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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 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 September 30, 2016
Common Stock, $1 par value	1,013,776,524 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 Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 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, as amended, 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.

TABLE OF CONTENTS

		Page
Part I — Financial Information		
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Statements of Income (Loss)	3
	Condensed Consolidated Statements of Comprehensive Income (Loss)	4
	Condensed Consolidated Balance Sheets	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	30
	Capital Resources and Liquidity	47
	Financial Risk Management	50
	Non-GAAP Financial Measures	50
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	55
Item 4.	Controls and Procedures	55
Part II — Other Information		
Item 1.	Legal Proceedings	56
Item 1A.	Risk Factors	56
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	56
Item 6.	Exhibits	58
Signatures		59
Exhibit Index		60

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 (LOSS) (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per-share data)	2016	2015	2016	2015
Revenues				
Sales	$ 1,076	$ 1,150	$ 3,242	$ 3,500
Outsourcing, maintenance and rentals	3,053	3,098	9,388	9,630
Financing	83	85	248	262
Total Revenues	4,212	4,333	12,878	13,392
Costs and Expenses				
Cost of sales	657	721	1,988	2,171
Cost of outsourcing, maintenance and rentals	2,216	2,592	6,839	7,316
Cost of financing	32	33	97	98
Research, development and engineering expenses	126	135	388	418
Selling, administrative and general expenses	827	855	2,571	2,676
Restructuring and related costs	32	20	229	191
Amortization of intangible assets	77	77	244	233
Separation costs	39	—	75	—
Other expenses, net	56	73	168	187
Total Costs and Expenses	4,062	4,506	12,599	13,290
Income (Loss) before Income Taxes and Equity Income	150	(173)	279	102
Income tax expense (benefit)	5	(105)	(1)	(75)
Equity in net income of unconsolidated affiliates	39	40	98	103
Income (Loss) from Continuing Operations	184	(28)	378	280
Loss from discontinued operations, net of tax	—	(3)	—	(64)
Net Income (Loss)	184	(31)	378	216
Less: Net income attributable to noncontrolling interests	3	3	8	13
Net Income (Loss) Attributable to Xerox	$ 181	$ (34)	$ 370	$ 203
Amounts Attributable to Xerox:				
Net income (loss) from continuing operations	$ 181	$ (31)	$ 370	$ 267
Net loss from discontinued operations	—	(3)	—	(64)
Net Income (Loss) Attributable to Xerox	$ 181	$ (34)	$ 370	$ 203
Basic Earnings (Loss) per Share:				
Continuing operations	$ 0.17	$ (0.04)	$ 0.35	$ 0.23
Discontinued operations	—	—	—	(0.06)
Total Basic Earnings (Loss) per Share	$ 0.17	$ (0.04)	$ 0.35	$ 0.17
Diluted Earnings (Loss) per Share:				
Continuing operations	$ 0.17	$ (0.04)	$ 0.34	$ 0.23
Discontinued operations	—	—	—	(0.06)
Total Diluted Earnings (Loss) per Share	$ 0.17	$ (0.04)	$ 0.34	$ 0.17

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Net income (loss)	$ 184	$ (31)	$ 378	$ 216
Less: Net income attributable to noncontrolling interests	3	3	8	13
Net Income (Loss) Attributable to Xerox	181	(34)	370	203
Other Comprehensive (Loss) Income, Net[1]:				
Translation adjustments, net	(22)	(206)	92	(521)
Unrealized (losses) gains, net	(9)	8	24	18
Changes in defined benefit plans, net	(15)	97	(107)	262
Other Comprehensive (Loss) Income, Net	(46)	(101)	9	(241)
Less: Other comprehensive loss, net attributable to noncontrolling interests	—	(1)	(1)	(1)
Other Comprehensive (Loss) Income, Net Attributable to Xerox	(46)	(100)	10	(240)
Comprehensive Income (Loss), Net	138	(132)	387	(25)
Less: Comprehensive income, net attributable to noncontrolling interests	3	2	7	12
Comprehensive Income (Loss), Net Attributable to Xerox	$ 135	$ (134)	$ 380	$ (37)

(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)	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 1,423	$ 1,368
Accounts receivable, net	2,466	2,319
Billed portion of finance receivables, net	99	97
Finance receivables, net	1,279	1,315
Inventories	1,019	942
Other current assets	721	644
Total current assets	7,007	6,685
Finance receivables due after one year, net	2,457	2,576
Equipment on operating leases, net	488	495
Land, buildings and equipment, net	958	996
Investments in affiliates, at equity	1,524	1,389
Intangible assets, net	1,528	1,765
Goodwill	8,688	8,823
Other long-term assets	1,992	2,060
Total Assets	$ 24,642	$ 24,789
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 2,033	$ 985
Accounts payable	1,312	1,614
Accrued compensation and benefits costs	647	651
Unearned income	401	428
Other current liabilities	1,389	1,576
Total current liabilities	5,782	5,254
Long-term debt	5,346	6,354
Pension and other benefit liabilities	2,738	2,513
Post-retirement medical benefits	744	785
Other long-term liabilities	389	417
Total Liabilities	14,999	15,323
Commitments and Contingencies (See Note 17)		
Series A Convertible Preferred Stock	349	349
Common stock	1,014	1,013
Additional paid-in capital	3,071	3,017
Retained earnings	9,801	9,686
Accumulated other comprehensive loss	(4,632)	(4,642)
Xerox shareholders' equity	9,254	9,074
Noncontrolling interests	40	43
Total Equity	9,294	9,117
Total Liabilities and Equity	$ 24,642	$ 24,789
Shares of common stock issued and outstanding	1,013,777	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)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Cash Flows from Operating Activities:				
Net income (loss)	$ 184	$ (31)	$ 378	$ 216
Adjustments required to reconcile net income (loss) to cash flows from operating activities:				
Depreciation and amortization	275	317	843	910
Provision for receivables	15	16	42	48
Provision for inventory	6	8	21	24
Net (gain) loss on sales of businesses and assets	(2)	5	(18)	67
Undistributed equity in net income of unconsolidated affiliates	(36)	(37)	(64)	(71)
Stock-based compensation	22	(8)	49	37
Restructuring and asset impairment charges	13	20	199	191
Payments for restructurings	(55)	(20)	(120)	(81)
Defined benefit pension cost	32	29	108	102
Contributions to defined benefit pension plans	(35)	(50)	(106)	(148)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(44)	115	(312)	(130)
Collections of deferred proceeds from sales of receivables	58	58	191	192
Increase in inventories	(12)	(61)	(104)	(254)
Increase in equipment on operating leases	(74)	(71)	(204)	(210)
Decrease (increase) in finance receivables	53	(30)	138	48
Collections on beneficial interest from sales of finance receivables	5	10	20	37
Decrease (increase) in other current and long-term assets	17	(34)	(43)	(94)
Decrease in accounts payable and accrued compensation	(92)	(96)	(397)	(207)
(Decrease) increase in other current and long-term liabilities	(29)	271	(215)	188
Net change in income tax assets and liabilities	(19)	(142)	(93)	(93)
Net change in derivative assets and liabilities	49	(19)	—	(17)
Other operating, net	39	21	209	(22)
Net cash provided by operating activities	370	271	522	733
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(52)	(39)	(153)	(191)
Proceeds from sales of land, buildings and equipment	3	7	23	23
Cost of additions to internal use software	(21)	(26)	(65)	(71)
Proceeds from sale of businesses	—	6	(53)	939
Acquisitions, net of cash acquired	—	(153)	(18)	(201)
Other investing, net	1	(1)	5	28
Net cash (used in) provided by investing activities	(69)	(206)	(261)	527
Cash Flows from Financing Activities:				
Net proceeds (payments) on short-term debt	2	(463)	1,000	51
Proceeds from issuance of long-term debt	5	398	14	1,071
Payments on long-term debt	(8)	(9)	(973)	(1,293)
Common stock dividends	(79)	(84)	(228)	(231)
Preferred stock dividends	(6)	(6)	(18)	(18)
Proceeds from issuances of common stock	3	3	6	17
Excess tax benefits from stock-based compensation	—	14	—	17
Payments to acquire treasury stock, including fees	—	(691)	—	(1,302)
Repurchases related to stock-based compensation	—	(49)	—	(50)
Distributions to noncontrolling interests	(1)	(1)	(13)	(57)
Other financing	—	—	(1)	(1)
Net cash used in financing activities	(84)	(888)	(213)	(1,796)
Effect of exchange rate changes on cash and cash equivalents	3	(14)	7	(71)
Increase (decrease) in cash and cash equivalents	220	(837)	55	(607)
Cash and cash equivalents at beginning of period	1,203	1,641	1,368	1,411
Cash and Cash Equivalents at End of Period	$ 1,423	$ 804	$ 1,423	$ 804

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 (Loss) before Income Taxes and Equity Income” as “pre-tax income (loss).”

Separation Update

On January 29, 2016, Xerox announced plans for the complete legal and structural separation of the Company's Business Process Outsourcing (BPO) business, to be named Conduent Incorporated (Conduent), from its Document Technology and Document Outsourcing (DT/DO) business, which will retain the Xerox Corporation name. 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 third quarter 2016, the CFO for Conduent was announced, and several amendments to the Form 10 registration statement for Conduent were filed with the U.S. Securities and Exchange Commission (SEC), including one that provided additional information on its pro-forma capitalization and results and another that named the majority of its executive management and seven of nine of its directors. Also, Xerox's credit ratings remain investment grade following recent updates from the major rating agencies. Conduent is expected to be a high non-investment grade rated company following the separation. These ratings are in line with management's expectations. In addition, we released Conduent's brand identity and announced that its stock will trade on the New York Stock Exchange (NYSE) under the symbol "CNDT" while Xerox will continue to trade on the NYSE as "XRX".

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 is currently undertaking 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 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 modified retrospective 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.

Cash Flows

In August 2016, the FASB issued **ASU 2016-15**, Statement of Cash Flows - *Classification of Certain Cash Receipts and Cash Payments.* This update provides specific guidance on eight cash flow classification issues where current GAAP is either unclear or does not include specific guidance. This update is effective for our fiscal year beginning January 1, 2018. This update includes specific guidance which requires cash collected on beneficial interests received in a sale of receivables be classified as inflows from investing activities. Currently, those collections are reported in operating cash flows. We reported $211 and $305 of collections on beneficial interests as operating cash inflows on the Statement of Cash Flows for the nine months ended September 30, 2016 and for the year ended December 31, 2015, respectively. The other seven issues noted in this update are not expected to have a material impact on our financial condition, results of operations or cash flows.

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 includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. The update also requires that excess tax benefits and deficiencies be recorded in the income statement when the awards vest or are settled as compared to equity as allowed under certain conditions by current US GAAP. This change is required to be adopted prospectively in the period of adoption. In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows and these changes are required to be applied retrospectively to all periods presented. ASU 2016-09 is effective for our fiscal year beginning January 1, 2017. The adoption of ASU No. 2016-09 for the most part is not expected to have a material impact on our financial condition, results of operations or cash flows. However, the update may add volatility to our income tax expense in future periods depending upon, among other things, the level of tax expense and the price of the Company's common stock at the date of vesting for share-based awards.

Income Taxes

In October 2016, the FASB issued **ASU 2016-16**, Income Taxes - *Intra-Entity Transfers of Assets Other than Inventory.* This update requires recognition of the income-tax consequences of an intra-entity transfer of assets other than inventory when the transfer occurs. Under current GAAP, recognition of the income tax consequences for asset transfers other than inventory could not be recognized until the asset was sold to a third party. This update is effective for our fiscal year beginning January 1, 2018 and should be applied on a modified retrospective basis

through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of the adoption of ASU 2016-16 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.

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.

