in respect of RSUs in whole or in part unless such listing, registration, qualification, consent or approval shall have been effected or obtained free of any conditions not acceptable to the Committee or its authorized delegate, as applicable, and any delay caused thereby shall in no way affect the date of termination of the RSUs.

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

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

(a) the Plan is established voluntarily by the Company, it is discretionary in nature and it may be modified, amended, suspended or terminated by the Company at any time in a manner consistent with Section 13 of the Plan regarding Plan amendment and termination and, in addition, the RSUs are subject to modification and adjustment under Section 6(b) of the Plan.

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

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

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

(e) Employee is voluntarily participating in the Plan;

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

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

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

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

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

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

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

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

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

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

16. Recoupments.

(a) If an Employee or former Employee of the Employer is reasonably deemed by the Committee or its authorized delegate, as applicable, to have engaged in detrimental activity against the Employer, any awards granted to such Employee or former Employee shall be cancelled and be of no further force or effect and any payment or delivery of an award from six months prior to such detrimental activity may be rescinded. In the event of any such rescission, the Employee shall pay to the Company the amount of any gain realized or payment received as a result of the rescinded exercise, payment or delivery, in such manner and on such terms and conditions as may be required by the Committee or its authorized delegate, as applicable. Detrimental activity may include:

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

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

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

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

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

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

(b) If an accounting restatement by the Company is required in order to correct any material noncompliance with financial reporting requirements under relevant securities laws, the Company will have the authority to recover from executive officers or former executive officers, whether or not still employed by the Employer, any excess incentive-based compensation (in excess of what would have been paid under the accounting restatement), including entitlement to shares, provided under this Agreement to executive officers of the Employer, that was based on such erroneous data and paid during the three-year period preceding the date on which the Company is required to prepare the accounting restatement. Notwithstanding anything herein to the contrary, the Company may implement any policy or take any action with respect to the recovery of excess incentive-based compensation, including entitlement to shares that the Company determines to be necessary or advisable in order to comply with the requirements of the Dodd-Frank Wall Street Financial Reform and Consumer Protection Act.

17. Cancellation and Rescission of Award. Without limiting the foregoing Paragraph regarding non-engagement in detrimental activity against the Employer, the Company may cancel any award provided hereunder if the Employee is not in compliance with all of the following conditions:

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

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

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

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

(d) Failure to comply with the provision of subparagraphs (a), (b) or (c) of this Paragraph 17 prior to, or during the six months after, any payment or delivery shall cause such payment or delivery to be rescinded. The Company shall notify the Employee in writing of any such rescission within two years after such payment or delivery. Within ten days after receiving such a notice from the Company, the Employee shall pay to the Company the amount of any payment received as a result of the rescinded payment or delivery pursuant to an award. Such payment to the Company by the Employee shall be made either in cash or by returning to the Company the number of shares of common stock that the Employee received in connection with the rescinded payment or delivery.

18. Notices. Notices hereunder shall be in writing and if to the Company shall be mailed to the Company at P.O. Box 4505, 45 Glover Avenue, 6th Floor, Norwalk, Connecticut 06856-4505, addressed to the attention of Stock Plan Administrator, and if to the Employee shall be delivered personally or mailed to the Employee at his address as the same appears on the records of the Company.

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

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

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

22. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and the successors and assigns of the Company and to the extent provided in Paragraph 7 to the personal representatives, legatees and heirs of the Employee.

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

This grant is made and/or administered in the United States. For purposes of litigating any dispute that arises under this grant or the Agreement the parties hereby submit to and consent to the jurisdiction of the state of New York, agree that such litigation shall be conducted in the courts of Monroe County, New York, or the federal courts for the United States for the Western District of New York.

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

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

26. Appendix for Non-U.S. Countries. Notwithstanding any provisions in this Agreement, the RSU award shall be subject to any special terms and conditions set forth in any appendix to this Agreement for Employee's country (the "Appendix"). Moreover, if Employee relocates to one of the countries included in the Appendix, the special terms and conditions for such country will apply to Employee, to the extent the Company determines that the application of such terms and conditions is necessary or

advisable in order to comply with local law or facilitate the administration of the Plan. The Appendix constitutes part of this Agreement.

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

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

XEROX CORPORATION

By: ***/s/ Don H. Liu***
Signature

COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2016	2015	2016	2015
Fixed Charges:				
Interest expense	$ 81	$ 89	$ 169	$ 179
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	42	68	90	136
Total Fixed Charges	$ 123	$ 157	$ 259	$ 315
Earnings Available for Fixed Charges:				
Pre-tax income	$ 145	$ 74	$ 129	$ 275
Add: Distributed equity income of affiliated companies	31	26	31	29
Add: Fixed charges	123	157	259	315
Less: Capitalized interest	—	—	—	—
Less: Net income-noncontrolling interests	(3)	(5)	(5)	(10)
Total Earnings Available for Fixed Charges	$ 296	$ 252	$ 414	$ 609
Ratio of Earnings to Fixed Charges	2.41	1.61	1.60	1.93
Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:				
Fixed Charges:				
Interest expense	$ 81	$ 89	$ 169	$ 179
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	42	68	90	136
Total Fixed Charges before preferred stock dividends pre-tax income requirements	123	157	259	315
Preferred stock dividends pre-tax income requirements	9	9	19	19
Total Combined Fixed Charges and Preferred Stock Dividends	$ 132	$ 166	$ 278	$ 334
Earnings Available for Fixed Charges:				
Pre-tax income	$ 145	$ 74	$ 129	$ 275
Add: Distributed equity income of affiliated companies	31	26	31	29
Add: Fixed charges before preferred stock dividends	123	157	259	315
Less: Capitalized interest	—	—	—	—
Less: Net income-noncontrolling interests	(3)	(5)	(5)	(10)
Total Earnings Available for Fixed Charges and Preferred Stock Dividends	$ 296	$ 252	$ 414	$ 609
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	2.24	1.52	1.49	1.82

CEO CERTIFICATIONS

I, Ursula M. Burns, certify that:

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

August 4, 2016

/S/ URSULA M. BURNS

Ursula M. Burns
Principal Executive Officer

CFO CERTIFICATIONS

I, Leslie F. Varon, certify that:

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

August 4, 2016

/S/ LESLIE F. VARON

Leslie F. Varon
Principal Financial Officer

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

In connection with the Form 10-Q of Xerox Corporation, a New York corporation (the "Company"), for the quarter ending June 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Ursula M. Burns, Chairman of the Board and Chief Executive Officer of the Company, and Leslie F. Varon, Vice President and Interim Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

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

/S/ URSULA M. BURNS

Ursula M. Burns
Chief Executive Officer

August 4, 2016

/S/ LESLIE F. VARON

Leslie F. Varon
Interim Chief Financial Officer

August 4, 2016

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

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