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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2020

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

For the transition period from to

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

New York	**001-39013**	**83-3933743**
New York	**001-04471**	**16-0468020**
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification No.)

P.O. Box 4505, 201 Merritt 7
Norwalk, Connecticut 06851-1056
(Address of principal executive offices)

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

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

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

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.
Xerox Holdings Corporation Yes ☒ No ☐ **Xerox Corporation** Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Xerox Holdings Corporation Yes ☒ No ☐ **Xerox Corporation** Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Xerox Holdings Corporation		**Xerox Corporation**	
Large accelerated filer	☒	Large accelerated filer	☐
Accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☐	Non-accelerated filer	☒
Smaller reporting company	☐	Smaller reporting company	☐
Emerging growth company	☐	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Xerox Holdings Corporation ☐ **Xerox Corporation** ☐

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

Class	**Outstanding at October 31, 2020**
Xerox Holdings Corporation Common Stock, $1 par value	198,384,932 shares

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This document, and other written or oral statements made from time to time by management contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate", "believe", "estimate", "expect", "intend", "will", "should", "targeting", "projecting", "driving" and similar expressions, as they relate to us, our performance and/or our technology, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include but are not limited to: the effects of the COVID-19 pandemic on our and our customers' businesses and the duration and extent to which this will impact our future results of operations and overall financial performance; our ability to address our business challenges in order to reverse revenue declines, reduce costs and increase productivity so that we can invest in and grow our business; our ability to attract and retain key personnel; changes in economic and political conditions, trade protection measures, licensing requirements and tax laws in the United States and in the foreign countries in which we do business; the imposition of new or incremental trade protection measures such as tariffs and import or export restrictions; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that partners, subcontractors and software vendors will not perform in a timely, quality manner; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that confidential and/or individually identifiable information of ours, our customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems due to cyber attacks or other intentional acts; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; the exit of the United Kingdom from the European Union; our ability to manage changes in the printing environment and expand equipment placements; interest rates, cost of borrowing and access to credit markets; funding requirements associated with our employee pension and retiree health benefit plans; the risk that our operations and products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives and anti-corruption laws; the outcome of litigation and regulatory proceedings to which we may be a party; any impacts resulting from the restructuring of our relationship with Fujifilm Holdings Corporation; and the shared services arrangements entered into by us as part of Project Own It. Additional risks that may affect Xerox's operations 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 combined Quarterly Report on Form 10-Q, Xerox Holdings Corporation's and Xerox Corporation's combined Quarterly Report on Form 10-Q for the quarters ended March 31, 2020 and June 30, 2020 and Xerox Holdings Corporation's and Xerox Corporation's combined 2019 Annual Report on Form 10-K, as well as in Xerox Holdings Corporation's and Xerox Corporation's Current Reports on Form 8-K filed with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this document or as of the date to which they refer, and Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

XEROX HOLDINGS CORPORATION
XEROX CORPORATION
FORM 10-Q
September 30, 2020

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For additional information about Xerox Holdings Corporation and 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. The content of our website is not incorporated by reference into this Form 10-Q unless expressly noted.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions, except per-share data)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Revenues				
Sales	$ 651	$ 784	$ 1,676	$ 2,308
Services, maintenance and rentals	1,061	1,335	3,246	4,130
Financing	55	60	170	184
Total Revenues	1,767	2,179	5,092	6,622
Costs and Expenses				
Cost of sales	476	503	1,201	1,492
Cost of services, maintenance and rentals	611	771	1,875	2,398
Cost of financing	29	33	89	98
Research, development and engineering expenses	76	100	236	280
Selling, administrative and general expenses	444	510	1,411	1,573
Restructuring and related costs	20	27	64	176
Amortization of intangible assets	13	9	34	35
Transaction and related costs, net	(6)	4	18	8
Other expenses, net	(15)	(1)	15	76
Total Costs and Expenses	1,648	1,956	4,943	6,136
Income before Income Taxes and Equity Income	119	223	149	486
Income tax expense	29	66	36	106
Equity in net income of unconsolidated affiliates	—	1	2	5
Income from Continuing Operations	90	158	115	385
Income from discontinued operations, net of tax	—	64	—	157
Net Income	90	222	115	542
Less: Income from continuing operations attributable to noncontrolling interests	—	1	—	3
Less: Income from discontinued operations attributable to noncontrolling interests	—	—	—	4
Net Income Attributable to Xerox Holdings	$ 90	$ 221	$ 115	$ 535
Amounts Attributable to Xerox Holdings:				
Income from continuing operations	$ 90	$ 157	$ 115	$ 382
Income from discontinued operations	—	64	—	153
Net Income Attributable to Xerox Holdings	$ 90	$ 221	$ 115	$ 535
Basic Earnings per Share:				
Continuing operations	$ 0.41	$ 0.70	$ 0.49	$ 1.66
Discontinued operations	—	0.29	—	0.68
Total Basic Earnings per Share	$ 0.41	$ 0.99	$ 0.49	$ 2.34
Diluted Earnings per Share:				
Continuing operations	$ 0.41	$ 0.68	$ 0.49	$ 1.62
Discontinued operations	—	0.28	—	0.65
Total Diluted Earnings per Share	$ 0.41	$ 0.96	$ 0.49	$ 2.27

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

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

(in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net Income	$ 90	$ 222	$ 115	$ 542
Less: Income from continuing operations attributable to noncontrolling interests	—	1	—	3
Less: Income from discontinued operations attributable to noncontrolling interests	—	—	—	4
Net Income Attributable to Xerox Holdings	90	221	115	535
Other Comprehensive Income (Loss), Net(1)				
Translation adjustments, net	179	(155)	7	(122)
Unrealized gains, net	1	1	4	3
Changes in defined benefit plans, net	(92)	(48)	42	(38)
Other Comprehensive Income (Loss), Net	88	(202)	53	(157)
Less: Other comprehensive income, net from continuing operations attributable to noncontrolling interests	—	1	—	1
Other Comprehensive Income (Loss), Net Attributable to Xerox Holdings	88	(203)	53	(158)
Comprehensive Income, Net	178	20	168	385
Less: Comprehensive income, net from continuing operations attributable to noncontrolling interests	—	2	—	4
Less: Comprehensive income, net from discontinued operations attributable to noncontrolling interests	—	—	—	4
Comprehensive Income, Net Attributable to Xerox Holdings	$ 178	$ 18	$ 168	$ 377

(1) Refer to Note 19 - Other Comprehensive Income (Loss) for gross components of Other comprehensive income (loss), net, 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 HOLDINGS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 3,242	$ 2,740
Accounts receivable (net of allowances of $63 and $55, respectively)[(1)]	895	1,236
Billed portion of finance receivables (net of allowances of $4 and $3, respectively)[(1)]	111	111
Finance receivables, net	1,066	1,158
Inventories	978	694
Other current assets	249	201
Total current assets	6,541	6,140
Finance receivables due after one year (net of allowances of $138 and $86, respectively)[(1)]	1,899	2,082
Equipment on operating leases, net	301	364
Land, buildings and equipment, net	412	426
Intangible assets, net	240	199
Goodwill	3,996	3,900
Deferred tax assets	573	598
Other long-term assets	1,390	1,338
Total Assets	$ 15,352	$ 15,047
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 1,218	$ 1,049
Accounts payable	1,018	1,053
Accrued compensation and benefits costs	276	349
Accrued expenses and other current liabilities	815	984
Total current liabilities	3,327	3,435
Long-term debt	3,836	3,233
Pension and other benefit liabilities	1,675	1,707
Post-retirement medical benefits	336	352
Other long-term liabilities	512	512
Total Liabilities	9,686	9,239
Commitments and Contingencies (See Note 21)		
Convertible Preferred Stock	214	214
Common stock	214	215
Additional paid-in capital	2,719	2,782
Treasury stock, at cost	(150)	(76)
Retained earnings	6,258	6,312
Accumulated other comprehensive loss	(3,593)	(3,646)
Xerox Holdings shareholders' equity	5,448	5,587
Noncontrolling interests	4	7
Total Equity	5,452	5,594
Total Liabilities and Equity	$ 15,352	$ 15,047
Shares of common stock issued	213,964	214,621
Treasury stock	(8,007)	(2,031)
Shares of Common Stock Outstanding	205,957	212,590

(1) Allowances at September 30, 2020 determined in accordance with ASU 2016-13 adopted effective January 1, 2020 - refer to Notes 2, 8 and 9 for additional information.

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

XEROX HOLDINGS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash Flows from Operating Activities				
Net income	$ 90	$ 222	$ 115	$ 542
Income from discontinued operations, net of tax	—	(64)	—	(157)
Income from continuing operations	90	158	115	385
Adjustments required to reconcile Net income to Cash flows from operating activities				
Depreciation and amortization	90	104	272	332
Provisions	23	16	124	58
Net gain on sales of businesses and assets	(28)	(19)	(29)	(20)
Stock-based compensation	8	11	32	41
Restructuring and asset impairment charges	20	8	47	80
Payments for restructurings	(11)	(17)	(63)	(71)
Defined benefit pension cost	9	21	46	89
Contributions to defined benefit pension plans	(33)	(37)	(97)	(107)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(96)	51	332	60
(Increase) decrease in inventories	(49)	15	(274)	31
Increase in equipment on operating leases	(31)	(41)	(86)	(113)
Decrease in finance receivables	31	5	221	124
Decrease (increase) in other current and long-term assets	17	(14)	2	1
Increase (decrease) in accounts payable	90	22	(69)	(24)
Decrease in accrued compensation	(20)	(16)	(149)	(99)
(Decrease) increase in other current and long-term liabilities	(16)	26	(146)	19
Net change in income tax assets and liabilities	10	41	13	30
Net change in derivative assets and liabilities	1	5	(1)	15
Other operating, net	1	9	23	15
Net cash provided by operating activities of continuing operations	106	348	313	846
Net cash provided by operating activities of discontinued operations	—	8	—	49
Net cash provided by operating activities	106	356	313	895
Cash Flows from Investing Activities				
Cost of additions to land, buildings, equipment and software	(18)	(17)	(60)	(48)
Proceeds from sales of businesses and assets	27	20	29	21
Acquisitions, net of cash acquired	—	—	(193)	(42)
Other investing, net	—	1	1	1
Net cash provided by (used in) investing activities	9	4	(223)	(68)
Cash Flows from Financing Activities				
Net proceeds from short-term debt	1	—	1	—
Proceeds from issuance of long-term debt	1,849	2	1,854	7
Payments on long-term debt	(773)	—	(1,086)	(406)
Dividends	(61)	(61)	(176)	(183)
Payments to acquire treasury stock, including fees	(150)	(68)	(150)	(368)
Other financing, net	(10)	(10)	(19)	(33)
Net cash provided by (used in) financing activities	856	(137)	424	(983)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	12	(20)	(12)	(13)
Increase (decrease) in cash, cash equivalents and restricted cash	983	203	502	(169)
Cash, cash equivalents and restricted cash at beginning of period	2,314	776	2,795	1,148
Cash, Cash Equivalents and Restricted Cash at End of Period[(1)]	$ 3,297	$ 979	$ 3,297	$ 979

(1) Balance at September 30, 2019 includes $1 associated with discontinued operations.