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

- ***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. This 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, electronic presentation systems, Education/Student Loan business 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 September 30,		Nine Months Ended September 30,	
	Segment Revenue	Segment Profit (Loss)	Segment Revenue	Segment Profit(Loss)
2016				
Services	$ 2,398	$ 226	$ 7,350	$ 652
Document Technology	1,626	213	5,017	601
Other	188	(65)	511	(211)
Total	$ 4,212	$ 374	$ 12,878	$ 1,042
2015				
Services [(1)]	$ 2,367	$ (196)	$ 7,360	$ 172
Document Technology	1,778	248	5,488	715
Other	188	(55)	544	(164)
Total	$ 4,333	$ (3)	$ 13,392	$ 723

____

(1) *Services segment results for the three and nine months ended September 30, 2015 include a charge of $389 related to our Health Enterprise platform implementations in California and Montana. $116 of the charge was recorded as a reduction to revenues and the remainder of $273 was recorded to Cost of outsourcing, maintenance and rentals.*

	Three Months Ended September 30,		Nine Months Ended September 30,	
Reconciliation to Pre-tax Income	2016	2015	2016	2015
Segment Profit (Loss)	$ 374	$ (3)	$ 1,042	$ 723
Reconciling items:				
Restructuring and related costs	(32)	(20)	(229)	(191)
Restructuring charges of Fuji Xerox	(2)	(2)	(3)	(4)
Business transformation costs[(1)]	(2)	(2)	(3)	(9)
Amortization of intangible assets	(77)	(77)	(244)	(233)
Non-service retirement-related costs[(2)]	(34)	(30)	(112)	(82)
Equity in net income of unconsolidated affiliates	(39)	(40)	(98)	(103)
Separation costs[(3)]	(39)	—	(75)	—
Other	1	1	1	1
Pre-tax Income (Loss)	$ 150	$ (173)	$ 279	$ 102

____

(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 September 30, 2016. Summarized financial information for our Discontinued Operations in prior periods is as follows:

	Three Months Ended September 30, 2015			Nine Months Ended September 30, 2015		
	ITO	Other	Total	ITO	Other	Total
Revenues	$ —	$ —	$ —	$ 619	$ —	$ 619
Income from operations [(1)]	—	—	—	104	—	104
Loss on disposal	(5)	—	(5)	(77)	—	(77)
Net (loss) income before income taxes	$ (5)	$ —	$ (5)	$ 27	$ —	$ 27
Income tax benefit (expense)	2	—	2	(91)	—	(91)
Loss from discontinued operations, net of tax	$ (3)	$ —	$ (3)	$ (64)	$ —	$ (64)

(1) ITO Income from operations for the nine months ended September 30, 2015, excludes approximately $80 of depreciation and amortization expenses (including $14 of intangible amortization) since the business was held for sale.

Note 5 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	September 30, 2016	December 31, 2015
Amounts billed or billable	$ 2,180	$ 2,110
Unbilled amounts	360	289
Allowance for doubtful accounts	(74)	(80)
Accounts Receivable, Net	$ 2,466	$ 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 September 30, 2016 and December 31, 2015 were approximately $843 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 $55 and $61 at September 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, $540 and $660 remained uncollected as of September 30, 2016 and December 31, 2015, respectively.

Accounts receivable sales were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Accounts receivable sales	$ 591	$ 551	$ 1,919	$ 1,739
Deferred proceeds	54	67	184	186
Loss on sales of accounts receivable	4	3	12	9
Estimated decrease to operating cash flows[1]	(60)	(31)	(114)	(45)

(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 $107 and $238 (sales value of approximately $115 and $256) at September 30, 2016 and December 31, 2015, respectively.

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 September 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 $16 and $30 at September 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Impact from prior sales of finance receivables[1]	$ (41)	$ (79)	$ (151)	$ (273)
Collections on beneficial interest	6	12	24	45
Estimated decrease to operating cash flows	$ (35)	$ (67)	$ (127)	$ (228)

(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
Provision	3	1	5	—	9
Charge-offs	(1)	(2)	(3)	—	(6)
Recoveries and other[3]	1	—	—	—	1
Balance at September 30, 2016	$ 57	$ 17	$ 53	$ 2	$ 129
Finance receivables as of September 30, 2016 collectively evaluated for impairment [4]	$ 2,139	$ 377	$ 1,382	$ 66	$ 3,964
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
Provision	2	1	6	—	9
Charge-offs	—	(3)	(1)	—	(4)
Recoveries and other[3]	—	—	(1)	—	(1)
Balance at September 30, 2015	$ 56	$ 16	$ 64	$ 2	$ 138
Finance receivables as of September 30, 2015 collectively evaluated for impairment [1],[4]	$ 2,142	$ 366	$ 1,562	$ 67	$ 4,137

____

(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 $129 and $138 at September 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:

	September 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	$ 178	$ 336	$ 94	$ 608	$ 195	$ 285	$ 91	$ 571
Government and education	553	57	6	616	575	48	7	630
Graphic arts	133	117	98	348	145	92	127	364
Industrial	83	73	25	181	89	62	22	173
Healthcare	77	49	16	142	90	46	19	155
Other	90	102	52	244	121	107	53	281
Total United States	1,114	734	291	2,139	1,215	640	319	2,174
Finance and other services	57	41	10	108	55	35	9	99
Government and education	55	6	1	62	59	7	2	68
Graphic arts	42	38	22	102	45	35	21	101
Industrial	23	13	3	39	23	12	3	38
Other	35	25	6	66	33	23	3	59
Total Canada	212	123	42	377	215	112	38	365
France	192	237	60	489	203	207	101	511
U.K./Ireland	190	73	1	264	235	91	3	329
Central[1]	199	162	24	385	206	186	25	417
Southern[2]	42	134	14	190	36	138	17	191
Nordics[3]	28	25	1	54	24	35	2	61
Total Europe	651	631	100	1,382	704	657	148	1,509
Other	41	22	3	66	41	16	1	58
Total	$ 2,018	$ 1,510	$ 436	$ 3,964	$ 2,175	$ 1,425	$ 506	$ 4,106

(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:

	September 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	$ 12	$ 2	$ 2	$ 16	$ 592	$ 608	$ 11
Government and education	17	1	3	21	595	616	23
Graphic arts	14	1	—	15	333	348	5
Industrial	4	1	1	6	175	181	5
Healthcare	3	1	1	5	137	142	5
Other	10	1	1	12	232	244	6
Total United States	60	7	8	75	2,064	2,139	55
Canada	3	—	—	3	374	377	9
France	4	—	—	4	485	489	28
U.K./Ireland	3	1	—	4	260	264	1
Central[(1)]	2	1	2	5	380	385	12
Southern[(2)]	7	2	2	11	179	190	8
Nordics[(3)]	1	—	—	1	53	54	3
Total Europe	17	4	4	25	1,357	1,382	52
Other	3	—	—	3	63	66	—
Total	$ 83	$ 11	$ 12	$ 106	$ 3,858	$ 3,964	$ 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:

	September 30, 2016	December 31, 2015
Finished goods	$ 859	$ 792
Work-in-process	58	51
Raw materials	102	99
Total Inventories	$ 1,019	$ 942

Note 8 – Investment in Affiliates, at Equity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Fuji Xerox	$ 35	$ 34	$ 87	$ 90
Other investments	4	6	11	13
Total Equity in Net Income of Unconsolidated Affiliates	$ 39	$ 40	$ 98	$ 103

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Summary of Operations:				
Revenues	$ 2,695	$ 2,518	$ 7,823	$ 7,638
Costs and expenses	2,492	2,333	7,285	7,064
Income before income taxes	203	185	538	574
Income tax expense	54	57	163	186
Net Income	149	128	375	388
Less: Net income – noncontrolling interests	2	1	5	5
Net Income – Fuji Xerox	$ 147	$ 127	$ 370	$ 383
Weighted Average Exchange Rate[1]	102.41	122.11	108.45	120.88

____

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

Note 9 – Restructuring Programs

During the nine months ended September 30, 2016, we recorded net restructuring and asset impairment charges of $199, which included approximately $218 of severance costs related to headcount reductions of approximately 5,700 employees worldwide, $4 of lease cancellation costs and $2 of asset impairments. These costs were offset by $20 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 $30 of costs during the nine months ended September 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 nine months ended September 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	218	4	2	224
Reversals	(20)	—	(5)	(25)
Net Current Period Charges[1]	198	4	(3)	199
Charges against reserve and currency	(118)	(5)	3	(120)
Balance at September 30, 2016	$ 102	$ 1	$ —	$ 103

____

(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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Charges against reserve	$ (54)	$ (30)	$ (120)	$ (242)
Asset impairments	—	7	2	153
Effects of foreign currency and other non-cash items	(1)	3	(2)	8
Restructuring Cash Payments	$ (55)	$ (20)	$ (120)	$ (81)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Services [1]	$ 3	$ 11	$ 65	$ 165
Document Technology	10	1	138	18
Other	—	8	(4)	8
Total Net Restructuring Charges	$ 13	$ 20	$ 199	$ 191

____

(1) The nine months ended September 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 and must be repaid on the earlier of 364 days or upon receipt of financing related to the separation of the Company 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 2.02% and 2.15%.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Interest expense[(1)]	$ 81	$ 88	$ 250	$ 265
Interest income[(2)]	86	87	255	268

(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 September 30, 2016, pay variable/receive fixed interest rate swaps with notional amounts of $300 and net asset fair value of $15 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 September 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	$ 15	2.56%	4.5%	Libor	2021

Foreign Exchange Risk Management

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

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

At September 30, 2016 and December 31, 2015, we had outstanding forward exchange and purchased option contracts with gross notional values of $2,473 and $3,212 respectively, with terms of less than 12 months. The associated currency exposures being hedged at September 30, 2016 were consistent with year-end currency exposures, 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 $22 and $(1) as of September 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	September 30, 2016	December 31, 2015
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 24	$ 4
	Other current liabilities	(2)	(4)
Foreign currency options	Other current liabilities	—	(1)
Interest rate swaps	Other long-term assets	15	7
	Net Designated Derivative Asset	$ 37	$ 6
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 62	$ 51
	Other current liabilities	(6)	(8)
	Net Undesignated Derivative Asset	$ 56	$ 43
Summary of Derivatives	Total Derivative Assets	$ 101	$ 62
	Total Derivative Liabilities	(8)	(13)
	Net Derivative Asset	$ 93	$ 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 September 30,		Nine Months Ended September 30,	
Gain (Loss) on Derivative Instruments	2016	2015	2016	2015
Fair Value Hedges - Interest rate contracts				
Derivative (loss) gain recognized in interest expense	$ (3)	$ 7	$ 8	$ 7
Hedged item gain (loss) recognized in interest expense	3	(7)	(8)	(7)
Cash Flow Hedges - Foreign exchange forward contracts and options				
Derivative gain recognized in OCI (effective portion)	$ 4	$ 5	$ 61	$ 12
Derivative gain (loss) reclassified from AOCI to income - Cost of sales (effective portion)	17	(11)	24	(21)

During the three and nine months ended September 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 September 30, 2016, a net after-tax gain of $25 was recorded in accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

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

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

Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain (Loss)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Foreign exchange contracts – forwards	Other expense – Currency gains (loss), net	$ 33	$ 33	$ 182	$ (2)

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 nine months ended September 30, 2016, currency losses, net were $3 and $4, respectively. For the three and nine months ended September 30, 2015, currency losses, net were $3 and $4, 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.

	September 30, 2016	December 31, 2015
Assets:		
Foreign exchange contracts - forwards	$ 86	$ 55
Interest rate swaps	15	7
Deferred compensation investments in cash surrender life insurance	97	92
Deferred compensation investments in mutual funds	35	33
Total	$ 233	$ 187
Liabilities:		
Foreign exchange contracts - forwards	$ 8	$ 12
Foreign currency options	—	1
Deferred compensation plan liabilities	127	125
Total	$ 135	$ 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:

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,423	$ 1,423	$ 1,368	$ 1,368
Accounts receivable, net	2,466	2,466	2,319	2,319
Short-term debt	2,033	2,047	985	976
Long-term debt	5,346	5,537	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 September 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	$ 7	$ 8	$ 1	$ 2
Interest cost	33	38	50	53	9	8
Expected return on plan assets	(35)	(38)	(63)	(73)	—	—
Recognized net actuarial loss	8	5	16	19	—	—
Amortization of prior service credit	—	—	(1)	—	(2)	(1)
Recognized settlement loss	16	16	—	—	—	—
Defined Benefit Plans	23	22	9	7	8	9
Defined contribution plans	16	15	8	8	n/a	n/a
Net Periodic Benefit Cost	39	37	17	15	8	9
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Loss (Income):						
Net actuarial loss (gain)[(1)]	113	(40)	—	—	—	—
Amortization of prior service credit	—	—	1	—	2	1
Amortization of net actuarial loss	(24)	(21)	(16)	(19)	—	—
Total Recognized in Other Comprehensive Loss (Income)[(2)]	89	(61)	(15)	(19)	2	1
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Loss (Income)	$ 128	$ (24)	$ 2	$ (4)	$ 10	$ 10

	Nine Months Ended September 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	$ 3	$ 3	$ 23	$ 25	$ 4	$ 6
Interest cost	106	114	155	159	25	25
Expected return on plan assets	(111)	(114)	(196)	(220)	—	—
Recognized net actuarial loss	20	18	50	59	1	1
Amortization of prior service credit	(1)	(1)	(3)	(2)	(4)	(16)
Recognized settlement loss	62	61	—	—	—	—
Recognized curtailment gain	—	—	—	—	—	(22)
Defined Benefit Plans	79	81	29	21	26	(6)
Defined contribution plans	45	46	28	28	n/a	n/a
Net Periodic Benefit Cost	124	127	57	49	26	(6)
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Loss (Income):						
Net actuarial loss (gain)[1]	370	(92)	—	(2)	(34)	(58)
Amortization of prior service credit	1	1	3	2	4	16
Amortization of net actuarial loss	(82)	(79)	(50)	(59)	(1)	(1)
Curtailment gain - recognition of net prior service credit	—	—	—	—	—	22
Total Recognized in Other Comprehensive Loss (Income)[2]	289	(170)	(47)	(59)	(31)	(21)
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Loss (Income)	$ 413	$ (43)	$ 10	$ (10)	$ (5)	$ (27)

(1) 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.
(2) 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.