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Revenues				
Sales	$ 651	$ 784	$ 1,676	$ 2,308
Services, maintenance and rentals	1,061	1,335	3,246	4,130
Financing	55	60	170	184
Total Revenues	1,767	2,179	5,092	6,622
Costs and Expenses				
Cost of sales	476	503	1,201	1,492
Cost of services, maintenance and rentals	611	771	1,875	2,398
Cost of financing	29	33	89	98
Research, development and engineering expenses	76	100	236	280
Selling, administrative and general expenses	444	510	1,411	1,573
Restructuring and related costs	20	27	64	176
Amortization of intangible assets	13	9	34	35
Transaction and related costs, net	(6)	4	18	8
Other expenses, net	(26)	(1)	4	76
Total Costs and Expenses	1,637	1,956	4,932	6,136
Income before Income Taxes and Equity Income	130	223	160	486
Income tax expense	29	66	36	106
Equity in net income of unconsolidated affiliates	—	1	2	5
Income from Continuing Operations	101	158	126	385
Income from discontinued operations, net of tax	—	64	—	157
Net Income	101	222	126	542
Less: Income from continuing operations attributable to noncontrolling interests	—	1	—	3
Less: Income from discontinued operations attributable to noncontrolling interests	—	—	—	4
Net Income Attributable to Xerox	$ 101	$ 221	$ 126	$ 535
Amounts Attributable to Xerox:				
Net income from continuing operations	$ 101	$ 157	$ 126	$ 382
Net income from discontinued operations	—	64	—	153
Net Income Attributable to Xerox	$ 101	$ 221	$ 126	$ 535

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Net Income	$ 101	$ 222	$ 126	$ 542
Less: Income from continuing operations attributable to noncontrolling interests	—	1	—	3
Less: Income from discontinued operations attributable to noncontrolling interests	—	—	—	4
Net Income Attributable to Xerox	101	221	126	535
Other Comprehensive Income (Loss), Net(1)				
Translation adjustments, net	179	(155)	7	(122)
Unrealized gains, net	1	1	4	3
Changes in defined benefit plans, net	(92)	(48)	42	(38)
Other Comprehensive Income (Loss), Net	88	(202)	53	(157)
Less: Other comprehensive income, net from continuing operations attributable to noncontrolling interests	—	1	—	1
Other Comprehensive Income (Loss), Net Attributable to Xerox	88	(203)	53	(158)
Comprehensive Income, Net	189	20	179	385
Less: Comprehensive income, net from continuing operations attributable to noncontrolling interests	—	2	—	4
Less: Comprehensive income, net from discontinued operations attributable to noncontrolling interests	—	—	—	4
Comprehensive Income, Net Attributable to Xerox	$ 189	$ 18	$ 179	$ 377

(1) Refer to Note 19 - Other Comprehensive Income (Loss) for gross components of Other comprehensive income (loss), net, 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)	September 30, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 3,242	$ 2,740
Accounts receivable (net of allowances of $63 and $55, respectively)[(1)]	895	1,236
Billed portion of finance receivables (net of allowances of $4 and $3, respectively)[(1)]	111	111
Finance receivables, net	1,066	1,158
Inventories	978	694
Other current assets	257	201
Total current assets	6,549	6,140
Finance receivables due after one year (net of allowances of $138 and $86, respectively)[(1)]	1,899	2,082
Equipment on operating leases, net	301	364
Land, buildings and equipment, net	412	426
Intangible assets, net	240	199
Goodwill	3,996	3,900
Deferred tax assets	573	598
Other long-term assets	1,390	1,338
Total Assets	$ 15,360	$ 15,047
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 1,218	$ 1,049
Accounts payable	1,018	1,053
Accrued compensation and benefits costs	276	349
Accrued expenses and other current liabilities	741	918
Total current liabilities	3,253	3,369
Long-term debt	2,343	3,233
Pension and other benefit liabilities	1,675	1,707
Post-retirement medical benefits	336	352
Other long-term liabilities	512	512
Total Liabilities	8,119	9,173
Commitments and Contingencies (See Note 21)		
Additional paid-in capital	4,859	3,266
Retained earnings	5,971	6,247
Accumulated other comprehensive loss	(3,593)	(3,646)
Xerox shareholders' equity	7,237	5,867
Noncontrolling interests	4	7
Total Equity	7,241	5,874
Total Liabilities and Equity	$ 15,360	$ 15,047

(1) Allowances at September 30, 2020 determined in accordance with ASU 2016-13 adopted effective January 1, 2020 - refer to Notes 2, 8 and 9 for additional information.

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Cash Flows from Operating Activities				
Net Income	$ 101	$ 222	$ 126	$ 542
Income from discontinued operations, net of tax	—	(64)	—	(157)
Income from continuing operations	101	158	126	385
Adjustments required to reconcile Net income to Cash flows from operating activities				
Depreciation and amortization	90	104	272	332
Provisions	23	16	124	58
Net gain on sales of businesses and assets	(28)	(19)	(29)	(20)
Stock-based compensation	8	11	32	41
Restructuring and asset impairment charges	20	8	47	80
Payments for restructurings	(11)	(17)	(63)	(71)
Defined benefit pension cost	9	21	46	89
Contributions to defined benefit pension plans	(33)	(37)	(97)	(107)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(96)	51	332	60
(Increase) decrease in inventories	(49)	15	(274)	31
Increase in equipment on operating leases	(31)	(41)	(86)	(113)
Decrease in finance receivables	31	5	221	124
Decrease (increase) in other current and long-term assets	17	(14)	2	1
Increase (decrease) in accounts payable	90	22	(69)	(24)
Decrease in accrued compensation	(20)	(16)	(149)	(99)
(Decrease) increase in other current and long-term liabilities	(27)	26	(157)	19
Net change in income tax assets and liabilities	10	41	13	30
Net change in derivative assets and liabilities	1	5	(1)	15
Other operating, net	1	9	23	15
Net cash provided by operating activities of continuing operations	106	348	313	846
Net cash provided by operating activities of discontinued operations	—	8	—	49
Net cash provided by operating activities	106	356	313	895
Cash Flows from Investing Activities				
Cost of additions to land, buildings, equipment and software	(18)	(17)	(60)	(48)
Proceeds from sales of businesses and assets	27	20	29	21
Acquisitions, net of cash acquired	—	—	(193)	(42)
Other investing, net	—	1	1	1
Net cash provided by (used in) investing activities	9	4	(223)	(68)
Cash Flows from Financing Activities				
Net proceeds from short-term debt	1	—	1	—
Proceeds from issuance of long-term debt	342	2	347	7
Payments on long-term debt	(762)	—	(1,075)	(406)
Dividends	—	(59)	—	(181)
Payments to acquire treasury stock, including fees	—	—	—	(300)
Contributions from parent	1,494	—	1,494	—
Distributions to parent	(218)	(73)	(343)	(73)
Other financing, net	(1)	(7)	—	(30)
Net cash provided by (used in) financing activities	856	(137)	424	(983)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	12	(20)	(12)	(13)
Increase (decrease) in cash, cash equivalents and restricted cash	983	203	502	(169)
Cash, cash equivalents and restricted cash at beginning of period	2,314	776	2,795	1,148
Cash, Cash Equivalents and Restricted Cash at End of Period[(1)]	$ 3,297	$ 979	$ 3,297	$ 979

(1) Balance at September 30, 2019 includes $1 associated with discontinued operations.

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

Note 1 – Basis of Presentation

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

The accompanying unaudited Condensed Consolidated Financial Statements and footnotes represent the respective, consolidated results and financial results of Xerox Holdings and Xerox and all respective companies that each registrant directly or indirectly controls, either through majority ownership or otherwise. This is a combined report of Xerox Holdings and Xerox, which includes separate unaudited Condensed Consolidated Financial Statements for each registrant.

The accompanying unaudited Condensed Consolidated Financial Statements of both Xerox Holdings and Xerox have been prepared in accordance with the accounting policies described in the Combined 2019 Annual Report on Form 10-K ("2019 Annual Report"), except as noted herein, and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in the Combined 2019 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.

As of September 30, 2020, the impact of the outbreak of COVID-19 continues to unfold. As a result, many of our estimates and assumptions have required increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, our estimates may change materially in the future.

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

Notes to the Condensed Consolidated Financial Statements reflect the activity for both Xerox Holdings and Xerox for all periods presented, unless otherwise noted.

Goodwill

Interim Impairment Evaluation

During the quarter ended June 30, 2020, we evaluated whether events or circumstances had changed such that it would indicate it is more likely than not that our Goodwill was impaired (trigger event). Factors considered in this evaluation included, among other things, the negative financial impacts from the COVID-19 pandemic on current and near-term future operations, the expected slower recovery during the latter half of 2020 as businesses return to their respective offices, as well as a sustained market capitalization below our book value. Based on this assessment, we concluded that a trigger event had occurred related to Goodwill and we completed an interim quantitative evaluation of Goodwill.

As a result of limited market compares due to companies not providing guidance in this current economic environment, our interim quantitative evaluation of Goodwill was based on the income approach to estimate fair value. The income approach is based on the discounted cash flow method that uses the Company's estimates for future forecasted financial performance including revenues, operating expenses, and taxes, as well as working capital and capital asset requirements. Projected cash flows are then discounted to a present value employing a discount rate that properly accounts for the estimated market weighted-average cost of capital, as well as any risk unique to the subject cash flows. Our estimates regarding future forecasted cash flows accordingly reflected consideration of the continued negative financial impacts from the COVID-19 pandemic on our current and future operations as well expected recovery scenarios.

After completing our interim impairment review, we concluded that Goodwill was not impaired in the second quarter because the Company’s estimated fair value exceeded the carrying value as of June 30, 2020.

During the quarter ended September 30, 2020, although business performance improved, we determined that the continued negative impacts on our current operations resulting from the COVID-19 pandemic and the impacts expected on our future operations as well as a market capitalization that remains less than book value required us to qualitatively assess whether a triggering event had occurred and whether it was more likely than not that our goodwill was impaired as of September 30, 2020. Based on our interim qualitative assessment as of September 30, 2020, we determined that it was more-likely-than-not that the fair value of the Company was greater than the net book value and that we did not have a “triggering event” requiring a quantitative or Step 1 assessment of goodwill. Our review of macroeconomic and industry considerations, as well as the Company's financial results for the third quarter 2020, were consistent with the expectations and sensitivities assessed as part of our interim review performed in the second quarter 2020. Further, although our market capitalization remained below our net book value, the Company's market capitalization did improve in the third quarter 2020.

If assumptions or estimates in the fair value calculations change or if future cash flows vary from what was expected, including those assumptions relating to the duration and severity of the financial impact from the COVID-19 pandemic, this may impact the impairment analysis and could reduce the underlying cash flows used to estimate fair values and result in a decline in fair value that may trigger future impairment charges. We normally assess goodwill for impairment during the fourth quarter and based on an updated evaluation of the impact of the events and factors noted in 2020 – macroeconomic, industry and company – we plan to utilize a quantitative model for the assessment of the recoverability of our goodwill balance.

Note 2 – Recent Accounting Pronouncements

Xerox Holdings and Xerox consider the applicability and impact of all Accounting Standards Updates (ASUs) issued by the Financial Accounting Standards Board (FASB). The ASUs listed below apply to both registrants. ASUs not listed below were assessed and determined to be not applicable to the Condensed Consolidated Financial Statements of either registrant.

Accounting Standard Updates to be Adopted:

Debt

In August 2020, the FASB issued **ASU 2020-06**, *Debt - Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40).* This update simplifies the accounting for convertible instruments by reducing the number of accounting models available for convertible debt instruments and convertible preferred stock. This update also amends the guidance for the derivatives scope exception for contracts in an entity's own equity to reduce form-over-substance-based accounting conclusions and requires the application of the if-converted method for calculating diluted earnings per share. This update is effective for our fiscal year beginning January 1, 2022. We are currently evaluating the impact of the adoption of this standard on the Company’s consolidated financial statements and related disclosures.

Reference Rate Reform

In March 2020, the FASB issued **ASU 2020-04**, *Reference Rate Reform (Topic 848),* which provides optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by the discontinuation of the London Interbank Offered Rate (“LIBOR”) or by another reference rate expected to be discontinued. The amendments are effective for all entities as of March 12, 2020 through December 31, 2022. There has been no impact to date as a result of ASU 2020-04, however we continue to evaluate potential future impacts that may result from the discontinuation of LIBOR or other reference rates as well as the accounting provided in this update on our financial condition, results of operations, and cash flows.

Income Taxes

In December 2019, the FASB issued **ASU 2019-12**, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes,* which was intended to simplify various aspects related to accounting for income taxes. ASU 2019-12 removes certain exceptions to the general principles in Topic 740 and also clarifies and amends existing guidance to improve consistent application. This update is effective for our fiscal year beginning January 1, 2021. Although we continue to evaluate the effects of this update on our Consolidated Financial Statements, at this stage we do not expect the adoption to have a material impact on our results of operations, financial position or disclosures.

Accounting Standard Updates Adopted in 2020:

Leases

In April 2020, the FASB staff issued a question and answer (Q&A) document on the application of lease accounting guidance related to lease concessions provided as a result of the economic disruption caused by the COVID-19 pandemic (Topic 842 Q&A). Topic 842 Q&A provides interpretive guidance allowing companies the option to account for lease concessions related to the COVID-19 pandemic consistent with how those concessions would be accounted for under ASU 2016-02, Leases (Topic 842), as though enforceable rights and obligations for those concessions existed at the beginning of the contract (regardless of whether those enforceable rights and obligations for the concessions explicitly exist in the contract). This interpretive guidance was issued in order to reduce the costs and complexities of applying lease modification accounting under Topic 842 to leases impacted by the effects of the COVID-19 pandemic. This election is available for concessions related to the effects of the COVID-19 pandemic that do not result in a substantial increase in the rights of the lessor or the obligations of the lessee. We have elected to apply the interpretive guidance provided in Topic 842 Q&A to rent concessions related to the COVID-19 pandemic provided as a Lessor to our customers and as received as a Lessee.