	Nine Months Ended September 30,		Year Ended December 31,	
	2016	2015	Estimated 2016[1]	2015
U.S. Plans	$ 20	$ 40	$ 25	$ 177
Non-U.S. Plans	86	108	115	132
Total	$ 106	$ 148	$ 140	$ 309
Retiree Health	$ 46	$ 49	$ 65	$ 63

(1) These full year estimates are based on current expectations that we will make additional 2016 cash contributions of $34 ($5 U.S. and $29 Non-U.S) to our defined benefit pension plans and $19 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 before the end of the year.

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 retired 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	—	—	370	10	380	7	387
Cash dividends declared - common[1]	—	—	(237)	—	(237)	—	(237)
Cash dividends declared - preferred[2]	—	—	(18)	—	(18)	—	(18)
Stock option and incentive plans, net	1	54	—	—	55	—	55
Distributions to noncontrolling interests	—	—	—	—	—	(10)	(10)
Balance at September 30, 2016	$ 1,014	$ 3,071	$ 9,801	$ (4,632)	$ 9,254	$ 40	$ 9,294

	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	—	—	—	203	(240)	(37)	12	(25)
Cash dividends declared - common[1]	—	—	—	(227)	—	(227)	—	(227)
Cash dividends declared - preferred[2]	—	—	—	(18)	—	(18)	—	(18)
Stock option and incentive plans, net	11	8	—	—	—	19	—	19
Payments to acquire treasury stock, including fees	—	—	(1,302)	—	—	(1,302)	—	(1,302)
Cancellation of treasury stock	(57)	(659)	716	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(43)	(43)
Balance at September 30, 2015	$ 1,078	$ 3,632	$ (691)	$ 9,493	$ (4,399)	$ 9,113	$ 44	$ 9,157

(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 third quarter 2016 or for the nine months ended September 30, 2016.

Note 15 - Other Comprehensive (Loss) Income

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

	Three Months Ended September 30,				Nine Months Ended September 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	$ (22)	$ (22)	$ (206)	$ (206)	$ 96	$ 92	$ (521)	$ (521)
Unrealized Gains (Losses):								
Changes in fair value of cash flow hedges - gains	4	3	5	4	61	42	12	11
Changes in cash flow hedges reclassed to earnings[1]	(17)	(12)	11	5	(24)	(17)	21	9
Other losses	—	—	(2)	(1)	(1)	(1)	(2)	(2)
Net Unrealized (Losses) Gains	(13)	(9)	14	8	36	24	31	18
Defined Benefit Plans (Losses) Gains:								
Net actuarial (losses) gains	(113)	(69)	40	25	(336)	(207)	152	94
Prior service amortization[2]	(3)	(2)	(1)	(2)	(8)	(5)	(41)	(26)
Actuarial loss amortization/settlement[2]	40	27	40	27	133	90	139	94
Fuji Xerox changes in defined benefit plans, net[3]	(8)	(8)	(5)	(5)	(108)	(108)	22	22
Other gains[4]	38	37	51	52	124	123	78	78
Changes in Defined Benefit Plans (Losses) Gains	(46)	(15)	125	97	(195)	(107)	350	262
Other Comprehensive (Loss) Income	(81)	(46)	(67)	(101)	(63)	9	(140)	(241)
Less: Other comprehensive loss attributable to noncontrolling interests	—	—	(1)	(1)	(1)	(1)	(1)	(1)
Other Comprehensive (Loss) Income Attributable to Xerox	$ (81)	$ (46)	$ (66)	$ (100)	$ (62)	$ 10	$ (139)	$ (240)

(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:

	September 30, 2016	December 31, 2015
Cumulative translation adjustments	$ (2,309)	$ (2,402)
Other unrealized gains, net	25	1
Benefit plans net actuarial losses and prior service credits[1]	(2,348)	(2,241)
Total Accumulated Other Comprehensive Loss Attributable to Xerox	$ (4,632)	$ (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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic Earnings (Loss) per Share:				
Net income (loss) from continuing operations attributable to Xerox	$ 181	$ (31)	$ 370	$ 267
Accrued dividends on preferred stock	(6)	(6)	(18)	(18)
Net Income (Loss) From Continuing Operations Available to Common Shareholders	175	(37)	352	249
Net loss from discontinued operations attributable to Xerox	—	(3)	—	(64)
Net Income (Loss) Available to Common Shareholders	$ 175	$ (40)	$ 352	$ 185
Weighted average common shares outstanding	1,013,718	1,045,131	1,013,360	1,080,020
Basic Earnings (Loss) per Share:				
Continuing operations	$ 0.17	$ (0.04)	$ 0.35	$ 0.23
Discontinued operations	—	—	—	(0.06)
Total	$ 0.17	$ (0.04)	$ 0.35	$ 0.17
Diluted Earnings (Loss) per Share:				
Net income (loss) from continuing operations attributable to Xerox	$ 181	$ (31)	$ 370	$ 267
Accrued dividends on preferred stock	(6)	(6)	(18)	(18)
Net Income (Loss) From Continuing Operations Available to Common Shareholders	$ 175	$ (37)	$ 352	$ 249
Net loss from discontinued operations attributable to Xerox	—	(3)	—	(64)
Net Income (Loss) Available to Common Shareholders	$ 175	$ (40)	$ 352	$ 185
Weighted average common shares outstanding - Basic	1,013,718	1,045,131	1,013,360	1,080,020
Common shares issuable with respect to:				
Stock options	601	—	691	1,265
Restricted stock and performance shares	10,978	—	8,326	11,995
Convertible preferred stock	—	—	—	—
Weighted Average Common Shares Outstanding - Diluted	1,025,297	1,045,131	1,022,377	1,093,280
Diluted Earnings (Loss) per Share:				
Continuing operations	$ 0.17	$ (0.04)	$ 0.34	$ 0.23
Discontinued operations	—	—	—	(0.06)
Total	$ 0.17	$ (0.04)	$ 0.34	$ 0.17
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	1,307	3,391	1,217	2,125
Restricted stock and performance shares	22,631	25,996	25,283	18,214
Convertible preferred stock	26,966	26,966	26,966	26,966
Total Anti-Dilutive Securities	50,904	56,353	53,466	47,305
Dividends per Common Share	$ 0.0775	$ 0.0700	$ 0.2325	$ 0.2100

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 September 30, 2016, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $749, with the increase from our December 31, 2015 balance of approximately $577 primarily related to currency and interest. With respect to the unreserved balance of $749, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of September 30, 2016, we had $85 of escrow cash deposits for matters we are disputing, and there are liens on certain Brazilian assets with a net book value of $4, and additional letters of credit and surety bonds of approximately $141 and $91, 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.

Oklahoma Firefighters Pension and Retirement System v. Xerox Corporation, Ursula M. Burns, Luca Maestri, Kathryn A. Mikells, Lynn R. Blodgett and Robert K. Zapfel: On October 21, 2016, the Oklahoma Firefighters Pension and Retirement System ("plaintiff") filed a purported securities class action complaint against Xerox Corporation, Ursula Burns, Luca Maestri, Kathryn Mikells, Lynn Blodgett and Robert Zapfel in the U.S. District Court for the Southern District of New York on behalf of the plaintiff and certain purchasers or acquirers of Xerox common stock. The complaint alleges that defendants made false and misleading statements, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5, relating to the operations and prospects of Xerox's Health Enterprise business. Plaintiff seeks, among other things, unspecified monetary damages and attorneys' fees. Other, similar lawsuits may follow. Xerox and the individual defendants will vigorously defend against this matter. At this time, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment, or settlement occurs.

Other 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 September 30, 2016:

- $344 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.
- $775 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 September 30, 2016, we serviced a FFEL portfolio of approximately 1.6 million loans with an outstanding principal balance of approximately $24.1 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 September 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

Separation Update

On January 29, 2016, Xerox announced plans for the complete legal and structural separation of the Company's Business Process Outsourcing (BPO) business, to be named Conduent Incorporated (Conduent), from its Document Technology and Document Outsourcing (DT/DO) business, which will retain the Xerox Corporation name. 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 third quarter 2016, the CFO for Conduent was announced, and several amendments to the Form 10 registration statement for Conduent were filed with the U.S. Securities and Exchange Commission (SEC), including one that provided additional information on its pro-forma capitalization and results and another that named the majority of its executive management and seven of nine of its directors. Also, Xerox's credit ratings remain investment grade following recent updates from the major rating agencies. Conduent is expected to be a high non-investment grade rated company following the separation. These ratings are in line with management’s expectations. In addition, we released Conduent's brand identity and announced that its stock will trade on the New York Stock Exchange (NYSE) under the symbol "CNDT" while Xerox will continue to trade on the NYSE as "XRX".

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 is currently undertaking 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 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 savings across all segments. The program is inclusive of ongoing activities and $600 million of incremental transformation initiatives.

2015 Health Enterprise (HE) Charge

Prior year results include a pre-tax charge (HE charge) of $389 million ($241 million after-tax or $0.23 cents per share) associated with our third quarter 2015 decision to not fully complete the HE implementations in California and Montana. The charge included a $116 million reduction to revenues with the remaining $273 million recorded to costs of outsourcing, maintenance and rentals. As a result of the significant year-over-year impact of the HE charge on our reported revenues, earnings and key metrics, we are also comparing our current year results to adjusted prior year results, which exclude the HE charge. These adjusted results and comparisons are noted as "adjusted" in the discussion below.

Third Quarter 2016 Review

Although revenues were lower in both segments as compared to the prior year, the third quarter 2016 results reflected the following:

- Continued cost and productivity progress from on-going restructuring and our Strategic Transformation program resulting in margin improvement in Services and solid margins in Document Technology.
- Strong Services renewal opportunities and an 86% renewal rate, which drove overall signings growth.
- Higher year-over-year operating cash flow reflecting the strength of our annuity based business model.

Total revenue of $4.2 billion for the third quarter 2016 declined 3% from third quarter 2015. On an adjusted[1] basis, excluding the third quarter 2015 HE charge, total revenues decreased 5%, with a 1-percentage point negative impact from currency. Services segment revenues of $2.4 billion, which represented 57% of total revenues, increased 1%. On an adjusted[1] basis, Services segment revenue decreased 3%, with a 1-percentage point negative impact from currency as a 4% decrease in Business Process Outsourcing (BPO) revenues was partially offset by a 1% increase in Document Outsourcing revenues. Services segment margin of 9.4% increased 17.7-percentage points from third quarter 2015, or 1.6-percentage points on an adjusted[1] basis, primarily reflecting cost and productivity improvements across our BPO business. Document Technology segment revenues of $1.6 billion decreased by 9%, with a 2-percentage point negative impact from currency. Although Document Technology segment margin of 13.1% decreased 0.8-percentage points as compared to prior year, it improved sequentially and reflects continued productivity gains and cost savings from the company's strategic transformation program.