Rent deferrals provided as a Lessor were primarily offered to customers with sales type lease receivables. We elected to account for the deferrals in the timing of lease payments as if there were no changes in the lease contracts. Under this approach, assuming that collectibility of future lease payments is still probable, the classification of the leases is not updated and we retain the balance of the deferral as a receivable and will settle that receivable at the revised payment date or dates. As of September 30, 2020, we approved payment deferrals of up to three months of approximately $33 or approximately 1% of our total finance receivable portfolio. The outstanding principal balance of receivables for customers with an approved payment deferral was approximately $337. Rent abatements to the extent provided were not material and were accounted for as write-offs as part of our normal bad debt reserve assessment.

With respect to rent deferrals and abatements received as a Lessee, we elected to account for the deferrals and abatements as a resolution of a contingency within the lease. Under this approach, we follow the resolution of a contingency model in ASC 842 without reclassifying the lease or updating the discount rate. We remeasure the remaining consideration in the contract, reallocate it to the lease and non-lease components as applicable, and remeasure the lease liability with an adjustment to the right-of-use asset for the same amount. If the total lease payments remain exactly the same, the lease cost remains unchanged. The impact of this election was not material to our financial condition, results of operations or cash flows, as no rent concessions provided to Xerox in the second or third quarters of 2020 were material, individually or in the aggregate.

Government Grants/Assistance

As a result of the significant increase in governmental assistance during 2020, we updated our significant accounting policies as summarized in Note 1 - Basis of Presentation and Summary of Significant Accounting Policies to the Consolidated Financial Statements included on Form 10-K for the year ended December 31, 2019, as follows for the accounting associated with government assistance.

Government grants related to income are recognized as a reduction of related expenses in the Condensed Consolidated Statements of Income when there is a reasonable assurance that the entity will comply with the conditions attached to the grant and that the grants will be received. The timing and pattern of recognition of government grants is made on a systematic basis over the periods in which the Company recognizes the related expenses or losses that the grants are intended to compensate.

Financial Instruments - Credit Losses

On January 1, 2020, we adopted **ASU 2016-13**, *Financial Instruments Credit Losses - Measurement of Credit Losses on Financial Instruments.* This update was issued by the FASB in June 2016, with additional updates and amendments being issued in 2018, 2019 and 2020 and requires measurement and recognition of expected credit losses for financial assets on an expected loss model rather than an incurred loss model. The update impacted financial assets including net investment in leases that are not accounted for at fair value through Net Income. The adoption of ASU 2016-13 primarily impacted the estimation of our Allowance for doubtful accounts for Accounts Receivable and Finance Receivables. The impact recorded on our initial adoption of ASU 2016-13 was not material as our previous methodology for assessing the adequacy of our Allowance for doubtful accounts for Finance Receivables, the larger component of our receivable reserves, incorporated an expected loss model and the methodology for both allowances included an assessment of current economic conditions. However, as previously disclosed, the future impact from this update is highly dependent on future economic conditions. Refer to Note 8 -

Accounts Receivable, Net and Note 9 - Finance Receivable, Net for additional discussion regarding the impacts from the adoption of this update during the first quarter 2020.

Intangibles - Internal-Use Software

On January 1, 2020, we adopted **ASU 2018-15**, *Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract.* This update was issued by the FASB in August 2018 and aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The update provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The capitalized implementation costs are required to be expensed over the term of the hosting arrangement. The update also clarifies the presentation requirements for reporting such costs in the entity's financial statements. The adoption of ASU 2018-15 did not have a material impact on our financial condition, results of operations or cash flows as we had previously capitalized these implementation costs and such amounts were not material.

Other Updates

In 2020 and 2019, the FASB also issued the following ASUs, which impact the Company but did not have or are not expected to have a material impact on our financial condition, results of operations or cash flows upon adoption. Those updates are as follows:

- ***Investments:*** **ASU 2020-01**, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323) and Derivatives and Hedging (Topic 815).* This update is effective for our fiscal year beginning January 1, 2021.
- ***Compensation - Stock Compensation and Revenue from Contracts with Customers:*** **ASU 2019-08**, *(Topic 718) and (Topic 606) Codification Improvements - Share-Based Consideration Payable to a Customer.* This update was effective for our fiscal year beginning January 1, 2020.
- ***Collaborative Arrangements:*** **ASU 2018-18**, *(Topic 808) Clarifying the Interaction between Topic 808 and Topic 606.* This update was effective for our fiscal year beginning January 1, 2020.
- ***Fair Value Measurement:*** **ASU 2018-13**, *(Topic 820) Disclosure Framework.* This update was effective for our fiscal year beginning January 1, 2020.

Note 3 – Revenue

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Primary geographical markets[(1)]:				
United States	$ 1,062	$ 1,343	$ 3,101	$ 3,955
Europe	480	521	1,317	1,705
Canada	94	123	278	377
Other	131	192	396	585
Total Revenues	$ 1,767	$ 2,179	$ 5,092	$ 6,622
Major product and services lines:				
Equipment	$ 419	$ 494	$ 1,054	$ 1,446
Supplies, paper and other sales	232	290	622	862
Maintenance agreements[(2)]	443	567	1,338	1,774
Service arrangements[(3)]	486	611	1,512	1,883
Rental and other	132	157	396	473
Financing	55	60	170	184
Total Revenues	$ 1,767	$ 2,179	$ 5,092	$ 6,622
Sales channels:				
Direct equipment lease[(4)]	$ 151	$ 200	$ 388	$ 484
Distributors & resellers[(5)]	245	301	604	949
Customer direct	255	283	684	875
Total Sales	$ 651	$ 784	$ 1,676	$ 2,308

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(1) Geographic area data is based upon the location of the subsidiary reporting the revenue.
(2) Includes revenues from maintenance agreements on sold equipment as well as revenues associated with service agreements sold through our channel partners as Xerox Partner Print Services (XPPS).
(3) Primarily includes revenues from our Managed Services offerings. Also includes revenues from embedded operating leases, which were not significant.
(4) Primarily reflects direct sales through bundled lease arrangements.
(5) Primarily reflects sales through our two-tier distribution channels.

Contract Assets and Liabilities: We normally do not have contract assets, which are primarily unbilled accounts receivable that are conditional on something other than the passage of time. Our contract liabilities, which represent billings in excess of revenue recognized, are primarily related to advanced billings for maintenance and other services to be performed and were approximately $130 and $137 at September 30, 2020 and December 31, 2019, respectively. The balance at September 30, 2020 is expected to be amortized to revenue over approximately the next 30 months.

Contract Costs: Incremental direct costs of obtaining a contract primarily include sales commissions paid to sales people and agents in connection with the placement of equipment with associated post sale services arrangements. These costs are deferred and amortized on the straight-line basis over the estimated contract term of the post sale services arrangement, which is currently estimated to be approximately four years. We pay commensurate sales commissions upon customer renewals, therefore our amortization period is aligned to our initial contract term.

Incremental direct costs are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Incremental direct costs of obtaining a contract	$ 15	$ 20	$ 43	$ 56
Amortization of incremental direct costs	19	23	60	66

The balance of deferred incremental direct costs net of accumulated amortization at September 30, 2020 and December 31, 2019 was $145 and $163, respectively. This amount is expected to be amortized over its estimated period of benefit, which we currently estimate to be approximately four years.

We may also incur costs associated with our services arrangements to generate or enhance resources and assets that will be used to satisfy our future performance obligations included in these arrangements. These costs are considered contract fulfillment costs and are amortized over the contractual service period of the arrangement to cost of services. In addition, we also provide inducements to certain customers in various forms, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract. As of September 30, 2020 and December 31, 2019 amounts deferred associated with contract fulfillment costs and inducements were $12 and $13, respectively. The related amortization was $1 and $1 for the three months ended September 30, 2020 and 2019, respectively, and $3 and $4 for the nine months ended September 30, 2020 and 2019, respectively.

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

Note 4 – Lessor

Revenue from sales-type leases is presented on a gross basis when the company enters into a lease to realize value from a product that it would otherwise sell in its ordinary course of business, whereas in transactions where the company enters into a lease for the purpose of generating revenue by providing financing, the profit or loss, if any, is presented on a net basis. In addition, we have elected to account for sales tax and other similar taxes collected from a lessee as lessee costs and therefore we exclude these costs from contract consideration and variable consideration and present revenue net of these costs.

The components of lease income are as follows:

	Location in	Three Months Ended September 30,		Nine Months Ended September 30,	
	Statements of Income	2020	2019	2020	2019
Revenue from sales type leases	Sales	$ 151	$ 200	$ 388	$ 484
Interest income on lease receivables	Financing	55	60	170	184
Lease income - operating leases	Services, maintenance and rentals	77	99	242	303
Variable lease income	Services, maintenance and rentals	15	25	51	80
Total Lease income		$ 298	$ 384	$ 851	$ 1,051

Profit at lease commencement on sales type leases was estimated to be approximately $52 and $86 for the three months ended September 30, 2020 and 2019, respectively and $138 and $206 for the nine months ended September 30, 2020 and 2019, respectively.

Note 5 – Acquisitions

In 2020, Xerox continued its focus on further penetrating the small-to-medium sized business (SMB) market through acquisitions of local area resellers and partners (including multi-brand dealers). During the first quarter of 2020, business acquisitions associated with this initiative totaled $193, net of cash acquired, and included three acquisitions in the U.K. for $171 (GBP 132 million) - Arena Group, Altodigital Networks and ITEC Connect, as well an acquisition in Canada for approximately $22 (CAD 29 million). These acquisitions are expected to expand Xerox's presence in the SMB market in both Western Europe and Canada.

The operating results of these acquisitions are not material to our financial statements and are included within our results from the acquisition date. The purchase prices were all cash for 100% ownership of the acquired companies and were primarily allocated to Intangible assets, net (approximately $70) and Goodwill (approximately $105), with the remainder to tangible net assets. The allocations are based on preliminary management estimates, which continue to be reviewed, and are expected to be finalized by the fourth quarter 2020 and may include input and support from third-party valuations. Any adjustments to the preliminary allocations are not expected to be material.

Termination of Proposed Transaction with HP Inc.

In November 2019, Xerox Holdings commenced a proposed business combination transaction with HP Inc. (HP). HP rejected our initial and subsequent proposals and refused to engage in mutual due diligence or negotiations. In January 2020, Xerox Holdings nominated a slate of directors to HP's board to be voted on at HP's 2020 annual meeting of stockholders and shortly thereafter, it launched a tender offer to acquire all outstanding shares of HP, as it intended to continue to pursue the proposed business combination transaction. However, the ongoing COVID-19 pandemic and resulting macroeconomic and market turmoil created an environment that the company determined was not conducive to Xerox Holdings continuing an acquisition of HP. Accordingly, on March 31, 2020 Xerox Holdings withdrew its tender offer to acquire HP and terminated its proxy solicitation to nominate a slate of candidates to HP's board of directors.

In 2020, Xerox Holdings had obtained $24 billion in financing commitments from several banks to support the cash portion of the proposed business combination transaction with HP. On March 31, 2020, following the withdrawal of Xerox Holdings' tender offer to acquire HP, notice was provided to the banks of the immediate termination of the financing commitment. No termination penalties were paid as a result of termination.

Note 6 – Divestitures

Sales of Ownership Interests in Fuji Xerox Co., Ltd. and Xerox International Partners

In November 2019, Xerox Holdings completed a series of transactions to restructure its relationship with FUJIFILM Holdings Corporation (FH), including the sale of its indirect 25% equity interest in Fuji Xerox (FX), as well as the sale of its indirect 51% partnership interest in Xerox International Partners (XIP) (collectively the Sales). As a result of the Sales and the related strategic shift in our business, the historical financial results of our equity method investment in FX and our XIP business (which was consolidated) for the periods prior to the Sales are reflected as a discontinued operation and as such, their impact is excluded from continuing operations for all periods presented.

Summarized financial information for our Discontinued operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Revenue	$ —	$ 21	$ —	$ 73
Income from operations[(1)]	$ —	$ 64	$ —	$ 159
Gain on disposal	—	—	—	—
Income before income taxes	—	64	—	159
Income tax expense	—	—	—	2
Income from discontinued operations, net of tax	—	64	—	157
Income from discontinued operations attributable to noncontrolling interests, net of tax	—	—	—	4
Income from discontinued operations, attributable to Xerox Holdings, net of tax	$ —	$ 64	$ —	$ 153

(1) Includes Equity in net income for FX of $57 and $132 for the three and nine months ended September 30, 2019, respectively.