Total revenue of $12.9 billion for the nine months ended September 30, 2016 declined 4% from the prior year. On an adjusted[1] basis, excluding the third quarter 2015 HE charge, total revenue declined 5%, with a 2-percentage point negative impact from currency. Services segment revenues of $7.4 billion, which represented 57% of total revenues, was relatively flat compared to the prior year. On an adjusted[1] basis, Services segment revenues declined 2% compared to the prior year, with a 2-percentage point negative impact from currency. Services segment margin of 8.9% increased 6.6-percentage points from the prior year or 1.4-percentage points on an adjusted[1] basis. Document Technology segment revenues of $5.0 billion decreased by 9%, with a 2-percentage point negative impact from currency. Document Technology segment margin of 12.0% decreased 1-percentage point as compared to prior year.

Net income from continuing operations attributable to Xerox for the three and nine months ended September 30, 2016 was $181 million and $370 million, respectively, and included after-tax costs of $105 million and $458 million, respectively, related to the amortization of intangible assets, restructuring and related costs, non-service retirement-related costs and separation costs, resulting in adjusted[1] net income from continuing operations attributable to Xerox of $286 million and $828 million, respectively. Net (loss) income from continuing operations attributable to Xerox for the three and nine months ended September 30, 2015 was $(31) million and $267 million, respectively, and included after-tax costs of $320 million and $564 million, respectively, related to the amortization of intangible assets, the HE charge, restructuring and related costs and non-service retirement-related costs, resulting in adjusted[1] net income from continuing operations attributable to Xerox of $289 million and $831 million, respectively. Adjusted[1] net income for the third quarter and year-to-date 2016 periods were relatively flat as compared to the prior year periods as lower operating profit was offset by lower income taxes.

Cash provided by operating activities was $522 million for the nine months ended September 30, 2016, as compared to cash provided by operating activities of $733 million in the prior year period. The $211 million decrease is primarily due to lower pre-tax earnings before non-cash charges, increased working capital and payments related to the prior year Health Enterprise settlement and separation costs. Cash used in investing activities of $261 million includes a $52 million 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 $218 million. Cash used in financing activities of $213 million primarily reflects $246 million for dividends and $13 million of distributions to noncontrolling interests partially offset by $41 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 September 30, 2016 exchange rates, is expected to have about a 1-percentage point negative impact on total revenues in 2016. We expect Services segment revenues to be flat to down 1% on an adjusted basis (excluding the HE Charge from 2015 and currency) and we expect full year segment margin to be in line with the third quarter 2016. We continue to expect a 5 to 7% revenue decline before the impact of currency in Document Technology with 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 are anticipated to be in line with our full-year expectations.

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.

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 September 30, 2016. Approximately 5% of the Company's total revenues are pound sterling-denominated, and approximately 15% are Euro-denominated.

Financial Review

Revenues

(in millions)	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	% Change	CC % Change	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015	% Change	CC % Change	Nine Months Ended September 30, % of Total Revenue 2016	Nine Months Ended September 30, % of Total Revenue 2015
Equipment sales	$ 613	$ 668	(8)%	(7)%	$ 1,848	$ 2,011	(8)%	(7)%	14%	15%
Annuity revenue	3,599	3,665	(2)%	(1)%	11,030	11,381	(3)%	(2)%	86%	85%
Total Revenue	**$ 4,212**	**$ 4,333**	**(3)%**	**(2)%**	**$ 12,878**	**$ 13,392**	**(4)%**	**(3)%**	**100%**	**100%**
Reconciliation to Condensed Consolidated Statements of Income:										
Sales	$ 1,076	$ 1,150	(6)%	(5)%	$ 3,242	$ 3,500	(7)%	(6)%		
Less: Supplies, paper and other sales	(463)	(482)	(4)%	(2)%	(1,394)	(1,489)	(6)%	(4)%		
Equipment Sales	**$ 613**	**$ 668**	**(8)%**	**(7)%**	**$ 1,848**	**$ 2,011**	**(8)%**	**(7)%**		
Outsourcing, maintenance and rentals	$ 3,053	$ 3,098	(1)%	— %	$ 9,388	$ 9,630	(3)%	(1)%		
Add: Supplies, paper and other sales	463	482	(4)%	(2)%	1,394	1,489	(6)%	(4)%		
Add: Financing	83	85	(2)%	(2)%	248	262	(5)%	(4)%		
Annuity Revenue	**$ 3,599**	**$ 3,665**	**(2)%**	**(1)%**	**$ 11,030**	**$ 11,381**	**(3)%**	**(2)%**		
Adjusted: (1)										
Outsourcing, maintenance and rentals	$ 3,053	$ 3,214	(5)%	(4)%	$ 9,388	$ 9,746	(4)%	(3)%		
Annuity revenue	$ 3,599	$ 3,781	(5)%	(4)%	$ 11,030	$ 11,497	(4)%	(3)%		
Total Revenue	$ 4,212	$ 4,449	(5)%	(4)%	$ 12,878	$ 13,508	(5)%	(3)%		

(1) Refer to the Revenue/Segment reconciliation table in the "Non-GAAP Financial Measures" section.

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

Total revenue for third quarter 2016 decreased 3% as compared to third quarter 2015. On an adjusted[1] basis, excluding the third quarter 2015 HE charge, total revenues decreased 5%, 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 (revenues from the Pound Sterling represent approximately 5% of the total), while overall non-U.S. revenues represent almost one third of the total. Third quarter 2016 total revenues reflect the following:

- **Annuity revenue** decreased 2% as compared to third quarter 2015. On an adjusted[1] basis, annuity revenue decreased 5%, with a 1-percentage point negative impact from currency. Annuity revenue is comprised of the following:
  - Outsourcing, maintenance and rentals revenue of $3,053 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 1%, or 5% on an adjusted[1] basis, 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 $463 million includes unbundled supplies and other sales, primarily within our Document Technology segment. The 4% 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 and lower OEM supplies sales.
- Financing revenue is generated from financed equipment sale transactions primarily within the Document Technology segment. The 2% decline in these revenues reflected 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 business within our Services segment. Equipment sales revenue decreased 8% as compared to third quarter 2015, with a 1-percentage point negative impact from currency. The decline was driven by fewer large-account sales in North America, lower OEM sales as well as overall price declines that continue to be within our historical range of 5% to 10%. These areas of decline were partially offset by modest growth in developing markets.

Total revenue for the nine months ended September 30, 2016 decreased 4% as compared to the prior period. On an adjusted[1] basis, excluding the third quarter 2015 HE charge, total revenues decreased 5%, with a 2-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 (revenues from the Pound Sterling represent approximately 5% of the total), while overall non-U.S. revenues represent almost one third of the total. Total revenue for the nine months ended September 30, 2016 reflects the following:

- **Annuity revenue** for the nine months ended September 30, 2016 decreased 3% as compared to the prior year period. On an adjusted[1] basis, annuity revenue decreased 4%, with a 1-percentage point negative impact from currency. Annuity revenue is comprised of the following:
  - Outsourcing, maintenance and rentals revenue of $9,388 million includes outsourcing revenue within our Services segment and maintenance revenue (including bundled supplies) and rental revenue, both primarily within our Document Technology segment and declined 3% as compared to the prior year period. On an adjusted[1] basis, these revenues decreased 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 $1,394 million includes unbundled supplies and other sales, primarily within our Document Technology segment. The 6% 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 5% 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 8% as compared to the prior year period, with a 1-percentage point negative impact from currency. The decline was driven by lower developing market sales, fewer large account sales in North America, lower OEM sales and 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 September 30,					
	Reported			Adjusted (1)		
	2016	2015	B/(W)	2016	2015	B/(W)
Total Gross Margin	31.0%	22.8 %	8.2 pts.	31.3%	31.2%	0.1 pts.
RD&E as a % of Revenue	3.0%	3.1 %	0.1 pts.	2.8%	2.9%	0.1 pts.
SAG as a % of Revenue	19.6%	19.7 %	0.1 pts.	19.3%	18.9%	(0.4) pts.
Pre-tax Income Margin	3.6%	(4.0)%	7.6 pts.	N/A	N/A	N/A
Operating Margin (1)	N/A	N/A	N/A	9.2%	9.4%	(0.2) pts.

	Nine Months Ended September 30,					
	Reported			Adjusted (1)		
	2016	2015	B/(W)	2016	2015	B/(W)
Total Gross Margin	30.7%	28.4%	2.3 pts.	31.0%	31.3%	(0.3) pts.
RD&E as a % of Revenue	3.0%	3.1%	0.1 pts.	2.8%	3.0%	0.2 pts.
SAG as a % of Revenue	20.0%	20.0%	— pts.	19.6%	19.5%	(0.1) pts.
Pre-tax Income Margin	2.2%	0.8%	1.4 pts.	N/A	N/A	N/A
Operating Margin (1)	N/A	N/A	N/A	8.6%	8.8%	(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

Third quarter 2016 pre-tax income margin of 3.6% increased 7.6-percentage points as compared to third quarter 2015. The increase was primarily driven by the third quarter 2015 HE charge of $389 million partially offset by higher 2016 restructuring and related costs as well as separation costs.

Pre-tax income margin for the nine months ended September 30, 2016 of 2.2% increased 1.4-percentage points as compared to prior year. The increase was primarily driven by third quarter 2015 HE charge of $389 million partially offset by higher 2016 restructuring and related costs as well as separation costs. In addition, an increase in non-service retirement related costs of $30 million, due primarily to the $22 million curtailment gain recorded in the second quarter 2015, also partially offset the increase in pre-tax margin.

Pre-tax income margin includes the amortization of intangible assets, restructuring and related costs, separation costs and other expenses, net, all of which are separately discussed in subsequent sections. Pre-tax income margin also includes non-service retirement related costs, which increased by $4 million and $30 million, respectively, for the three and nine months ended September 30, 2016. Operating margin, discussed below, excludes all of these items.

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

Third quarter 2016 operating margin[1] of 9.2% decreased 0.2-percentage points as compared to third quarter 2015. Benefits from strategic transformation cost and productivity initiatives were more than offset by increased expense, particularly in SAG, due to favorable prior-year compensation and benefit adjustments as well as the decline in total company revenue.

Operating margin[1] for the nine months ended September 30, 2016 of 8.6% decreased 0.2-percentage points as compared to the prior year period. Benefits from strategic transformation cost and productivity initiatives were more than offset by increased expense, particularly in SAG, due to favorable prior-year compensation and benefit adjustments as well as the decline in total company revenue.

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

Gross Margin

Third quarter 2016 gross margin of 31.0% increased 8.2-percentage points as compared to third quarter 2015. On an adjusted[1] basis, gross margin of 31.3% increased by 0.1-percentage point. Services and Document Technology gross margin each improved year-over-year driven by cost and productivity improvements. These improvements were partially offset by the higher proportion of our revenue from Services (which historically has a lower gross margin).

Gross Margin for the nine months ended September 30, 2016 of 30.7% increased 2.3-percentage points as compared to the prior year period. On an adjusted[1] basis, gross margin of 31.0% decreased by 0.3-percentage points. Services and Document Technology gross margin each improved year-over-year driven by cost and productivity improvements. These improvements were partially offset by 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 September 30,			Nine Months Ended September 30,		
(in millions)	2016	2015	Change	2016	2015	Change
R&D	$ 104	$ 103	$ 1	$ 317	$ 324	$ (7)
Sustaining engineering	22	32	(10)	71	94	(23)
Total RD&E Expenses	**$ 126**	**$ 135**	**$ (9)**	**$ 388**	**$ 418**	**$ (30)**

Third quarter 2016 RD&E as a percentage of revenue of 3.0% decreased 0.1-percentage point from third quarter 2015. On an adjusted[1] basis, RD&E was 2.8% of revenue and decreased 0.1-percentage point due to restructuring savings and a higher mix of Services revenue (which historically has lower RD&E as a percentage of revenue).

RD&E of $126 million decreased by $9 million compared to third quarter 2015. On an adjusted[1] basis, RD&E of $119 million decreased by $10 million.

RD&E as a percentage of revenue for the nine months ended September 30, 2016 of 3.0% decreased 0.1-percentage points from the prior year period. On an adjusted[1] basis, RD&E was 2.8% of revenue and decreased 0.2-percentage points due to restructuring savings and a higher mix of Services revenue (which historically has lower RD&E as a percentage of revenue).

RD&E of $388 million decreased by $30 million compared to the nine months ended September 30, 2015. On an adjusted[1] basis, RD&E of $367 million decreased by $37 million. We strategically coordinate R&D with Fuji Xerox.