Note 7 – Supplementary Financial Information

Cash, Cash Equivalents and Restricted Cash

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

	September 30, 2020	December 31, 2019
Cash and cash equivalents	$ 3,242	$ 2,740
Restricted cash		
Litigation deposits in Brazil	39	55
Other restricted cash	16	—
Total Restricted cash	55	55
Cash, cash equivalents and restricted cash	$ 3,297	$ 2,795

Restricted cash primarily relates to escrow cash deposits made in Brazil associated with ongoing litigation. As more fully discussed in Note 21 - Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. Restricted cash amounts are classified in our Condensed Consolidated Balance Sheets based on when the cash will be contractually or judicially released.

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

	September 30, 2020	December 31, 2019
Other current assets	$ 16	$ —
Other long-term assets	39	55
Total Restricted cash	$ 55	$ 55

Supplemental Cash Flow Information

Summarized cash flow information is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Provision for receivables	$ 17	$ 13	$ 104	$ 40
Provision for inventory	6	3	20	18
Provision for product warranty	3	3	6	10
Depreciation of buildings and equipment	21	24	64	77
Depreciation and obsolescence of equipment on operating leases	45	56	142	172
Amortization of internal use software	11	15	32	48
Amortization of acquired intangible assets	13	9	34	35
Amortization of customer contract costs(1)	20	24	63	70
Cost of additions to land, buildings and equipment	9	11	36	30
Cost of additions to internal use software	9	6	24	18
Common stock dividends - Xerox Holdings	57	57	165	172
Preferred stock dividends - Xerox Holdings	4	4	11	11
Repurchases related to stock-based compensation - Xerox Holdings	9	10	19	20

(1) *Amortization of customer contract costs is reported in* Decrease (increase) in other current and long-term assets *in the Condensed Consolidated Statements of Cash Flows. Refer to Note 3 - Revenue for additional information on contract costs.*

Note 8 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	September 30, 2020	December 31, 2019
Invoiced	$ 731	$ 980
Accrued[(1)]	227	311
Allowance for doubtful accounts	(63)	(55)
Accounts receivable, net	$ 895	$ 1,236

(1) Accrued receivables include amounts to be invoiced in the subsequent quarter for current services provided.

The allowance for doubtful accounts was as follows:

Balance at December 31, 2019	$ 55
Provision	8
Charge-offs	(2)
Recoveries and other[(1)]	(1)
Balance at March 31, 2020	$ 60
Provision	9
Charge-offs	(8)
Recoveries and other[(1)]	(1)
Balance at June 30, 2020	$ 60
Provision	7
Charge-offs	(6)
Recoveries and other[(1)]	2
Balance at September 30, 2020	$ 63

(1) 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.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. Consistent with our adoption of ASU 2016-13 effective January 1, 2020 (refer to Note 2 - Recent Accounting Pronouncements), the allowance for uncollectible accounts receivable is determined based on an assessment of past collection experience as well as consideration of current and future economic conditions and changes in our customer collection trends. Based on that assessment, and primarily as a result of the macroeconomic and market disruption caused by COVID-19, the allowance for doubtful accounts as a percent of gross accounts receivable increased to 6.6% at September 30, 2020 from 4.3% at December 31, 2019.

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. The accounts receivable sold are generally short-term trade receivables with payment due dates of less than 60 days. We have one facility in Europe that enables us to sell accounts receivable associated with our distributor network on an ongoing basis, without recourse. Under this arrangement, we sell our entire interest in the related accounts receivable for cash and no portion of the payment is held back or deferred by the purchaser.

Of the accounts receivable sold and derecognized from our balance sheet, $83 and $165 remained uncollected as of September 30, 2020 and December 31, 2019, respectively.

Accounts receivable sales activity was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Accounts receivable sales[(1)]	$ 115	$ 67	$ 182	$ 265

(1) Losses on sales were not material. Customers may also enter into structured-payable arrangements that require us to sell our receivables from that customer to a third-party financial institution, which then makes payments to us to settle the customer's receivable. In these instances, we ensure the sale of the receivables are bankruptcy-remote and the payment made to us is without recourse. The activity associated with these arrangements is not reflected in this disclosure, as payments under these arrangements have not been material and these are customer directed arrangements.

Note 9 - Finance Receivables, Net

Finance receivables include sales-type leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets.

Finance receivables, net were as follows:

	September 30, 2020	December 31, 2019
Gross receivables	$ 3,600	$ 3,865
Unearned income	(382)	(425)
Subtotal	3,218	3,440
Residual values	—	—
Allowance for doubtful accounts	(142)	(89)
Finance receivables, net	3,076	3,351
Less: Billed portion of finance receivables, net	111	111
Less: Current portion of finance receivables not billed, net	1,066	1,158
Finance receivables due after one year, net	$ 1,899	$ 2,082

Finance Receivables – Allowance for Credit Losses and Credit Quality

Our finance receivable portfolios are primarily in the U.S., Canada and EMEA. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis. Customer credit limits are based upon an initial evaluation of the customer's credit quality and we adjust that limit accordingly based upon ongoing credit assessments of the customer, including payment history and changes in credit quality.

Consistent with our adoption of ASU 2016-13 effective January 1, 2020 (refer to Note 2 - Recent Accounting Pronouncements), the allowance for credit losses is determined principally based on an assessment of origination year and past collection experience as well as consideration of current and future economic conditions and changes in our customer collection trends. Based on that assessment, and primarily as a result of the macroeconomic and market turmoil caused by COVID-19, the allowance for doubtful credit losses increased to 4.4% of gross finance receivables (net of unearned income) at September 30, 2020 from 2.6% at December 31, 2019. In assessing the level of reserve required as of September 30, 2020, we had to critically assess current and forecasted economic conditions in light of the COVID-19 pandemic to ensure we objectively included those expected impacts in the determination of our reserve. Our assessment also included current portfolio credit metrics and the level of reserves and write-offs we recorded on our receivable's portfolio during the credit crisis in 2008/09 as additional reference points to objectively determine the adequacy of our allowance.

The allowance for doubtful accounts and provision for credit losses represents an estimate of the losses expected to be incurred from the Company's finance receivable portfolio. The level of the allowance is determined on a collective basis by applying projected loss rates to our different portfolios by country, which represent our portfolio segments. This is the level at which we develop and document our methodology to determine the allowance for credit losses. This projected loss rates are primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current and future economic conditions as well as delinquency trends, resolution rates, the aging of receivables, credit quality indicators and the financial health of specific customer classes or groups.

The allowance for doubtful finance receivables is inherently more difficult to estimate than the allowance for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for doubtful accounts. We believe our estimates, including any qualitative adjustments, are reasonable and have considered all reasonably available information about past events, current conditions, and reasonable and supportable forecasts of future events and economic conditions. The identification of account-specific exposure is not a significant factor in establishing the allowance for doubtful finance receivables. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented, with the exception of the updates required as part of our adoption of ASU 2016-13 effective January 1, 2020.

Since our allowance for doubtful finance receivables is effectively determined by geography, the risk characteristics in our finance receivable portfolio segments will generally be consistent with the risk factors associated with the economies of the countries/regions included in those geographies. Since EMEA is comprised of various countries and regional economies, the risk profile within that portfolio segment is somewhat more diversified due to the varying economic conditions among and within the countries. Charge-offs in the U.S. and EMEA remained fairly steady during the first, second and third quarters of 2020 and as compared to the prior year. However, as reflected in our allowance for doubtful receivables, charge-offs are expected to increase over the remainder of the year and into 2021 as a result of the economic disruption related to the COVID-19 pandemic.

Amounts disclosed below for the nine months ended and at September 30, 2020 reflect the adoption of ASU 2016-13 in January 2020. Amounts disclosed below for comparable periods in 2019 reflect superseded guidance. The allowance for doubtful accounts as well as the related investment in finance receivables were as follows:

	United States	Canada(1)	EMEA(1)(2)	Total
Balance at December 31, 2019	$ 59	$ 11	$ 19	$ 89
Provision	35	6	25	66
Charge-offs	(3)	(1)	(4)	(8)
Recoveries and other(3)	—	(1)	—	(1)
Balance at March 31, 2020	$ 91	$ 15	$ 40	$ 146
Provision	3	1	—	4
Charge-offs	(5)	(1)	(2)	(8)
Recoveries and other(3)	—	1	—	1
Balance at June 30, 2020	$ 89	$ 16	$ 38	$ 143
Provision	6	—	3	9
Charge-offs	(6)	(2)	(5)	(13)
Recoveries and other(3)	—	1	2	3
Balance at September 30, 2020	$ 89	$ 15	$ 38	$ 142
Finance receivables as of September 30, 2020 collectively evaluated for impairment (4)	$ 1,819	$ 284	$ 1,115	$ 3,218
Balance at December 31, 2018	$ 53	$ 12	$ 27	$ 92
Provision	4	1	4	9
Charge-offs	(4)	(1)	(3)	(8)
Recoveries and other(3)	—	—	—	—
Balance at March 31, 2019	$ 53	$ 12	$ 28	$ 93
Provision	4	1	3	8
Charge-offs	(5)	(3)	(3)	(11)
Recoveries and other(3)	1	2	—	3
Balance at June 30, 2019	$ 53	$ 12	$ 28	$ 93
Provision	6	—	2	8
Charge-offs	(5)	(1)	(3)	(9)
Recoveries and other(3)	1	—	—	1
Balance at September 30, 2019	$ 55	$ 11	$ 27	$ 93
Finance receivables as of September 30, 2019 collectively evaluated for impairment(4)	$ 1,900	$ 324	$ 1,157	$ 3,381

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(1) Prior year amounts have been recast to include the Other geographic region, which was previously disclosed as a separate grouping, conforming to the current year's presentation.
(2) Includes developing market countries.
(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 $142 and $93 at September 30, 2020 and 2019, respectively.

In the U.S., customers are further evaluated by class based on the type of lease origination. The primary categories are direct, which primarily includes leases originated directly with end customers through bundled lease arrangements, and indirect, which includes lease financing to end-user customers who purchased equipment we sold to distributors or resellers. Indirect also includes leases originated through our XBS sales channel, which utilizes a combination of internal and third party leasing in its lease arrangements with end customers.

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

- **Low Credit Risk:** This rating includes accounts with excellent to good business credit, asset quality and capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poor's (S&P) rating of BBB- or better. Loss rates in this category in the normal course are generally less than 1%.

- **Average Credit Risk:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category in the normal course are generally in the range of 2% to 5%.
- **High Credit Risk:** 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 low and average credit risk evaluation when the lease was originated. Accordingly, there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category in the normal course are generally in the range of 7% to 10%.

Credit quality indicators are updated at least annually, or more frequently to the extent required by economic conditions, and the credit quality of any given customer can change during the life of the portfolio.

Details about our finance receivables portfolio based on geography, origination year and credit quality indicators are as follows:

	September 30, 2020							December 31, 2019
	2020	2019	2018	2017	2016	Prior	Total Finance Receivables	Total Finance Receivables
United States (Direct):								
Low Credit Risk	$ 117	$ 160	$ 144	$ 87	$ 48	$ 7	$ 563	$ 640
Average Credit Risk	42	103	60	31	12	3	251	331
High Credit Risk	65	47	29	16	6	3	166	132
Total	$ 224	$ 310	$ 233	$ 134	$ 66	$ 13	$ 980	$ 1,103
United States (Indirect):								
Low Credit Risk	$ 154	$ 180	$ 103	$ 45	$ 14	$ 1	$ 497	$ 258
Average Credit Risk	86	110	73	35	9	1	314	445
High Credit Risk	13	6	5	3	1	—	28	116
Total	$ 253	$ 296	$ 181	$ 83	$ 24	$ 2	$ 839	$ 819
Canada(1)								
Low Credit Risk	$ 24	$ 34	$ 26	$ 11	$ 8	$ 2	$ 105	$ 163
Average Credit Risk	32	40	29	20	8	1	130	97
High Credit Risk	13	11	10	12	3	—	49	66
Total	$ 69	$ 85	$ 65	$ 43	$ 19	$ 3	$ 284	$ 326
EMEA(1)(2)								
Low Credit Risk	$ 128	$ 189	$ 145	$ 73	$ 29	$ 6	$ 570	$ 655
Average Credit Risk	108	164	117	60	22	4	475	479
High Credit Risk	16	22	16	11	4	1	70	58
Total	$ 252	$ 375	$ 278	$ 144	$ 55	$ 11	$ 1,115	$ 1,192
Total Finance Receivables								
Low Credit Risk	$ 423	$ 563	$ 418	$ 216	$ 99	$ 16	$ 1,735	$ 1,716
Average Credit Risk	268	417	279	146	51	9	1,170	1,352
High Credit Risk	107	86	60	42	14	4	313	372
Total	$ 798	$ 1,066	$ 757	$ 404	$ 164	$ 29	$ 3,218	$ 3,440

(1) Prior year amounts have been recasted to include the Other geographic region, which was previously disclosed as a separate grouping, conforming to the current year's presentation.
(2) Includes developing market countries.