Selling, Administrative and General Expenses (SAG)

SAG as a percentage of revenue of 19.6% decreased 0.1-percentage point from third quarter 2015. On an adjusted[1] basis, SAG was 19.3% of revenue and increased 0.4-percentage points. Restructuring and productivity improvements and a higher mix of Services revenue (which historically has lower SAG as a percentage of revenue) were more than offset by higher compensation and benefit expense and the decline in total company revenue.

SAG of $827 million was $28 million lower than third quarter 2015. On an adjusted[1] basis, SAG of $813 million decreased $28 million, including a $15 million favorable impact from currency, and reflected the following:

- $33 million decrease in selling expenses.
- $4 million increase in general and administrative expenses.
- $1 million increase in bad debt expense. Third quarter 2016 bad debt expense remained at less than one percent of receivables.

SAG as a percentage of revenue for nine months ended September 30, 2016 of 20.0% was flat from the prior year period. On an adjusted[1] basis, SAG was 19.6% of revenue and increased 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 was offset by higher compensation and benefit expense and an overall decline in total company revenue.

SAG of $2,571 million for nine months ended September 30, 2016 was $105 million lower than the prior year period. On an adjusted[1] basis, SAG of $2,522 million decreased $116 million, including a $42 million favorable impact from currency, and reflected the following:

- $76 million decrease in selling expenses.
- $31 million decrease in general and administrative expenses.
- $9 million decrease in bad debt expense.

Restructuring and Related Costs

During third quarter 2016, Restructuring and related costs of $32 million include restructuring and asset impairment charges of $13 million as well as $19 million of additional costs primarily related to professional support services associated with the implementation of the Strategic Transformation program.

Third quarter 2016 net restructuring and asset impairment charges of $13 million included $21 million of severance costs related to headcount reductions of approximately 550 employees worldwide. Approximately 75% of the charges were related to our Document Technology segment and 25% to our Services segment. The third quarter 2016 actions impacted several functional areas, with approximately 40% of the costs focused on gross margin improvements and approximately 50% on SAG reductions, with the remainder focused on RD&E optimization. These costs were partially offset by $8 million of net reversals for changes in estimated reserves from prior period initiatives.

During the nine months ended September 30, 2016 Restructuring and related costs of $229 million included restructuring and asset impairment charges of $199 million as well as $30 million of additional costs primarily related to professional support services associated with the implementation of the Strategic Transformation program.

During the nine months ended September 30, 2016, we recorded net restructuring and asset impairment charges of $199 million, which included $218 million of severance costs related to headcount reductions of approximately 5,700 employees worldwide, $4 million of lease cancellation costs and $2 million of asset impairments. These costs were partially offset by $20 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 two-thirds of the 2016 charges related to our Document Technology segment, and about a third to our Services segment. 2016 actions impacted several functional areas, with approximately half of the costs focused on gross margin improvements and approximately 40% on SAG reductions, with the remainder focused on RD&E optimization.

During third quarter 2015, we recorded net restructuring and asset impairment charges of $20 million, which included approximately $16 million of severance costs related to headcount reductions of approximately 780 employees primarily related to our Services segment, $1 million of lease cancellation costs and $7 million of asset impairments which were primarily related to a surplus Canadian facility. These costs were partially offset by $4 million of net reversals for changes in estimated reserves from prior period initiatives.

During the nine months ended September 30, 2015, we recorded net restructuring and asset impairment charges of $191 million. Net restructuring charges of $38 million included $54 million of severance costs related to headcount reductions of approximately 1,780 employees worldwide and $4 million of lease cancellation costs partially offset by $20 million of net reversals for changes in estimated reserves from prior period initiatives. Asset impairment charges of $153 million included $146 million recorded in the second quarter 2015 associated with software asset impairments resulting from a change in our Government Healthcare Solutions strategy in the Services segment as well as $7 million of charges incurred in the third quarter 2015. See *Services* section within "Segment Review" for further discussion.

The restructuring reserve balance as of September 30, 2016 for all programs was $103 million, of which $98 million is expected to be spent over the next twelve months.

We continue to expect restructuring and related costs of 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 nine months ended September 30, 2016, we recorded separation costs of $39 million and $75 million, respectively. For full-year 2016, we continue to expect to incur separation costs of approximately $175 to $200 million, which exclude tax-related separation costs discussed below in *Income Taxes*. We also 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 nine months ended September 30, 2016 of $244 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 September 30, 2016 and decreased by 11,800 from December 31, 2015, due primarily to the impact of restructuring and productivity-related reductions as well as seasonal reductions.

Other Expenses, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Non-financing interest expense	$ 49	$ 55	$ 153	$ 167
Interest income	(3)	(2)	(7)	(6)
Gains on sales of businesses and assets[1]	(2)	—	(18)	(10)
Currency losses, net	3	3	4	4
Litigation matters	3	6	16	8
Loss on sales of accounts receivable	4	3	12	9
Deferred compensation investment (gains) losses	(2)	5	(5)	1
All other expenses, net	4	3	13	14
Total Other Expenses, Net	**$ 56**	**$ 73**	**$ 168**	**$ 187**

[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 nine months ended September 30, 2016 of $49 million and $153 million, respectively, was $6 million and $14 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 $15 million, respectively, from the prior year comparable period, 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.

Deferred Compensation Investment

Deferred compensation investment gains for the three and nine months ended September 30, 2016 were $7 million and $6 million higher, respectively, than the prior year comparable periods due to the performance of the underlying investments.

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

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

Income Taxes

Third quarter 2016 effective tax rate was 3.3%. On an adjusted[1] basis, third quarter 2016 tax rate was 25.3%. Both rates were lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries. The effective tax rate of 3.3% also included tax-related separation costs, which are discussed below.

The effective tax rate for the nine months ended September 30, 2016 was (0.4%). On an adjusted[1] basis, the nine months ended September 30, 2016 tax rate was 21.7%. Both rates were lower than the U.S. statutory tax rate primarily due to foreign tax credits resulting from anticipated dividends from our foreign subsidiaries, the redetermination of certain unrecognized tax positions upon conclusion of several audits, and the geographical mix of profits. The effective tax rate of (0.4%) also included tax-related separation costs, which are discussed below.

Third quarter 2015 effective tax rate was 60.7% which was higher than the U.S. statutory tax rate primarily due to the discrete tax benefit associated with the HE charge. On an adjusted1 basis, third quarter 2015 tax rate was 27.1%, 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, partially offset by additions to unrecognized tax positions.

The effective tax rate for the nine months ended September 30, 2015 was (73.5%) and was negative primarily due to the discrete tax benefit associated with the HE charge and the second quarter 2015 software impairment charges. On an adjusted[1] basis, the nine months ended September 30, 2015 tax rate was 26.1%, 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, partially offset by additions to unrecognized tax positions.

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 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 adjusted1 effective tax rate will be approximately 25% to 27% for fourth quarter 2016 and approximately 23% to 25% for full year 2016.

Tax-related Separation Costs

We recorded a deferred tax benefit/asset of $15 million related to our separation costs for third quarter 2016 and $29 million for the 2016 year-to-date period. We estimate half of the year-to-date deferred tax asset will be eliminated at the time the separation is executed, as certain separation costs are expected to 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, for year-to-date 2016, we recorded $24 million, including a $2 million credit in third quarter 2016, 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 approximately $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

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total equity in net income of unconsolidated affiliates	$ 39	$ 40	$ 98	$ 103
Fuji Xerox after-tax restructuring costs included in equity income	2	2	3	4

Equity in net income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox net income. The decrease in equity income of $1 million and $5 million for the three and nine months ended September 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

Third quarter 2016 net income from continuing operations attributable to Xerox was $181 million, or $0.17 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $286 million, or $0.27 per diluted share. Third quarter 2016 adjustments to net income include the amortization of intangible assets, restructuring and related costs, non-service retirement-related costs and separation costs.

Third quarter 2015 net loss from continuing operations attributable to Xerox was $31 million, or $0.04 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $289 million, or $0.27 per diluted share. Third quarter 2015 adjustments to net income include the amortization of intangible assets, restructuring and related costs, the HE charge and non-service retirement-related costs.

Net income from continuing operations attributable to Xerox for the nine months ended September 30, 2016 was $370 million or $0.34 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $828 million, or $0.79 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 nine months ended September 30, 2015 was $267 million, or $0.23 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $831 million, or $0.74 per diluted share, and reflects the adjustments for the amortization of intangible assets, restructuring and related costs, the HE charge 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 (Loss) 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 for the three and nine months ended September 30, 2016.

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

Net Income (Loss)

Third quarter 2016 net income attributable to Xerox was $181 million, or $0.17 per diluted share. Third quarter 2015 net loss attributable to Xerox was $34 million, or $0.04 per diluted share.

Net income attributable to Xerox for the nine months ended September 30, 2016 was $370 million, or $0.34 per diluted share. Net income attributable to Xerox for the nine months ended September 30, 2015 was $203 million, or $0.17 per diluted share.

Other Comprehensive Income (Loss)

Third quarter 2016 Other comprehensive loss attributable to Xerox was $46 million as compared to a loss of $100 million in the third quarter 2015. The decreased loss is primarily due to a $184 million reduction in losses from the translation of our foreign currency denominated net assets. The third quarter 2016 reflects translation losses of $22 as compared to translation losses of $206 million in the third quarter 2015. The third quarter 2015 loss primarily reflected the weakening of the Pound Sterling and Brazilian Real against the U.S. dollar. Partially offsetting the reduction in translation losses was a $112 million increased loss from changes in defined benefit plans from a gain of $97 million in the third quarter 2015 to a loss of $15 million in the third quarter 2016. The third quarter 2016 change in benefit plans was primarily due to a decrease in discount rates partially offset by currency adjustments on accumulated defined benefit plan losses.

Other Comprehensive income attributable to Xerox for the nine months ended September 30, 2016 was $10 million as compared to a loss of $240 million in the prior year period. The change of $250 million, is primarily due to a $613 million change from the translation of our foreign currency denominated net assets. The nine months ended September 30, 2016 reflects translation gains of $92 million primarily as a result of the strengthening of the Brazilian Real, Japanese Yen, Euro and Canadian Dollar as compared to the U.S. Dollar as the Pound Sterling weakened year-to-date 2016. The nine months ended September 30, 2015 reflects translation losses of $521 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 $107 million in the nine months ended September 30, 2016 as compared to net gains of $262 million in the nine months ended September 30, 2015. The benefit plan losses in the nine months ended September 30, 2016 were primarily due to a decrease in discount rates.

Refer to Note 11 - Financial Instruments, in the Condensed Consolidated Financial Statements, for additional information regarding foreign currency derivatives, and 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.

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 September 30,					
(in millions)	Equipment Sales Revenue	Annuity Revenue	Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2016						
Services	$ 116	$ 2,282	$ 2,398	57%	$ 226	9.4 %
Document Technology	453	1,173	1,626	39%	213	13.1 %
Other	44	144	188	4%	(65)	(34.6)%
Total	**$ 613**	**$ 3,599**	**$ 4,212**	**100%**	**$ 374**	**8.9 %**
2015						
Services	$ 117	$ 2,250	$ 2,367	55%	$ (196)	(8.3)%
Document Technology	525	1,253	1,778	41%	248	13.9 %
Other	26	162	188	4%	(55)	(29.3)%
Total	**$ 668**	**$ 3,665**	**$ 4,333**	**100%**	**$ (3)**	**(0.1)%**
Adjusted:[(1)]						
Services	$ 117	$ 2,366	$ 2,483	56%	$ 193	7.8 %
Total	$ 668	$ 3,781	$ 4,449	N/A	$ 386	8.7 %

(in millions)	Nine Months Ended September 30, Equipment Sales Revenue	Annuity Revenue	Total Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Margin
2016						
Services	$ 358	$ 6,992	$ 7,350	57%	$ 652	8.9 %
Document Technology	1,397	3,620	5,017	39%	601	12.0 %
Other	93	418	511	4%	(211)	(41.3)%
Total	**$ 1,848**	**$ 11,030**	**$ 12,878**	**100%**	**$ 1,042**	**8.1 %**
2015						
Services	$ 348	$ 7,012	$ 7,360	55%	$ 172	2.3 %
Document Technology	1,584	3,904	5,488	41%	715	13.0 %
Other	79	465	544	4%	(164)	(30.1)%
Total	**$ 2,011**	**$ 11,381**	**$ 13,392**	**100%**	**$ 723**	**5.4 %**
Adjusted:[(1)]						
Services	$ 348	$ 7,128	$ 7,476	55%	$ 561	7.5 %
Total	$ 2,011	$ 11,497	$ 13,508	N/A	$ 1,112	8.2 %

(1) Refer to the Services Segment reconciliation tables in the "Non-GAAP Financial Measures" section.

Services

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

Revenue

(in millions)	Three Months Ended September 30, 2016	2015	% Change	CC % Change	Nine Months Ended September 30, 2016	2015	% Change	CC % Change
Business Process Outsourcing	$ 1,607	$ 1,566	3 %	4 %	$ 4,927	$ 4,946	— %	— %
Document Outsourcing	791	801	(1)%	1 %	2,423	2,414	— %	3 %
Total Services Revenue	**$ 2,398**	**$ 2,367**	**1 %**	**3 %**	**$ 7,350**	**$ 7,360**	— %	1 %
Adjusted:[(1)]								
Business Process Outsourcing	$ 1,607	$ 1,682	(4)%	(4)%	$ 4,927	$ 5,062	(3)%	(2)%
Total Services Revenue	$ 2,398	$ 2,483	(3)%	(2)%	$ 7,350	$ 7,476	(2)%	— %

Note: The above table excludes intercompany revenue.
CC - See "Non-GAAP Financial Measures" section for description of Constant Currency.
(1) Refer to the Services Segment reconciliation tables in the "Non-GAAP Financial Measures" section.

Third quarter 2016 Services revenue of $2,398 million was 57% of total revenue and increased 1% from third quarter 2015. On an adjusted[1] basis, Services revenue decreased 3%, with a 1-percentage point negative impact from currency.

- BPO revenue increased 3% from third quarter 2015 and represented 67% of total Services revenue. On an adjusted[1] basis, BPO revenue decreased 4% with minimal currency impact. The decline was driven by 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 ramping new contracts and modest growth from acquisitions.
  - In third quarter 2016, BPO revenue mix across the major business areas was as follows: Commercial Industries (excluding healthcare) - 44%; Healthcare - 24%; Public Sector - 28%; and all other (including our HE Medicaid platform implementations) - 4%.
- DO revenue decreased 1%, with a 2-percentage point negative impact from currency, and represented 33% of Services revenue. Growth at constant currency was driven primarily from our partner print services offerings, which more than offset the impact of lower new business signings and price declines on renewals.

Services revenue for the nine months ended September 30, 2016 of $7,350 million was 57% of total revenue and

relatively flat from the prior year period. On an adjusted[1] basis, Services revenue decreased 2%, with a 2-percentage point negative impact from currency.

- BPO revenue was relatively flat as compared to the prior year period and represented 67% of total Services revenue. On an adjusted[1] basis, BPO revenue decreased 3% with a 1-percentage point negative impact from currency. The decline was driven by 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 ramping new contracts and modest growth from acquisitions, particularly in Healthcare.
    - BPO revenue mix for the nine months ended September 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 was relatively flat, with a 3-percentage point negative impact from currency, and represented 33% of Services revenue. Growth at constant currency was driven primarily from our partner print services offerings and equipment sales, which more than offset the impact of lower new business signings and price declines on renewals.

Segment Margin

Third quarter 2016 Services segment margin of 9.4% increased by 17.7-percentage points, or 1.6-percentage points on an adjusted[1] basis, from third quarter 2015, including a 0.9-percentage point increase in gross margin. The increase reflected restructuring and productivity improvements, particularly in BPO, 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 proportion of DO revenue (which historically has higher segment margin). These benefits were partially offset by continuing margin pressures in our customer care offering as well as higher compensation and benefit expense.

Services segment margin for the nine months ended September 30, 2016 of 8.9% increased by 6.6-percentage points, or 1.4 points on an adjusted[1] basis, from the prior year period, including a 0.9-percentage point increase in gross margin. The increase reflected restructuring and productivity improvements, particularly in BPO, 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 proportion of DO revenue (which historically has higher segment margin). These benefits were partially offset by continuing margin pressures in our customer care offering as well as higher compensation and benefit expense.

BPO margin does not reflect the impact of our student loan business, which is included in Other.

As disclosed in our 2015 Annual Report, the fair value of the Commercial Services reporting unit (which has approximately $2.0 billion of goodwill) exceeded its carrying value by approximately 17%. During the nine-month period ended September 30, 2016, revenues and operating profits for our Commercial Services reporting unit decreased by 7% and 3%, respectively, as compared to the prior year. Although we continue to focus on profitable revenue growth and cost improvements in this business; depending on the duration of this trend and our ability to manage through it, there is a possibility that certain assumptions and estimates, including cash flow projections, used for the upcoming fourth quarter 2016 annual goodwill impairment analysis for this reporting unit could be unfavorably impacted. The Company intends to complete its goodwill impairment analysis for all reporting units during the fourth quarter 2016.

(1) Refer to the Services Segment reconciliation tables in the "Non-GAAP Financial Measures" section.

Government Healthcare

Our HE platform is performing to contractual standards in the states where it has been fully implemented, which include New Hampshire, Alaska and North Dakota. New Hampshire was certified by the Center for Medicare and Medicaid Services in June 2015, and we are currently in the process of getting our Alaska HE implementation certified and in the planning phase of North Dakota certification. We continue to strengthen and improve our platform development and systems integration capabilities with additional resources and enhanced program management and quality control practices.

Due to a number of factors, development work to implement the HE platform in New York has been elongated beyond the current contractual schedule resulting in, among other things, increased delivery costs, which we have considered in our estimates of revenues and costs under the percentage-of-completion accounting methodology.

We continue to work with New York to address new regulatory requirements, policy changes and enhanced security protocols, which are expected to further lengthen the schedule and may result in material increases in future costs

to complete. We are seeking to mitigate these impacts through a combination of operational actions as well as by working with New York to pursue an amendment to the contract that will revise the project schedule and increase the reimbursement we receive.

Metrics

Signings: Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Third quarter 2016 Services signings were $2.2 billion in Total Contract Value (TCV).

Signings were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in billions)	2016	2015	2016	2015
BPO	$ 1.5	$ 1.3	$ 5.3	$ 5.5
DO	0.7	0.6	1.9	2.0
Total Signings	**$ 2.2**	**$ 1.9**	**$ 7.2**	**$ 7.5**

Signings increased 15% from third quarter 2015, with a 2-percentage point negative impact from currency, primarily reflecting higher contribution from renewals. On a trailing twelve month (TTM) basis, signings increased 6% at constant currency from the comparable prior year period. New business TCV at constant currency decreased 15% from third quarter 2015 and decreased 9% on a TTM basis; these declines reflect, in part, our decision to not pursue opportunities with lower margin and return profiles. 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 third quarter 2016 contract renewal rate for BPO and DO contracts was 86%, within our target range of 85%-90%. The year-to-date renewal rate was 85%.

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 September 30,				Nine Months Ended September 30,			
(in millions)	2016	2015	% Change	CC % Change	2016	2015	% Change	CC % Change
Equipment sales	$ 453	$ 525	(14)%	(13)%	$ 1,397	$ 1,584	(12)%	(11)%
Annuity revenue	1,173	1,253	(6)%	(5)%	3,620	3,904	(7)%	(6)%
Total Revenue	**$ 1,626**	**$ 1,778**	**(9)%**	**(7)%**	**$ 5,017**	**$ 5,488**	**(9)%**	**(7)%**

____

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

Third quarter 2016 Document Technology revenue of $1,626 million decreased 9% from third quarter 2015, with a 2-percentage point negative impact from currency. Document Technology revenues exclude Document Outsourcing. Inclusive of Document Outsourcing, third quarter 2016 aggregate document-related revenue decreased 6% from third quarter 2015, with a 1-percentage point negative impact from currency. Document Technology segment revenue results included the following:

- Equipment sales revenue declined 14% from third quarter 2015, with a 1-percentage point negative impact from currency. The decline was driven by fewer large-account sales in North America, lower OEM sales 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 moderate benefits from improved sales in our high-end color category following the drupa trade show.

- Annuity revenue decreased by 6% from third quarter 2015, with a 1-percentage point negative impact from currency. The annuity revenue reduction reflects lower equipment sales in prior periods, 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).

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

Document Technology revenue of $5,017 million for the nine months ended September 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 nine months ended September 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 12% from the prior year period, with a 1-percentage point negative impact from currency. The decline was driven by continued weakness in developing markets, fewer large account sales in North America, continued migration of customers to our partner print services offering (included in our Services segment) and overall price declines that continue to be within our historical range of 5 to 10%. These declines were partially offset by moderate benefits from recent product launches primarily in our mid-range category and from improved sales in our high-end color category following the drupa trade show.
- Annuity revenue decreased by 7% from the prior year period, with a 1-percentage point negative impact from currency. The annuity revenue reduction reflects lower equipment sales in prior periods, 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 our focus on productivity and cost improvements, as well as investments in growth areas of the market.

Segment Margin

Third quarter 2016 Document Technology segment margin of 13.1% declined 0.8-percentage points from third quarter 2015, but included a 0.9-percentage point improvement in gross margin. The gross margin increase reflects restructuring and productivity improvements only partially offset by price declines. SAG increased as a percent of revenue primarily due to prior-year compensation and benefit expense adjustments and a decline in segment revenues.

Document Technology segment margin for the nine months ended September 30, 2016 of 12.0% declined 1.0-percentage points from the prior year period, including a 0.1-percentage point improvement in gross margin. The gross margin increase reflects restructuring and productivity improvements only partially offset by unfavorable currency impacts and price declines. SAG increased as a percent of revenue, primarily due to prior-year compensation and benefit expense adjustments as well as a decline in segment revenue which was only partially matched by productivity improvements.

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 third quarter 2016:

Entry[(2)]:
- 16% increase in color multifunction devices due to the benefit of recent product launches and improvements in developing markets.
- 12% decrease in black-and-white multifunction devices.

Mid-Range:
- 7% increase in mid-range color installs including the benefit of recent product launches.
- 25% decrease in mid-range black-and-white reflecting, in part, fewer large-account installs.

High-End:
- 6% increase in high-end color systems, excluding Fuji Xerox digital front-end sales, due to favorable impact from the drupa printing trade show.
- 1% decrease in high-end black-and-white systems.

Installs for the nine months ended September 30, 2016:

Entry[(2)]:
- 2% increase in color multifunction due to the benefit of recent product launches.
- 9% decrease in black-and-white multifunction devices.

Mid-Range:
- 5% increase in mid-range color installs, including the benefit of recent product launches.
- 18% decrease in mid-range black-and-white reflecting a transition to color devices and, in part, fewer large-account installs.

High-End:
- 22% increase in high-end color systems, excluding Fuji Xerox digital front-end sales, due to favorable impact from the drupa printing trade show and growth in Color Press 800 and 1000 products as well as Versant Color Press 80 products, partially offset by declines in other production color products, reflecting product launch timing.
- 11% 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.

---

(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 4% and 53% for the three and nine months ended September 30, 2016, respectively, while Entry black-and-white multifunction devices increased 6% and 15% for the three and nine months ended September 30, 2016, respectively.

Other

Revenue

Third quarter 2016 Other revenue of $188 million was flat from third quarter 2015, with a 1-percentage point negative impact from currency. The anticipated run-off of the Student Loan business, now reported in Other, and lower wide-format revenues were offset by higher paper and network integration-related solution sales. Total paper revenue (all within developing markets) and the Student Loan business combined comprise nearly half of Other revenue.

Other revenue for the nine months ended September 30, 2016 of $511 million decreased 6% from the prior year period, with a 2-percentage point negative impact from currency. The anticipated run-off of the Student Loan business, now reported in Other, and lower wide-format revenues, were offset by higher paper and network integration-related solution sales. Total paper revenue (all within developing markets) and the Student Loan business combined comprise approximately half of Other revenue.

Other Loss

Third quarter 2016 Other loss of $65 million increased $10 million from third quarter 2015. Other expenses, net (excluding Deferred compensation investment gains) are reported within Other and were $58 million in third quarter 2016 as compared to $68 million in third quarter 2015. The $10 million reduction was primarily due to a decline in non-financing interest expense. Remaining Other loss of $7 million in third quarter 2016 increased $20 million from third quarter 2015 income of $13 million, primarily related to lower profitability in the Student Loan business.

Other loss for the nine months ended September 30, 2016 of $211 million increased $47 million from the prior year period. Other expenses, net (excluding Deferred compensation investment gains) are reported within Other and were $173 million for the nine months ended September 30, 2016 as compared to $186 million for the nine months ended September 30, 2015. The $13 million reduction was primarily due to a decline in non-financing interest expense. Remaining Other loss of $38 million for the nine months ended September 30, 2016 increased $60 million from the nine months ended September 30, 2015 income of $22, primarily related to lower profitability in the Student Loan business.