The aging of our receivables portfolio is based upon the number of days an invoice is past due. Receivables that are more than 90 days past due are considered delinquent. Receivable losses are charged against the allowance when management believes the uncollectibility of the receivable is confirmed and is generally based on individual credit evaluations, results of collection efforts and specific circumstances of the customer. Subsequent recoveries, if any, are credited to the allowance.

We generally continue to maintain equipment on lease and provide services to customers that have invoices for finance receivables that are 90 days or more past due and, as a result of the bundled nature of billings, we also continue to accrue interest on those receivables. However, interest revenue for such billings is only recognized if collectability is deemed reasonably assured.

The aging of our billed finance receivables is as follows:

	September 30, 2020						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Direct	$ 35	$ 9	$ 11	$ 55	$ 925	$ 980	$ 79
Indirect	23	6	3	32	807	839	—
Total United States	58	15	14	87	1,732	1,819	79
Canada[(1)]	7	2	1	10	274	284	19
EMEA[(1)]	12	3	3	18	1,097	1,115	37
Total	$ 77	$ 20	$ 18	$ 115	$ 3,103	$ 3,218	$ 135

	December 31, 2019						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Direct	$ 37	$ 11	$ 8	$ 56	$ 1,047	$ 1,103	$ 57
Indirect	25	5	3	33	786	819	—
Total United States	62	16	11	89	1,833	1,922	57
Canada[(1)]	8	2	1	11	315	326	17
EMEA[(1)(2)]	12	1	2	15	1,177	1,192	32
Total	$ 82	$ 19	$ 14	$ 115	$ 3,325	$ 3,440	$ 106

(1) Includes developing market countries.
(2) Prior year amounts have been recast to include the Other geographic region, which was previously disclosed as a separate grouping, conforming to the current year's presentation.

Secured Borrowings and Collateral

In July 2020, we sold $355 of U.S. based finance receivables to a consolidated special purpose entity (SPE), which funded the purchase through a secured loan agreement with a financial institution. As of September 30, 2020 the SPE holds $314 of total Finance receivables, net, which are included in our Condensed Consolidated Balance Sheet as collateral for the secured loan agreement. Refer to Note 13 - Debt, for additional information related to this arrangement including the related secured loan agreement.

Note 10 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

	September 30, 2020	December 31, 2019
Finished goods	$ 823	$ 576
Work-in-process	48	47
Raw materials	107	71
Total Inventories	$ 978	$ 694

The transfer of equipment from our inventories to equipment subject to an operating lease is presented in our Condensed Consolidated Statements of Cash Flows in the operating activities section. Equipment on operating leases and similar arrangements consists of our equipment rented to customers and depreciated to estimated salvage value at the end of the lease term.

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

	September 30, 2020	December 31, 2019
Equipment on operating leases	$ 1,388	$ 1,443
Accumulated depreciation	(1,087)	(1,079)
Equipment on operating leases, net	$ 301	$ 364

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, were $15 and $25 for the three months ended September 30, 2020 and 2019, respectively, and $51 and $80 for the nine months ended September 30, 2020 and 2019, respectively.

Secured Borrowings and Collateral

In July 2020, we sold the rights to payments under operating leases with an equipment net book value of $10 to a consolidated SPE, which funded the purchase through a secured loan agreement with a financial institution. As of September 30, 2020 the SPE holds $9 of Equipment on operating leases, net, which are included in our Condensed Consolidated Balance Sheet as collateral for the secured loan agreement. Refer to Note 13 - Debt, for additional information related to this arrangement including the related secured loan agreement.

Note 11 – Lessee

Operating Leases

We have operating leases for real estate and vehicles in our domestic and international operations and for certain equipment in our domestic operations. Additionally, we have identified embedded operating leases within certain supply chain contracts for warehouses, primarily within our domestic operations. Our leases have remaining terms of up to twelve years and a variety of renewal and/or termination options.

The components of lease expense are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Operating lease expense	$ 29	$ 31	$ 85	$ 97
Short-term lease expense	5	6	15	16
Variable lease expense[(1)]	12	12	34	37
Sublease income	(1)	—	(2)	(1)
Total Lease expense	$ 45	$ 49	$ 132	$ 149

(1) Variable lease expense is related to our leased real estate for offices and warehouses and primarily includes labor and operational costs as well as taxes and insurance.

Operating leases right-of-use (ROU) assets, net and operating lease liabilities were reported in the Condensed Consolidated Balance Sheets as follows:

	September 30, 2020	December 31, 2019
Other long-term assets	$ 323	$ 319
Accrued expenses and other current liabilities	$ 86	$ 87
Other long-term liabilities	264	260
Total Operating lease liabilities	$ 350	$ 347

Supplemental information related to operating leases is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Cash paid for amounts included in the measurement of lease liabilities - Operating cash flows	$ 31	$ 31	$ 89	$ 95
ROU assets obtained in exchange for new lease liabilities (1)	$ 17	$ 5	$ 73	$ 28
Weighted-average remaining lease term			5 years	4 years
Weighted-average discount rate			5.06 %	5.63 %

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

Finance Leases

Xerox has finance leases for equipment and related infrastructure within outsourced warehouse supply arrangements in the U.S. and Europe. The leases have varying maturities up to six years with a maximum expiration date through December 2026. As of September 30, 2020 the remaining lease obligation for all finance leases is $9, based on a weighted-average discount rate of 4.41%. The Right-of-use asset balance associated with these finance leases of $11 is included in Land, buildings and equipment, net in the Condensed Consolidated Balance Sheet.

Note 12 – Restructuring Programs

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

During the nine months ended September 30, 2020, we recorded net restructuring and asset impairment charges of $47, which included $57 of severance costs related to headcount reductions of approximately 1,100 employees worldwide, $2 of other contractual termination costs and $6 of asset impairment charges. These costs were partially offset by $18 of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives.

Information related to restructuring program activity is outlined below:

	Severance and Related Costs	Other Contractual Termination Costs(2)	Asset Impairments(3)	Total
Balance at December 31, 2019	$ 66	$ 4	$ —	$ 70
Provision	32	1	2	35
Reversals	(5)	—	(1)	(6)
Net current period charges(1)	27	1	1	29
Charges against reserve and currency	(36)	2	(1)	(35)
Balance at March 31, 2020	$ 57	$ 7	$ —	$ 64
Provision	7	—	—	7
Reversals	(6)	(1)	(2)	(9)
Net current period charges(1)	1	(1)	(2)	(2)
Charges against reserve and currency	(14)	(1)	2	(13)
Balance at June 30, 2020	$ 44	$ 5	$ —	$ 49
Provision	18	1	4	23
Reversals	(2)	—	(1)	(3)
Net current period charges(1)	16	1	3	20
Charges against reserve and currency	(8)	(2)	(3)	(13)
Balance at September 30, 2020	$ 52	$ 4	$ —	$ 56

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(1) Represents net amount recognized within the Condensed Consolidated Statements of Income for the period shown for restructuring and asset impairment charges.

(2) Primarily includes additional costs incurred upon the exit from our facilities including decommissioning costs and associated contractual termination costs. Charges against reserve and currency for first quarter 2020 include a reclassification of $4 related to expected recovery from sublease.

(3) Primarily related to the exit and abandonment of leased and owned facilities. The charge includes the accelerated write-off of $3 for leased right-of-use assets and $3 for owned assets upon exit from the facilities, net of any potential sublease income and other recoveries.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Charges against reserve and currency	$ (13)	$ (20)	$ (61)	$ (118)
Effects of foreign currency and other non-cash items	2	3	(2)	47
Restructuring cash payments	$ (11)	$ (17)	$ (63)	$ (71)

In connection with our restructuring programs, we also incurred certain related costs as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Retention related severance/bonuses(1)	$ (2)	$ 11	$ 9	$ 31
Contractual severance costs(2)	—	3	4	41
Consulting and other costs(3)	2	5	4	24
Total	$ —	$ 19	$ 17	$ 96

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(1) Includes retention related severance and bonuses for employees expected to continue working beyond their minimum notification period before termination.
(2) Amounts for nine months ended September 30, 2019 include approximately $38 for estimated severance and other related costs we were contractually required to pay in connection with employees transferred as part of the shared service arrangement entered into with HCL Technologies in the first quarter 2019.
(3) Represents professional support services associated with our business transformation initiatives.

The restructuring related costs reserve as of September 30, 2020 was $33, which is expected to be paid over the next twelve months, as compared to $37 at December 31, 2019.

Note 13 – Debt

Senior Notes

On August 6, 2020, Xerox Holdings issued $550 of 5.000% Senior Notes due August 2025 (the "2025 Senior Notes") at par and $550 of 5.500% Senior Notes due August 2028 (the "2028 Senior Notes") at par resulting in aggregate net proceeds (after fees and expenses) of approximately $1,089. On August 24, 2020, Xerox Holdings issued an additional $200 of the 2025 Senior Notes at 100.75% of par and an additional $200 of the 2028 Senior Notes at 102.50% of par resulting in additional aggregate net proceeds (after premium, fees and expenses) of approximately $405 for total aggregate net proceeds from both issuances of approximately $1,494.

The Notes are fully and unconditionally guaranteed by Xerox Corporation. In addition, the notes and the related guarantees were issued in a private placement only to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933, as amended, and have not been registered for sale under the Securities Act or any state securities laws. Interest on the 2025 and 2028 Senior Notes is payable semi-annually.

Debt issuance costs of approximately $13 were paid and deferred in connection with the issuance of the 2025 and 2028 Senior Notes and will be amortized over the term of the Senior Notes. The net debt proceeds were contributed by Xerox Holdings to Xerox Corporation and used to repay $362 aggregate principal amount of 3.500% senior notes of Xerox Corporation and $376 aggregate principal amount of 2.750% senior notes of Xerox Corporation, which were both due in third quarter 2020. Xerox Corporation also used the balance of the net proceeds to prepay a portion of the 4.500% senior notes due 2021 in October 2020 (Refer to Note 18 – Shareholder's Equity of Xerox for additional information regarding the contribution and Note 22 - Subsequent Event for additional information regarding this prepayment).

Credit Facility

On July 31, 2020, Xerox and Xerox Holdings entered into Amendment No. 3 to the Credit Facility, which modified the financial covenants to require that, during a specified covenant modification period (which begins on the effective date of the Amendment and ends on the earlier of (1) December 31, 2021 and (2) the date on which Xerox delivers a written notice to the Administrative Agent electing to end such period (the “Financial Covenant Modification Period”), Xerox must maintain unrestricted cash (as defined in the Amendment) in an amount not less than $1.0 billion. Further, the Amendment relaxed the financial maintenance leverage covenant in the Credit Agreement by requiring that, during the Financial Covenant Modification Period, Xerox maintain a ratio of net debt for borrowed money to consolidated EBITDA of not greater than 4.25:1.00 (with a cap on cash netting of $1.75 billion), in lieu of the 4.25:1.00 total debt for borrowed money to consolidated EBITDA ratio requirement applicable prior to the Amendment.

Secured Borrowings and Collateral

In July 2020, we entered into a secured loan agreement with a financial institution where we sold $355 of U.S. based finance receivables and the rights to payments under operating leases with an equipment net book value of $10 to a special purpose entity (SPE). The purchase by the SPE was funded through an amortizing secured loan to the SPE from the financial institution of $340. The sale of the receivables to the SPE was structured as a "true sale at law," and we have received an opinion to that effect from outside legal counsel. However, the transaction was accounted for as a secured borrowing as we consolidate the SPE since we have both the power to direct the activities that most significantly impact the SPE's economic performance through our role as servicer of all the receivables held by the SPE, and the obligation through variable interests in the SPE to absorb losses or receive benefits that could potentially be significant to the SPE. As a result, the assets of the SPE are not available to satisfy any of our other obligations. Conversely, the credit holder of this SPE does not have legal recourse to the Company's general credit.

The debt has a variable interest rate based on LIBOR plus a spread (current rate of 1.73% at September 30, 2020) and an expected life of less than three years with half projected to be repaid within the first year based on collections of the underlying portfolio of receivables. We also entered into an interest rate hedge agreement to cap LIBOR over the life of the loan. The proceeds from this debt funded the cash used in May 2020 to repay the $313 aggregate principal amount of 2.80% Senior Notes due 2020 of Xerox Corporation.