Capital Resources and Liquidity

As of September 30, 2016 and December 31, 2015, total cash and cash equivalents were $1,423 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 September 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:

	Nine Months Ended September 30,		
(in millions)	2016	2015	Change
Net cash provided by operating activities	$ 522	$ 733	$ (211)
Net cash (used in) provided by investing activities	(261)	527	(788)
Net cash used in financing activities	(213)	(1,796)	1,583
Effect of exchange rate changes on cash and cash equivalents	7	(71)	78
Increase (decrease) in cash and cash equivalents	55	(607)	662
Cash and cash equivalents at beginning of period	1,368	1,411	(43)
Cash and Cash Equivalents at End of Period	**$ 1,423**	**$ 804**	**$ 619**

Cash Flows from Operating Activities

Net cash provided by operating activities was $522 million for the nine months ended September 30, 2016. The $211 million decrease in operating cash from the prior year period was primarily due to the following:

- $105 million decrease in pre-tax income before depreciation and amortization, gains on sales of businesses and assets, stock-based compensation, restructuring and related costs, curtailment gain, separation-related costs and the prior year HE charge.
- $211 million decrease in accounts payable and accrued compensation primarily related to a reduction in days payable outstanding and higher foreign currency denominated payments.
- $115 million decrease reflecting settlement payments associated with our third quarter 2015 decision to not fully complete the HE implementations in California and Montana.
- $67 million decrease from accounts receivable primarily due to the timing of collections.
- $54 million decrease from higher restructuring and related payments.
- $39 million decrease due to the prior year source of cash in the discontinued ITO business.
- $32 million decrease due to payments for separation-related costs.
- $150 million increase primarily due to lower inventory requirements as well as lower levels of in transit inventory.
- $73 million increase from finance receivables primarily related to a higher level of run-off due to lower originations and to a reduced impact from 2012 and 2013 finance receivables sales.
- $63 million increase from the settlements of foreign currency derivative contracts. This increase primarily offsets the negative currency impacts on our Yen-denominated inventory purchases as well as other foreign currency denominated payments recorded in inventory and accounts payable.
- $42 million increase due to lower pension contributions.
- $17 million increase due to lower income tax payments.

- $14 million increase from lower spending for product software and up-front costs.

Cash Flows from Investing Activities

Net cash used in investing activities was $261 million for the nine months ended September 30, 2016. The $788 million decrease in cash from the prior year period was primarily due to the following:

- $992 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.
- $183 million increase from acquisitions. 2015 reflects the acquisition of RSA Medical LLC for $141 million and Intellinex LLC for $28 million.
- $44 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 $213 million for the nine months ended September 30, 2016. The $1,583 million increase in cash from the prior year period was primarily due to the following:

- $1,302 million increase, as there were no share repurchases in 2016.
- $212 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 $1,045 million from the issuance of Senior Notes and an increase of $50 million in Commercial Paper.
- $44 million increase from lower distributions to noncontrolling interests.
- $33 million increase due to the absence of a stock-based award vesting in 2016.

Customer Financing Activities and Debt

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

(in millions)	September 30, 2016	December 31, 2015
Total finance receivables, net[1]	$ 3,835	$ 3,988
Equipment on operating leases, net	488	495
Total Finance Assets, net[2]	**$ 4,323**	**$ 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 $16 million due to currency across all Finance Assets.

The following summarizes our debt:

(in millions)	September 30, 2016	December 31, 2015
Principal debt balance[1]	$ 7,400	$ 7,365
Net unamortized discount	(45)	(52)
Debt issuance cost[2]	(23)	(28)
Fair value adjustments[3]		
- terminated swaps	32	47
- current swaps	15	7
Total Debt	**$ 7,379**	**$ 7,339**

(1) Includes Notes Payable of $5 million and $3 million as of September 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)	September 30, 2016		December 31, 2015	
Financing debt[1]	$	3,783	$	3,923
Core debt		3,596		3,416
Total Debt	**$**	**7,379**	**$**	**7,339**

(1) Financing debt includes $3,356 million and $3,490 million as of September 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 Q4	$	1,013
2017		1,029
2018		1,021
2019		1,162
2020		1,208
2021		1,067
2022		—
2023		—
2024		300
2025 and thereafter		600
Total	$	7,400

Treasury Stock

There were no share repurchases in 2016 through the date of our filing on November 3, 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

Prior year amounts were revised accordingly to reflect these changes.

Adjusted Revenue, Costs and Expenses, and Margin

As previously discussed, during third quarter 2015 we recorded a pre-tax charge (HE charge) of $389 million, which included a $116 million reduction to revenues. (See *Services* within the "Segment Review" section for additional details). As a result of the significant impact of the HE charge on our reported revenues, costs and expenses as well as key metrics for the prior year period, we also discussed our results using non-GAAP measures which exclude the impact of the HE charge. In addition to the magnitude of the charge and its impact on our prior-year reported results, we excluded the HE charge due to the fact that it was primarily a unique charge associated with the conclusion, reached after a series of discussions, that fully completing our HE platform implementations in California and Montana was no longer considered probable. This adjustment was in addition to the adjustments noted below.

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 (Loss) and EPS reconciliation:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
(in millions; except per share amounts)	Net Income	EPS	Net (Loss) Income	EPS	Net Income	EPS	Net Income	EPS
Reported[1]	$ 181	$ 0.17	$ (31)	$ (0.04)	$ 370	$ 0.34	$ 267	$ 0.23
Adjustments:								
Amortization of intangible assets	77		77		244		233	
HE Charge (2015 only)	—		389		—		389	
Restructuring and related costs - Xerox	32		20		229		191	
Non-service retirement-related costs	34		30		112		82	
Separation costs	39		—		75		—	
Income tax adjustments[2]	(77)		(198)		(229)		(335)	
Tax related separation costs[2]	(2)		—		24		—	
Restructuring charges - Fuji Xerox	2		2		3		4	
Adjusted	$ 286	$ 0.27	$ 289	$ 0.27	$ 828	$ 0.79	$ 831	$ 0.74
Weighted average shares for adjusted EPS[3]		1,052		1,078		1,049		1,120
Fully diluted shares at end of period[4]		1,052						

(1) Net Income (Loss) 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 September 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 third quarter 2016.

Effective Tax Rate reconciliation:

(in millions)	Three Months Ended September 30, 2016 Pre-Tax Income	Three Months Ended September 30, 2016 Income Tax Expense	Three Months Ended September 30, 2016 Effective Tax Rate	Three Months Ended September 30, 2015 Pre-Tax (Loss) Income	Three Months Ended September 30, 2015 Income Tax (Benefit) Expense	Three Months Ended September 30, 2015 Effective Tax Rate	Nine Months Ended September 30, 2016 Pre-Tax Income	Nine Months Ended September 30, 2016 Income Tax (Benefit) Expense	Nine Months Ended September 30, 2016 Effective Tax Rate	Nine Months Ended September 30, 2015 Pre-Tax Income	Nine Months Ended September 30, 2015 Income Tax (Benefit) Expense	Nine Months Ended September 30, 2015 Effective Tax Rate
Reported[1]	$ 150	$ 5	3.3%	$ (173)	$ (105)	60.7%	$ 279	$ (1)	(0.4)%	$ 102	$ (75)	(73.5)%
Non-GAAP Adjustments[2]	182	77		516	198		660	229		895	335	
Tax related separation costs	—	2		—	—		—	(24)		—	—	
Adjusted - revised[3]	$ 332	$ 84	25.3%	$ 343	$ 93	27.1%	$ 939	$ 204	21.7 %	$ 997	$ 260	26.1 %

(1) Pre-Tax Income (Loss) and Income Tax Expense (Benefit) from continuing operations.
(2) Refer to Net Income (Loss) and 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:

(in millions)	Three Months Ended September 30, 2016 Profit	Three Months Ended September 30, 2016 Revenue	Three Months Ended September 30, 2016 Margin	Three Months Ended September 30, 2015 (Loss)Profit	Three Months Ended September 30, 2015 Revenue	Three Months Ended September 30, 2015 Margin	Nine Months Ended September 30, 2016 Profit	Nine Months Ended September 30, 2016 Revenue	Nine Months Ended September 30, 2016 Margin	Nine Months Ended September 30, 2015 Profit	Nine Months Ended September 30, 2015 Revenue	Nine Months Ended September 30, 2015 Margin
Reported Pre-tax Income (Loss)[1]	$ 150	$ 4,212	3.6%	$ (173)	$ 4,333	(4.0)%	$ 279	$ 12,878	2.2%	$ 102	$ 13,392	0.8%
Adjustments:												
Amortization of intangible assets	77			77			244			233		
Restructuring and related costs - Xerox	32			20			229			191		
HE charge (2015 only)	—			389	116		—			389	116	
Non-service retirement-related costs	34			30			112			82		
Separation costs	39			—			75			—		
Other expenses, net	56			73			168			187		
Adjusted Operating Income/Margin	$ 388	$ 4,212	9.2%	$ 416	$ 4,449	9.4 %	$ 1,107	$ 12,878	8.6%	$ 1,184	$ 13,508	8.8%

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

Revenue / Segment reconciliation:

(in millions)	Three Months Ended September 30, 2015				
	Total Revenue	Annuity Revenue	Outsourcing, Maintenance and Rentals Revenue	Total Segment (Loss) Profit [2]	Total Segment Margin[2]
Reported[1]	$ 4,333	$ 3,665	$ 3,098	$ (3)	(0.1)%
Adjustment:					
HE Charge	116	116	116	389	
Adjusted	$ 4,449	$ 3,781	$ 3,214	$ 386	8.7 %

(in millions)	Nine Months Ended September 30, 2015				
	Total Revenue	Annuity Revenue	Outsourcing, Maintenance and Rentals Revenue	Total Segment Profit [2]	Total Segment Margin[2]
Reported[1]	$ 13,392	$ 11,381	$ 9,630	$ 723	5.4%
Adjustment:					
HE Charge	116	116	116	389	
Adjusted	$ 13,508	$ 11,497	$ 9,746	$ 1,112	8.2%

(1) Revenue from continuing operations.
(2) Revised to exclude non-service retirement-related costs.

Services Segment reconciliation:

(in millions)	Three Months Ended September 30, 2015[1]					
	Annuity Revenue	BPO Revenue	Segment Revenue	% of Total Revenue	Segment (Loss) Profit[3]	Segment Margin[3]
Reported[2]	$ 2,250	$ 1,566	$ 2,367	55%	$ (196)	(8.3)%
Adjustment:						
HE Charge	116	116	116		389	
Adjusted	$ 2,366	$ 1,682	$ 2,483	56%	$ 193	7.8 %

(in millions)	Nine Months Ended September 30, 2015[1]					
	Annuity Revenue	BPO Revenue	Segment Revenue	% of Total Revenue	Segment Profit[3]	Segment Margin[3]
Reported[2]	$ 7,012	$ 4,946	$ 7,360	55%	$ 172	2.3%
Adjustment:						
HE Charge	116	116	116		389	
Adjusted	$ 7,128	$ 5,062	$ 7,476	55%	$ 561	7.5%

(1) Revised to reflect the transfer of the Education/Student Loan business from the Services segment to Other.
(2) Revenue from continuing operations.
(3) Revised to exclude non-service retirement-related costs.

Key Financial Ratios reconciliation:

	Three Months Ended September 30,						
	2016			2015			
(in millions)	As Reported[1]	Non-service retirement-related costs	Adjusted	As Reported [1]	HE Charge	Non-service retirement-related costs	Adjusted
Revenue	$ 4,212	$ —	$ 4,212	$ 4,333	$ 116	$ —	$ 4,449
Gross Profit	1,307	13	1,320	987	389	10	1,386
RD&E	126	(7)	119	135		(6)	129
SAG	827	(14)	813	855		(14)	841
Gross Margin	31.0%		31.3%	22.8%			31.2%
RD&E as a % of Revenue	3.0%		2.8%	3.1%			2.9%
SAG as a % of Revenue	19.6%		19.3%	19.7%			18.9%

	Nine Months Ended September 30,						
	2016			2015			
(in millions)	As Reported[1]	Non-service retirement-related costs	Adjusted	As Reported[1]	HE Charge	Non-service retirement-related costs	Adjusted
Revenue	$ 12,878	$ —	$ 12,878	$ 13,392	$ 116	$ —	$ 13,508
Gross Profit	3,954	42	3,996	3,807	389	30	4,226
RD&E	388	(21)	367	418		(14)	404
SAG	2,571	(49)	2,522	2,676		(38)	2,638
Gross Margin	30.7%		31.0%	28.4%			31.3%
RD&E as a % of Revenue	3.0%		2.8%	3.1%			3.0%
SAG as a % of Revenue	20.0%		19.6%	20.0%			19.5%

____

(1) Revenue and costs 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 September 30, 2016

During the quarter ended September 30, 2016, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”).