Below are the assets and liabilities held by the consolidated SPE, which are included in our Condensed Consolidated Balance Sheet:

	September 30, 2020
Assets held by SPE	
Finance receivables, net	$ 132
Finance receivables due after one year, net	182
Equipment on operating leases, net	9
Total Assets	$ 323
Liabilities held by SPE	
Current portion of long-term debt, net[(1)]	$ 158
Long term debt, net[(2)]	157
Total Liabilities	$ 315

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(1) Amounts net of unamortized debt issuance costs of $1.
(2) Amounts net of unamortized debt issuance costs of $1.

Interest Expense and Income

Interest expense and income were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
Interest expense[(1)]	$ 59	$ 60	$ 158	$ 179
Interest income[(2)]	56	62	182	193

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

Note 14 – 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

During the first quarter 2020, we terminated our remaining pay variable/receive fixed interest rate swaps with notional amounts of $200 and net asset fair value of $4 prior to termination. The swaps had been designated and accounted for as fair value hedges prior to termination. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings for the nine months ended September 30, 2020 prior to termination. The corresponding net fair value adjustment to the hedged debt of $(4) will be amortized to interest expense over the remaining term of the related notes.

Foreign Exchange Risk Management

We are a global company and we are 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:

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

At September 30, 2020 and December 31, 2019, we had outstanding forward exchange and purchased option contracts with gross notional values of $958 and $1,091 respectively, with terms of less than 12 months. Approximately 80% of the contracts at September 30, 2020 mature within three months, 9% mature in three to six months and 11% in six to twelve months. The associated currency exposures being hedged at September 30, 2020 were lower by 12% as compared to our year-end currency exposures. There has not been any material change in our hedging strategy.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. The net asset (liability) fair value of these contracts were $1 and $(4) as of September 30, 2020 and December 31, 2019, 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, 2020	December 31, 2019
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts - forwards	Other current assets	$ 3	$ 1
	Accrued expenses and other current liabilities	(2)	(5)
Interest rate swaps	Other long-term assets	—	1
	Net designated derivative asset (liability)	$ 1	$ (3)
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	$ 4	$ 1
	Accrued expenses and other current liabilities	(1)	(3)
	Net undesignated derivative asset (liability)	$ 3	$ (2)
Summary of Derivatives	Total Derivative assets	$ 7	$ 3
	Total Derivative liabilities	(3)	(8)
	Net Derivative asset (liability)	$ 4	$ (5)

Summary of Derivative Instruments Gains (Losses)

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

Designated Derivative Instruments Gains (Losses)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Gain (Loss) on Derivative Instruments	2020	2019	2020	2019
Fair Value Hedges - Interest Rate Contracts				
Derivative (loss) gain recognized in interest expense	$ —	$ —	$ (1)	$ 4
Hedged item gain (loss) recognized in interest expense	—	—	1	(4)
Cash Flow Hedges - Foreign Exchange Forward Contracts and Options				
Derivative gain recognized in OCI (effective portion)	$ 1	$ 4	$ 5	$ 10
Derivative gain reclassified from AOCL to income - Cost of sales (effective portion)	—	3	1	6

During the three and nine months ended September 30, 2020 and 2019, no amount of ineffectiveness was recorded in the Condensed Consolidated Statements of Income for these designated cash flow hedges and all components of each derivative's gain or (loss) were included in the assessment of hedge effectiveness. In addition, no amount was recorded for an underlying exposure that did not occur or was not expected to occur.

As of September 30, 2020, a net after-tax gain of $2 was recorded in Accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

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

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
Derivatives NOT Designated as Hedging Instruments	Location of Derivative Gain	2020	2019	2020	2019
Foreign exchange contracts – forwards	Other expense – Currency gain, net	$ 2	$ 2	$ 19	$ 3

For the three and nine months ended September 30, 2020 currency losses, net were $0 and $4, respectively, and for the three and nine months ended September 30, 2019 were $4 and $6, respectively. Net currency gains and losses include the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives as well as the remeasurement of foreign currency-denominated assets and liabilities and are included in Other expenses, net.

Note 15 – 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, 2020	December 31, 2019
Assets		
Foreign exchange contracts - forwards	$ 7	$ 2
Interest rate swaps	—	1
Deferred compensation investments in mutual funds	18	19
Total	$ 25	$ 22
Liabilities		
Foreign exchange contracts - forwards	$ 3	$ 8
Deferred compensation plan liabilities	17	18
Total	$ 20	$ 26

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

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

Summary of Other Financial Assets and Liabilities

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

	September 30, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 3,242	$ 3,242	$ 2,740	$ 2,740
Accounts receivable, net	895	895	1,236	1,236
Short-term debt and current portion of long-term debt	1,218	1,240	1,049	1,054
Long-term debt	3,836	3,899	3,233	3,331

The fair value amounts for Cash and cash equivalents and Accounts receivable, net, approximate carrying amounts due to the short maturities of these instruments. The fair value of Short-term debt, including the current portion of long-term debt, and Long-term debt was estimated based on the current rates offered to us for debt of similar maturities (Level 2). The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at such date.

Note 16 – 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:	2020	2019	2020	2019	2020	2019
Service cost	$ —	$ 1	$ 5	$ 5	$ 1	$ —
Interest cost	21	25	29	37	2	3
Expected return on plan assets	(27)	(26)	(49)	(56)	—	—
Recognized net actuarial loss (gain)	6	7	15	10	—	(1)
Amortization of prior service credit	—	—	(1)	—	(19)	(19)
Recognized settlement loss	10	18	—	—	—	—
Defined benefit plans	10	25	(1)	(4)	(16)	(17)
Defined contribution plans	(10)	6	6	5	n/a	n/a
Net Periodic Benefit Cost (Credit)	—	31	5	1	(16)	(17)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income (Loss):						
Net actuarial loss (gain)[(1)]	77	135	—	—	—	(9)
Amortization of net actuarial (loss) gain	(16)	(25)	(15)	(10)	—	1
Amortization of net prior service credit	—	—	1	—	19	19
Total Recognized in Other Comprehensive Income (Loss)[(2)]	61	110	(14)	(10)	19	11
Total Recognized in Net Periodic Benefit Cost (Credit) and Other Comprehensive Income (Loss)	$ 61	$ 141	$ (9)	$ (9)	$ 3	$ (6)

	Nine Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2020	2019	2020	2019	2020	2019
Service cost	$ 1	$ 2	$ 15	$ 17	$ 2	$ 1
Interest cost	65	83	84	114	8	11
Expected return on plan assets	(79)	(77)	(142)	(174)	—	—
Recognized net actuarial loss (gain)	20	18	43	32	(1)	(3)
Amortization of prior service credit	(1)	(1)	(1)	(1)	(57)	(57)
Recognized settlement loss	42	76	—	—	—	—
Recognized curtailment gain	—	—	(1)	—	—	—
Defined benefit plans	48	101	(2)	(12)	(48)	(48)
Defined contribution plans	1	19	16	17	n/a	n/a
Net Periodic Benefit Cost (Credit)	49	120	14	5	(48)	(48)
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income (Loss):						
Net actuarial (gain) loss[(1)]	(3)	171	—	—	(6)	(9)
Amortization of net actuarial (loss) gain	(62)	(94)	(43)	(32)	1	3
Amortization of prior service credit	1	1	1	1	57	57
Total Recognized in Other Comprehensive Income (Loss)[(2)]	(64)	78	(42)	(31)	52	51
Total Recognized in Net Periodic Benefit (Credit) Cost and Other Comprehensive Income (Loss)	$ (15)	$ 198	$ (28)	$ (26)	$ 4	$ 3

(1) The net actuarial (gain) loss 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 Income (Loss). Refer to Note 19 - Other Comprehensive Income (Loss) 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,	
	2020	2019	Estimated 2020	2019
U.S. plans	$ 18	$ 19	$ 25	$ 26
Non-U.S. plans	79	88	110	115
Total Pension	$ 97	$ 107	$ 135	$ 141
Retiree Health	$ 17	$ 22	$ 30	$ 30

There are no mandatory contributions required in 2020 for our U.S. tax-qualified defined benefit plans to meet the minimum funding requirements.

Defined Contribution Plans

In the third quarter 2020, the Company temporarily suspended and will not make its full year 2020 employer match/contribution for its U.S. based 401(k) saving plans for salaried employees. The suspension is expected to result in savings of approximately $25 for the year ending December 31, 2020.

Note 17 – Shareholders’ Equity of Xerox Holdings

(shares in thousands)

The shareholders' equity information presented below reflects the consolidated activity of Xerox Holdings.

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[1]	Xerox Holdings Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at June 30, 2020	$ 213	$ 2,722	$ —	$ 6,223	$ (3,681)	$ 5,477	$ 4	$ 5,481
Comprehensive income, net	—	—	—	90	88	178	—	178
Cash dividends declared - common[2]	—	—	—	(51)	—	(51)	—	(51)
Cash dividends declared - preferred[3]	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	1	(3)	—	—	—	(2)	—	(2)
Payments to acquire treasury stock, including fees	—	—	(150)	—	—	(150)	—	(150)
Balance at September 30, 2020	$ 214	$ 2,719	$ (150)	$ 6,258	$ (3,593)	$ 5,448	$ 4	$ 5,452

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[1]	Xerox Holdings Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at June 30, 2019	$ 225	$ 3,124	$ (131)	$ 5,391	$ (3,647)	$ 4,962	$ 30	$ 4,992
Comprehensive income (loss), net	—	—	—	221	(203)	18	2	20
Cash dividends declared - common[2]	—	—	—	(56)	—	(56)	—	(56)
Cash dividends declared - preferred[3]	—	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	—	3	—	—	—	3	—	3
Payments to acquire treasury stock, including fees	—	—	(68)	—	—	(68)	—	(68)
Cancellation of treasury stock	(4)	(127)	131	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(1)	(1)
Balance at September 30, 2019	$ 221	$ 3,000	$ (68)	$ 5,552	$ (3,850)	$ 4,855	$ 31	$ 4,886

	Common Stock	Additional Paid-in Capital	Treasury Stock	Retained Earnings	AOCL[1]	Xerox Holdings Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2019	$ 215	$ 2,782	$ (76)	$ 6,312	$ (3,646)	$ 5,587	$ 7	$ 5,594
Comprehensive income, net	—	—	—	115	53	168	—	168
Cash dividends declared - common[2]	—	—	—	(158)	—	(158)	—	(158)
Cash dividends declared - preferred[3]	—	—	—	(11)	—	(11)	—	(11)
Stock option and incentive plans, net	1	11	—	—	—	12	—	12
Payments to acquire treasury stock, including fees	—	—	(150)	—	—	(150)	—	(150)
Cancellation of treasury stock	(2)	(74)	76	—	—	—	—	—
Distributions to noncontrolling interests	—	—	—	—	—	—	(3)	(3)
Balance at September 30, 2020	$ 214	$ 2,719	$ (150)	$ 6,258	$ (3,593)	$ 5,448	$ 4	$ 5,452

	Common Stock		Additional Paid-in Capital		Treasury Stock		Retained Earnings		AOCL[1]		Xerox Holdings Shareholders' Equity		Non-controlling Interests		Total Equity
Balance at December 31, 2018	$	232	$	3,321	$	(55)	$	5,072	$	(3,565)	$	5,005	$	34	$	5,039
Cumulative effect of change in accounting principle		—		—		—		127		(127)		—		—		—
Comprehensive income (loss), net		—		—		—		535		(158)		377		8		385
Cash dividends declared - common[2]		—		—		—		(171)		—		(171)		—		(171)
Cash dividends declared - preferred[3]		—		—		—		(11)		—		(11)		—		(11)
Stock option and incentive plans, net		—		23		—		—		—		23		—		23
Payments to acquire treasury stock, including fees		—		—		(368)		—		—		(368)		—		(368)
Cancellation of treasury stock		(11)		(344)		355		—		—		—		—		—
Distributions to noncontrolling interests		—		—		—		—		—		—		(11)		(11)
Balance at September 30, 2019	$	221	$	3,000	$	(68)	$	5,552	$	(3,850)	$	4,855	$	31	$	4,886

(1) Refer to Note 19 - Other Comprehensive Income (Loss) for the components of AOCL.
(2) Cash dividends declared on common stock for the three and nine months ended September 30, 2020 and 2019 were $0.25 per share and $0.75 per share, respectively.
(3) Cash dividends declared on preferred stock for the three and nine months ended September 30, 2020 and 2019 were $20.00 per share and $60.00 per share, respectively.

Treasury Stock

The following is a summary of the purchases of common stock during 2020:

	Shares		Amount
Balance at December 31, 2019	2,031	$	76
Purchases[1]	8,007		150
Cancellations	(2,031)		(76)
Balance at September 30, 2020	8,007	$	150

(1) Includes associated fees.

Note 18 – Shareholders' Equity of Xerox

The shareholders' equity information presented below reflects the consolidated activity of Xerox.

	Common Stock		Additional Paid-in Capital		Treasury Stock		Retained Earnings		AOCL[1]		Xerox Shareholder's Equity		Non-controlling Interests		Total Equity
Balance at June 30, 2020	$	—	$	3,515	$	—	$	5,925	$	(3,681)	$	5,759	$	4	$	5,763
Comprehensive income, net		—		—		—		101		88		189		—		189
Dividends declared to parent		—		—		—		(55)		—		(55)		—		(55)
Capital contributions from parent[2]		—		1,494		—		—		—		1,494		—		1,494
Transfers to parent		—		(150)		—		—		—		(150)		—		(150)
Balance at September 30, 2020	$	—	$	4,859	$	—	$	5,971	$	(3,593)	$	7,237	$	4	$	7,241

	Common Stock		Additional Paid-in Capital		Treasury Stock		Retained Earnings		AOCL[(1)]		Xerox Shareholders' Equity		Non-controlling Interests		Total Equity
Balance at June 30, 2019	$	225	$	3,124	$	(131)	$	5,391	$	(3,647)	$	4,962	$	30	$	4,992
Comprehensive income (loss), net		—		—		—		221		(203)		18		2		20
Dividends declared to parent		—		—		—		(58)				(58)		—		(58)
Stock option and incentive plans, net		—		(2)		—		—		—		(2)		—		(2)
Cancellation of treasury stock		(4)		(127)		131		—		—		—		—		—
Distributions to noncontrolling interests		—		—		—		—		—		—		(1)		(1)
Reorganization		(221)		446		—		—		—		225		—		225
Balance at September 30, 2019	$	—	$	3,441	$	—	$	5,554	$	(3,850)	$	5,145	$	31	$	5,176

	Common Stock		Additional Paid-in Capital		Treasury Stock		Retained Earnings		AOCL[(1)]		Xerox Shareholder's Equity		Non-controlling Interests		Total Equity
Balance at December 31, 2019	$	—	$	3,266	$	—	$	6,247	$	(3,646)	$	5,867	$	7	$	5,874
Comprehensive income, net		—		—		—		126		53		179		—		179
Dividends declared to parent		—		—		—		(402)		—		(402)		—		(402)
Capital contributions from parent[(2)]		—		1,494				—		—		1,494		—		1,494
Transfers from parent		—		99		—		—		—		99		—		99
Distributions to noncontrolling interests		—		—		—		—		—		—		(3)		(3)
Balance at September 30, 2020	$	—	$	4,859	$	—	$	5,971	$	(3,593)	$	7,237	$	4	$	7,241

	Common Stock		Additional Paid-in Capital		Treasury Stock		Retained Earnings		AOCL[(1)]		Xerox Shareholders' Equity		Non-controlling Interests		Total Equity
Balance at December 31, 2018	$	232	$	3,321	$	(55)	$	5,072	$	(3,565)	$	5,005	$	34	$	5,039
Cumulative effect of change in accounting principle		—		—		—		127		(127)		—		—		—
Comprehensive income (loss), net		—		—		—		535		(158)		377		8		385
Cash dividends declared - common		—		—		—		(115)		—		(115)		—		(115)
Cash dividends declared - preferred		—		—		—		(7)		—		(7)		—		(7)
Dividends declared to parent		—		—		—		(58)		—		(58)		—		(58)
Stock option and incentive plans, net		—		18		—		—		—		18		—		18
Payments to acquire treasury stock, including fees		—		—		(300)		—		—		(300)		—		(300)
Cancellation of treasury stock		(11)		(344)		355		—		—		—		—		—
Distributions to noncontrolling interests		—		—		—		—		—		—		(11)		(11)
Reorganization		(221)		446		—		—		—		225		—		225
Balance at September 30, 2019	$	—	$	3,441	$	—	$	5,554	$	(3,850)	$	5,145	$	31	$	5,176

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(1) *Refer to Note 19 - Other Comprehensive Income (Loss) for the components of AOCL.*
(2) *Primarily represents the contribution of aggregate net debt proceeds received from Senior Note offerings in the third quarter 2020 from Xerox Holdings to Xerox Corporation. Refer to Note 13 - Debt for additional information regarding the Senior Note offerings.*

Note 19 - Other Comprehensive Income (Loss)

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

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation adjustments gains (losses)	$ 176	$ 179	$ (153)	$ (155)	$ (2)	$ 7	$ (121)	$ (122)
Unrealized gains (losses)								
Changes in fair value of cash flow hedges gains	1	1	4	4	5	4	10	8
Changes in cash flow hedges reclassed to earnings(1)	—	—	(3)	(3)	(1)	—	(6)	(5)
Net Unrealized gains	1	1	1	1	4	4	4	3
Defined benefit plans (losses) gains								
Net actuarial/prior service (losses) gains	(77)	(58)	(126)	(95)	9	6	(162)	(122)
Prior service amortization(2)	(20)	(15)	(19)	(14)	(59)	(44)	(59)	(44)
Actuarial loss amortization/settlement(2)	31	23	34	26	104	79	123	93
Fuji Xerox changes in defined benefit plans, net(3)	—	—	(3)	(3)	—	—	(1)	(1)
Other (losses) gains(4)	(42)	(42)	38	38	1	1	36	36
Changes in defined benefit plans (losses) gains	(108)	(92)	(76)	(48)	55	42	(63)	(38)
Other Comprehensive Income (Loss)	69	88	(228)	(202)	57	53	(180)	(157)
Less: Other comprehensive income attributable to noncontrolling interests	—	—	1	1	—	—	1	1
Other Comprehensive Income (Loss) Attributable to Xerox Holdings/Xerox	$ 69	$ 88	$ (229)	$ (203)	$ 57	$ 53	$ (181)	$ (158)

(1) Reclassified to Cost of sales - refer to Note 14 - Financial Instruments for additional information regarding our cash flow hedges.
(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 16 - 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, 2020	December 31, 2019
Cumulative translation adjustments	$ (1,954)	$ (1,961)
Other unrealized gains (losses), net	2	(2)
Benefit plans net actuarial losses and prior service credits	(1,641)	(1,683)
Total Accumulated other comprehensive loss attributable to Xerox Holdings/Xerox	$ (3,593)	$ (3,646)

Note 20 – Earnings per Share

(shares in thousands)

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

	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019
Basic Earnings per Share				
Net Income from Continuing Operations Attributable to Xerox Holdings	$ 90	$ 157	$ 115	$ 382
Accrued dividends on preferred stock	(4)	(4)	(11)	(11)
Adjusted Net income from continuing operations available to common shareholders	86	153	104	371
Income from discontinued operations attributable to Xerox Holdings, net of tax	—	64	—	153
Adjusted Net income available to common shareholders	$ 86	$ 217	$ 104	$ 524
Weighted average common shares outstanding	211,169	220,269	212,163	224,257
Basic Earnings per Share:				
Continuing operations	$ 0.41	$ 0.70	$ 0.49	$ 1.66
Discontinued operations	—	0.29	—	0.68
Basic Earnings per Share	$ 0.41	$ 0.99	$ 0.49	$ 2.34
Diluted Earnings per Share				
Net Income from Continuing Operations Attributable to Xerox Holdings	$ 90	$ 157	$ 115	$ 382
Accrued dividends on preferred stock	(4)	—	(11)	—
Adjusted Net income from continuing operations available to common shareholders	86	157	104	382
Income from discontinued operations attributable to Xerox Holdings, net of tax	—	64	—	153
Adjusted Net income available to common shareholders	$ 86	$ 221	$ 104	$ 535
Weighted average common shares outstanding	211,169	220,269	212,163	224,257
Common shares issuable with respect to:				
Stock options	—	42	20	37
Restricted stock and performance shares	1,538	4,014	2,600	4,429
Convertible preferred stock	—	6,742	—	6,742
Adjusted Weighted average common shares outstanding	212,707	231,067	214,783	235,465
Diluted Earnings per Share:				
Continuing operations	$ 0.41	$ 0.68	$ 0.49	$ 1.62
Discontinued operations	—	0.28	—	0.65
Diluted Earnings per Share	$ 0.41	$ 0.96	$ 0.49	$ 2.27
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	808	841	788	847
Restricted stock and performance shares	3,118	2,358	2,055	1,944
Convertible preferred stock	6,742	—	6,742	—
Total Anti-Dilutive Securities	10,668	3,199	9,585	2,791
Dividends per Common Share	$ 0.25	$ 0.25	$ 0.75	$ 0.75

Note 21 – Contingencies and Litigation

Legal Matters

We are involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting; servicing and procurement law; intellectual property law; environmental law; employment law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs.

Brazil Contingencies

Our Brazilian operations have received or been the subject of numerous governmental assessments related to indirect and other taxes. The tax matters principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows. Below is a summary of our Brazilian tax contingencies:

	September 30, 2020	December 31, 2019
Tax contingency - unreserved	$ 325	$ 442
Escrow cash deposits	36	51
Surety bonds	97	135
Letters of credit	69	91
Liens on Brazilian assets	—	—

The decrease in the unreserved portion of the tax contingency, inclusive of any related interest, was primarily related to currency. With respect to the unreserved tax contingency, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute, as well as, additional surety bonds and letters of credit, which include associated indexation. Generally, any escrowed amounts would be refundable and any liens on assets would be removed to the extent the matters are resolved in our favor. We are also involved in certain disputes with contract and former employees. Exposures related to labor matters are not material to the financial statements as of September 30, 2020 and December 31, 2019. We routinely assess all these matters as to the probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Litigation Against the Company

Pending Litigation Relating to the Fuji Transaction:

1. Ribbe v. Jacobson, et al.:

On April 11, 2019, Carmen Ribbe filed a putative derivative and class action stockholder complaint in the Supreme Court of the State of New York for New York County, naming as defendants Xerox, current Board members Joseph J. Echevarria, Cheryl Gordon Krongard, Keith Cozza, Giovanni G. Visentin, Jonathan Christodoro, Nicholas Graziano, and A. Scott Letier, and former Board members Jeffrey Jacobson, William Curt Hunter, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Gregory Q. Brown, and Sara Martinez Tucker. Plaintiff previously filed a putative shareholder derivative lawsuit on May 24, 2018 against certain of these defendants, as well as others, in the same court; that lawsuit was dismissed without prejudice on December 6, 2018. The new complaint included putative derivative claims on behalf of Xerox for breach of fiduciary duty against the then members of the Xerox Board who approved Xerox's entry into agreements to settle shareholder actions filed in 2018 in the same court against Xerox, its then directors, and FUJIFILM Holdings Corporation ("Fujifilm") in connection with a proposed transaction announced in January 2018 to combine Xerox and Fuji Xerox (the "Fuji Transaction"), including a consolidated putative class action, In re Xerox Corporation Consolidated Shareholder

Litigation (“XCCSL”), and actions filed by Darwin Deason, Deason v. Fujifilm Holdings Corp., et al. and Deason v. Xerox Corporation, et al., against the same defendants as well as, in the first Deason action, former Xerox Chief Executive Officer Ursula M. Burns (the "Fuji Transaction Shareholder Lawsuits"). Plaintiff alleged that the settlements ceded control of the Board and the Company to Darwin Deason and Carl C. Icahn without a vote by, or compensation to, other Xerox stockholders; improperly provided certain benefits and releases to the resigning and continuing directors; and subjected Xerox to potential breach of contract damages in an action by Fuji relating to Xerox’s termination of the proposed Fuji Transaction. Plaintiff also alleged that the current Board members breached their fiduciary duties by allegedly rejecting plaintiff’s January 14, 2019 shareholder demand on the Board to remedy harms arising from entry into the Deason and XCCSL settlements. The new complaint further included direct claims for breach of fiduciary duty on behalf of a putative class of current Xerox stockholders other than Mr. Deason, Mr. Icahn, and their affiliated entities (the “Ribbe Class”) against the defendants for causing Xerox to enter into the Deason and XCCSL settlements, which plaintiff alleged perpetuated control of Xerox by Mr. Icahn and Mr. Deason and denied the voting franchise of Xerox shareholders. Among other things, plaintiff sought damages in an unspecified amount for the alleged fiduciary breaches in favor of Xerox against defendants jointly and severally; rescission or reformation of the Deason and XCCSL settlements; restitution of funds paid to the resigning directors under the Deason settlement; an injunction against defendants’ engaging in the alleged wrongful practices and equitable relief affording the putative Ribbe Class the ability to determine the composition of the Board; costs and attorneys’ fees; and other further relief as the Court may deem proper.