Semi-Annual Director Fees:

a. Securities issued on July 15, 2016: Registrant issued 53,920 deferred stock units (DSUs), representing the right to receive shares of Common stock, par value $1 per share, at a future date.
b. No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Jonathan Christodoro, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski and Sara Martinez Tucker.
c. The DSUs were issued at a deemed purchase price of $9.645 per DSU (aggregate price $520,058), based upon the market value on the date of issuance, in payment of the semi-annual Director's fees pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.
d. Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Dividend Equivalent:

a. Securities issued on July 31, 2016: Registrant issued 6,852 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 $9.33 per DSU (aggregate price $63,929), based upon the market value on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant’s 2004 Equity Compensation Plan for Non-Employee Directors.
d. Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

(b) Issuer Purchases of Equity Securities during the Quarter ended September 30, 2016

Board Authorized Share Repurchases Programs:

There were no repurchases of Xerox Common Stock pursuant to Board authorized share repurchase programs during the third quarter 2016 or through the date of our filing on November 3, 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
July 1 through 31	6,252	$ 9.35	n/a	n/a
August 1 through 31	—	—	n/a	n/a
September 1 through 30	—	—	n/a	n/a
Total	**6,252**			

(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)(1)	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 August 15, 2016.
12	Computation of Ratio of Earnings to Fixed Charges.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

SIGNATURES

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

XEROX CORPORATION
(Registrant)

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

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

Date: November 3, 2016

EXHIBIT INDEX

3(a)(1)	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 for the fiscal year ended December 31, 2012.
3(b)	By-Laws of Registrant, as amended through August 15, 2016.
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.

Exhibit 3(b)

BY-LAWS

of

XEROX CORPORATION

August 15, 2016

ARTICLE I

MEETINGS OF STOCKHOLDERS

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

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

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

SECTION 4. *Notice of Meetings:*

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

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

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

SECTION 5. *Quorum and Adjourned Meetings*:

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

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

SECTION 6. *Nominations and Business at Meetings:*

At any annual meeting of shareholders, only persons who are nominated or business which is proposed in accordance with the procedures set forth in this Section 6 shall be eligible for election as Directors or considered for action by shareholders. Nominations of persons for election to the Board of Directors of the Company may be made or business proposed at a meeting of shareholders (i) by or at the direction of the Board of Directors or (ii) by any shareholder of the Company entitled to vote at the meeting who complies with the notice and other procedures set forth in this Section 6. Such nominations or business proposals, other than those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the Company and such business proposals must, under applicable law, be a proper matter for shareholder action. To be timely, a shareholder’s notice shall be delivered to or mailed and received at the principal executive offices of the Company not less than 120 days nor more than 150 days in advance of the date which is the anniversary of the date the Company’s proxy statement was released to security holders in connection with the previous year’s annual meeting; provided, however, that with respect to the Company’s annual meeting to be held during calendar year 2016, to be timely (and notwithstanding anything to the contrary contained in this Section 6), a shareholder’s notice of nominations must be delivered to or mailed and received at the principal executive offices of the Company not later than 5:00 p.m. EST on January 29, 2016; provided further, that, if the Company did not hold such previous year’s annual meeting or if the anniversary date of the current year's annual meeting has been changed by more than 30 days from the date of the previous year’s annual meeting, then such shareholder’s notice shall be so delivered or mailed and received within a reasonable time before the Company begins to print and mail its proxy statement.

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

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

SECTION 8. *Voting:*

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

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

SECTION 9. *Qualification of Voters*:

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

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

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

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

SECTION 10. *Proxies*:

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

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

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

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

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

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

authorized by the shareholder. If it is determined that such telegrams, cablegrams or other electronic transmissions are valid, the inspectors shall specify the nature of the information upon which they relied.

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

SECTION 11. *Inspectors of Election*:

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

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

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

ARTICLE II

BOARD OF DIRECTORS

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

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

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

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

(c) All Directors shall have equal voting power.

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

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

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

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

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

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

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

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

SECTION 11. *Quorum and Manner of Acting:*

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

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

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

SECTION 13. *Participation At Meetings By Telephone*: Any one or more members of the Board of Directors or any committee thereof may participate in a meeting of such Board or committee

by means of a conference telephone or similar communications equipment allowing all persons participating in the meeting to hear each other at the same time. Participation by such means shall constitute presence in person at a meeting.

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

SECTION 15. *Interested Directors*:

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

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

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

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

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

ARTICLE III

COMMITTEES

SECTION 1. *How Constituted and Powers*: The Board of Directors by resolution adopted by a majority of the entire Board may designate from among its members committees of the Board, each of which shall consist of one or more Directors and shall have such authority as provided in

the resolution designating the committee, except such committees shall have no authority as to the following matters:

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

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

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

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

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

(f) The declaration of dividends.

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

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

ARTICLE IV

CHAIRMAN OF THE BOARD AND OFFICERS

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

SECTION 2. *Number*: The Board may elect a Chief Executive Officer, a President, one or more Vice Presidents, a Treasurer, a Secretary, and such other officers as the Board of Directors may in its discretion determine. Any two or more offices may be held by the same person, including by the Chairman of the Board.

SECTION 3. *Term of Offices and Qualifications*: The Chairman of the Board and those officers elected pursuant to Section 2 of this Article IV shall be chosen by the Board of Directors on the day of the Annual Meeting. Unless a shorter term is provided in the resolution of the Board

electing the Chairman of the Board or such officer, the term of office of the Chairman of the Board or such officer, as applicable, shall extend to and expire at the meeting of the Board held on the day of the next Annual Meeting.

SECTION 4. *Additional Officers*: Additional officers other than those elected pursuant to Section 2 of this Article IV shall be elected for such period, have such authority and perform such duties, either in an administrative or subordinate capacity, as the Board of Directors may from time to time determine.

SECTION 5. *Removal of Chairman of the Board and Officers*: The Chairman of the Board and/or any officer may be removed by the Board of Directors with or without cause, at any time. Removal of the Chairman of the Board and/or an officer without cause shall be without prejudice to his or her contract rights, if any, but his or her election as Chairman of the Board and/or an officer shall not of itself create contract rights.

SECTION 6. *Resignation*: The Chairman of the Board and/or any officer may resign at any time by giving written notice to the Board of Directors, or to the Chairman of the Board or to the Secretary. Any such resignation shall take effect at the time specified therein, or if no time be specified, then upon delivery.

SECTION 7. *Vacancies*: A vacancy in any office, including Chairman of the Board, shall be filled by the Board of Directors.

SECTION 8. *Chief Executive Officer*: The Chief Executive Officer of the Company shall, subject to the direction of the Board, have general and active control of the affairs and business of the Company and general supervision of its officers, officials, employees and agents. In the absence of the Chairman of the Board, the Chief Executive Officer shall preside at all meetings of the shareholders and, if he or she is also a Director, meetings of Directors at which he or she is present.

SECTION 9. *President:* The President shall, in the absence of the Chief Executive Officer, exercise the powers and duties of the Chief Executive Officer. The President shall have such powers and perform such other duties as may be assigned to him or her by the Board.

SECTION 10. *The Vice Presidents:* Each Vice President shall have such powers and shall perform such duties as may be assigned to him or her by the Board of Directors or the Chief Executive Officer. With respect to seniority of Vice Presidents, unless the Board determines otherwise, Executive Vice Presidents shall be first in order of priority, Senior Vice Presidents shall be second in order of priority and Vice Presidents shall be third in order of priority.

SECTION 11. *The Treasurer*: The Treasurer shall, if required by the Board of Directors, give a bond for the faithful discharge of his or her duties, in such sum and with such sureties as the Board of Directors shall require. He or she shall have charge and custody of, and be responsible for, all funds and securities of the Company, and deposit all such funds in the name of and to the credit of the Company in such banks, trust companies, or other depositories as shall be selected by the Board of Directors. The Treasurer may sign certificates for stock of the Company authorized by the Board of Directors. He or she shall also perform all other duties customarily incident to the office of Treasurer and such other duties as from time to time may be assigned to him or her by the Board of Directors.

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

SECTION 13. *Appointed Officers*: The Board of Directors may delegate to any officer or committee the power to appoint and to remove any subordinate officer, agent or employee.

SECTION 14. *Assignment and Transfer of Stocks, Bonds, and Other Securities*: The Chief Executive Officer, the Treasurer, the Secretary, any Assistant Secretary, any Assistant Treasurer, and each of them, shall have power to assign, or to endorse for transfer, under the corporate seal, and to deliver, any stock, bonds, subscription rights, or other securities, or any beneficial interest therein, held or owned by the Company.

ARTICLE V

CONTRACTS, CHECKS, DRAFTS AND BANK ACCOUNTS

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

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

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

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

ARTICLE VI

STOCKS AND DIVIDENDS

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

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

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

SECTION 4. *Transfer and Registry Agents*: The Company may, from time to time, maintain one or more transfer offices or agencies and/or registry offices at such place or places as may be determined from time to time by the Board of Directors; and the Board of Directors may, from time to time, define the duties of such transfer agents and registrars and make such rules and regulations

as it may deem expedient, not inconsistent with these By-Laws, concerning the issue, transfer and registration of certificates for stock or uncertificated stock of the Company.

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

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

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

ARTICLE VII

OFFICES AND BOOKS

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

SECTION 2. *Books and Records:*

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

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

ARTICLE VIII

GENERAL

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

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

ARTICLE IX

FISCAL YEAR

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

ARTICLE X

AMENDMENTS

SECTION 1. *Amendments*: By-Laws of the Company may be amended, repealed or adopted by a majority of the votes of the shares at the time entitled to vote in the election of any

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

ARTICLE XI

FORUM

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

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 September 30,		Nine Months Ended September 30,	
(in millions)	2016	2015	2016	2015
Fixed Charges:				
Interest expense	$ 81	$ 88	$ 250	$ 267
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	45	45	135	181
Total Fixed Charges	$ 126	$ 133	$ 385	$ 448
Earnings Available for Fixed Charges:				
Pre-tax income (loss)	$ 150	$ (173)	$ 279	$ 102
Add: Distributed equity income of affiliated companies	3	3	34	32
Add: Fixed charges	126	133	385	448
Less: Capitalized interest	—	—	—	—
Less: Net income attributable to noncontrolling interests	(3)	(3)	(8)	(13)
Total Earnings (Loss) Available for Fixed Charges	$ 276	$ (40)	$ 690	$ 569
Ratio of Earnings to Fixed Charges	2.19	*	1.79	1.27
Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:				
Fixed Charges:				
Interest expense	$ 81	$ 88	$ 250	$ 267
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	45	45	135	181
Total Fixed charges before preferred stock dividends pre-tax income requirements	126	133	385	448
Preferred stock dividends pre-tax income requirements	10	10	29	29
Total Combined Fixed Charges and Preferred Stock Dividends	$ 136	$ 143	$ 414	$ 477
Earnings Available for Fixed Charges:				
Pre-tax income (loss)	$ 150	$ (173)	$ 279	$ 102
Add: Distributed equity income of affiliated companies	3	3	34	32
Add: Fixed charges before preferred stock dividends	126	133	385	448
Less: Capitalized interest	—	—	—	—
Less: Net income attributable to noncontrolling interests	(3)	(3)	(8)	(13)
Total Earnings (Loss) Available for Fixed Charges and Preferred Stock Dividends	$ 276	$ (40)	$ 690	$ 569
Ratio of Earnings to Fixed Charges and Preferred Stock Dividends	2.03	*	1.67	1.19

** Earnings for the three months ended September 30, 2015 were inadequate to cover fixed charges by $173 and fixed charges and preferred dividends by $183.*

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.

November 3, 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.

November 3, 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 September 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 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

November 3, 2016

/S/ LESLIE F. VARON

Leslie F. Varon
Chief Financial Officer

November 3, 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.