Defendants accepted service of the complaint as of May 16, 2019. On June 4, 2019, the Court entered an order setting a briefing schedule for defendants’ motions to dismiss the complaint. On July 12, 2019, plaintiff filed a motion to preclude defendants from referencing in their motions to dismiss the formation of, or work by, the committee of the Board established to investigate plaintiff’s shareholder demand. On July 18, 2019, the Court denied plaintiff’s motion and adjourned sine die the deadline by which defendants must file any motions to dismiss the complaint.

On January 6, 2020, plaintiff filed his first amended complaint (“FAC”). The FAC includes many of plaintiff’s original allegations regarding the 2018 shareholder litigation and settlements, as well as additional allegations, including, among others, that the members of the Special Committee of the Board that investigated plaintiff’s demand lacked independence and wrongfully refused to pursue the claims in the demand; allegations that an agreement announced in November 2019 for, among other things, the sale by Xerox of its interest in Fuji Xerox to Fujifilm and dismissal of Fujifilm’s breach of contract lawsuit against Xerox (the “FX Sale Transaction”), was unfavorable to Xerox; and allegations about a potential acquisition by Xerox of HP similar to those in the Miami Firefighters derivative action described below. In addition to the claims in the April 11, 2019 complaint, the FAC adds as defendants Carl C. Icahn, Icahn Capital LP, and High River Limited Partnership (the “Icahn defendants”) and asserts claims against those defendants and the Board similar to those in Miami Firefighters relating to the Icahn defendants’ purchases of HP stock allegedly with knowledge of material nonpublic information concerning Xerox’s potential acquisition of HP. In addition to the relief sought in Ribbe’s prior complaint, the FAC seeks relief similar to that sought in Miami Firefighters relating to the Icahn defendants’ alleged purchases of HP stock.

On January 21, 2020, plaintiff in the Miami Firefighters action filed a motion seeking to intervene in Ribbe and to have stayed, or alternatively, severed and consolidated with the Miami Firefighters action, any claims first filed in Miami Firefighters and later asserted by Ribbe. At a conference held on February 25, 2020, the Court denied the motion to intervene without prejudice. On March 6, 2020, plaintiff in the Miami Firefighters action renewed its motion. On July 23, 2020, after hearing oral argument, the Court issued an order denying the motion and setting certain case deadlines.

Discovery has commenced. On August 7, 2020, Xerox, the director defendants, and the Icahn defendants filed separate motions to dismiss. On October 1, 2020, plaintiff filed a cross-motion seeking, among other relief, joinder of Xerox Holdings Corporation as a nominal defendant. Briefing on the motions to dismiss and plaintiff’s cross-motion was completed on October 16, 2020.

Xerox will vigorously defend against this matter. At this time, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment, or settlement occurs.

2. *Miami Firefighters' Relief & Pension Fund v. Icahn, et al.:*

On December 13, 2019, alleged shareholder Miami Firefighters' Relief & Pension Fund ("Miami Firefighters") filed a purported derivative complaint in New York State Supreme Court, New York County on behalf of Xerox Holdings Corporation ("Xerox Holdings") (as nominal defendant) against Carl Icahn and his affiliated entities High River Limited Partnership and Icahn Capital LP (the "Icahn defendants"), Xerox Holdings, and all current Xerox Holdings directors (the "Directors"). Plaintiff made no demand on the Board before bringing the action, but instead alleges that doing so would be futile because the Directors lack independence due to alleged direct or indirect relationships with Icahn. Among other things, the complaint alleges that Icahn controls and dominates Xerox Holdings and therefore owes a fiduciary duty of loyalty to Xerox Holdings, which he breached by acquiring HP stock at a time when he knew that Xerox Holdings was considering an offer to acquire HP or had knowledge of the "obvious merits" of such potential acquisition, and that the Icahn defendants' holdings of HP common stock have risen in market value by approximately $128 since disclosure of the offer. The complaint includes four causes of action: breach of fiduciary duty of loyalty against the Icahn defendants; breach of contract against the Icahn defendants (for purchasing HP stock in violation of Icahn's confidentiality agreement with Xerox Holdings); unjust enrichment against the Icahn defendants; and breach of fiduciary duty of loyalty against the Directors (for any consent to the Icahn defendants' purchases of HP common stock while Xerox Holdings was considering acquiring HP). The complaint seeks a judgment of breach of fiduciary duties against the Icahn defendants and the Directors; a declaration that Icahn breached his confidentiality agreement with Xerox Holdings; a constructive trust on Icahn Capital and High River's investments in HP securities; disgorgement to Xerox Holdings of profits Icahn Capital and High River earned from trading in HP stock; payment of unspecified damages by the Directors for breaching fiduciary duties; and attorneys' fees, costs, and other relief the Court deems just and proper. On January 15, 2020, the Court entered an order granting plaintiff's unopposed motion to consolidate with Miami Firefighters a similar action filed on December 26, 2019 by alleged shareholder Steven J. Reynolds against the same parties in the same court, and designating Miami Firefighters' counsel as lead counsel in the consolidated action. On January 21, 2020, plaintiff filed a motion seeking to intervene in Ribbe v. Jacobson, et al., described above, and to have stayed, or alternatively, severed and consolidated with this action, any claims first filed in this action and later asserted by Ribbe. At a conference held on February 25, 2020, the Court denied the motion to intervene without prejudice. On March 6, 2020, plaintiff in the Miami Firefighters action renewed its motion. On July 23, 2020, after hearing oral argument, the Court issued an order denying the motion and setting certain case deadlines.

Discovery has commenced. On August 10, 2020, the Xerox defendants and the Icahn defendants filed separate motions to dismiss. Briefing on the motions was completed on October 21, 2020.

Xerox Holdings will vigorously defend against this matter. At this time, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment, or settlement occurs.

Guarantees

We have issued or provided approximately $273 of guarantees as of September 30, 2020 in the form of letters of credit or surety bonds issued to i) support certain insurance programs; ii) support our obligations related to the Brazil contingencies; and iii) support certain contracts, primarily with public sector customers, which require us to provide a surety bond as a guarantee of our performance of contractual obligations.

In general, we would only be liable for the amount of these guarantees in the event we defaulted in performing our obligations under each contract; the probability of which we believe is remote. We believe that our capacity in the surety markets as well as under various credit arrangements (including our Credit Facility) is sufficient to allow us to respond to future requests for proposals that require such credit support.

Note 22 – Subsequent Event

In October 2020, we completed the early redemption of $750 of the $1,062 of 4.50% Senior Notes due May 2021, for $769 in cash consideration, which included a redemption premium of $19. The early redemption resulted in a net loss $18 (which included the write-off of debt carrying value adjustments) that was recorded in the fourth quarter 2020. After completion of the early redemption, approximately $312 of the 4.50% Senior Notes due May 2021 remain outstanding.

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

Throughout the Management’s Discussion and Analysis (MD&A), references to “Xerox Holdings” refer to Xerox Holdings Corporation and its consolidated subsidiaries while references to “Xerox” refer to Xerox Corporation and its consolidated subsidiaries. References herein to “we,” “us,” “our,” the “Company” refer collectively to both Xerox Holdings and Xerox unless the context suggests otherwise.

Currently, Xerox Holdings' sole direct subsidiary is Xerox and therefore Xerox reflects the entirety of Xerox Holdings' operations. Accordingly, the following MD&A solely focuses on the operations of Xerox and is intended to help the reader understand the results of operations and financial condition of Xerox. The MD&A is provided as a supplement to, and should be read in conjunction with, the Condensed Consolidated Financial Statements and the accompanying notes. Throughout the MD&A, references are made to various notes in the Condensed Consolidated Financial Statements which appear in Item 1 of this form 10-Q, and the information contained in such notes is incorporated by reference into the MD&A in the places where such references are made.

Currency Impact

To understand the trends in our business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as "constant currency", “currency impact” or “the impact from currency.” This impact is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate. This impact is calculated for all countries where the functional currency is the local country currency. We do not hedge the translation effect of revenues or expenses denominated in currencies where the local currency is the functional currency. Management believes the constant currency measure provides investors an additional perspective on revenue trends. Currency impact can be determined as the difference between actual growth rates and constant currency growth rates.

Impact of COVID-19 on Our Business Operations

In response to the COVID-19 pandemic, we have prioritized the health and safety of our employees, customers and partners to support their needs in the current hybrid environment so work can be done flawlessly migrating between the workplace and the home-office. While we continue to implement actions to mitigate the effects of the pandemic on our business and operations, the uncertainty around its trajectory, duration and economic impact make it difficult for the company to predict its full impact on our business operations and financial performance. As a result, we are not providing specific financial guidance at this time.

During the third quarter, corresponding with business reopenings, the rate of decline of equipment installations (including in areas of our business that support our hybrid workplace initiatives) improved, as did printed-page volumes. These operational improvements resulted in a moderation of our rate of revenue decline during the third quarter as compared to the second quarter, which gives us confidence in the resilience and readiness of our business to recover as progress is made to control the pandemic and as businesses and economies reopen. We have modeled the impacts on our business of numerous recovery scenarios and expect to deliver positive earnings and operating cash flows from continuing operations, after capital expenditures, in the fourth quarter. However, the ongoing resurgence of the virus around the globe, and the impact it is having in forcing new restrictions and lockdowns, leads us to anticipate that our revenues will continue to decline significantly as compared to the prior year, as businesses hold off or delay purchases until there is a more certain path to controlling the pandemic and to economic recovery.

During the current year, the most significant impact from the pandemic has been on sales of our equipment and unbundled supplies. However, due to their transactional nature, these revenues experienced the largest recovery during the third quarter and we expect that they will continue to fluctuate and gradually improve concurrent with business reopenings. Our bundled services contracts, on average, include a minimum fixed charge and a significant variable component based on print volumes. The variable charges are impacted by our customers' employees not being in the office using our equipment due to lock-downs or capacity restrictions in office buildings. We expect that this contractual relationship will continue to enable us to ramp up and support our customers' needs as businesses resume operations.

We have a strong balance sheet and sufficient liquidity, including access to our undrawn $1.8 billion revolver. We further strengthened our liquidity by refinancing our 2020 debt maturities in the third quarter 2020 and early-redeeming a portion of our 2021 debt maturities in October with the proceeds from the issuance of new senior unsecured notes and from a finance receivables securitization. With our Project Own It transformation and cost savings, we built a more flexible cost structure, and have also focused our efforts on incremental actions to prioritize and preserve cash as we manage through the pandemic. These actions include the use of available temporary government assistance measures and furlough programs, and the reduction of discretionary spend such as near-term targeted marketing programs, the use of contract employees, and the temporary suspension of 401(k) matching contributions, as well as lower compensation incentives consistent with lower sales and operating results.

Government Assistance and Furlough Programs

In response to the COVID-19 pandemic, various governments have enacted or continue to contemplate temporary measures to provide aid and economic stimulus directly to companies through cash grants and credits or indirectly through payments to temporarily furloughed employees.

On March 27, 2020, in response to the COVID-19 pandemic, the U.S. government enacted the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"). In addition to including temporary changes to income and non-income-based tax laws, the CARES Act provides refundable employee retention credits and defers the requirement to remit the employer-paid portion of social security payroll taxes. Similar pay protection programs were enacted in Canada and Europe that primarily provide direct grants to companies to cover the salary and wages of employees (retained or temporarily furloughed). During the three and nine months ended September 30, 2020, we recognized savings of approximately $35 million and $95 million, respectively, from these temporary measures in the U.S., Canada and Europe, including $28 million and $81 million, respectively, from various government assistance programs and $7 million and $14 million, respectively, from furlough programs. Through the use of these programs, we have thus far been able to provide an offset to our costs, without further use of cash, while largely maintaining our employee base and minimizing the financial impact to our employees.

There were no material impacts to our income tax expense in the second or third quarters of 2020 as a result of the temporary changes included in the CARES Act and we expect to defer payment of the employer-paid portion of social security payroll taxes through the end of calendar year 2020; however, this deferral will be reduced by employee retention credits as earned during 2020.

Savings were recorded as follows in the Condensed Consolidated Statements of Income:

(in millions)	Three Months Ended September 30, 2020	Nine Months Ended September 30, 2020
Cost of sales	$ 1	$ 1
Cost of services, maintenance and rentals	25	65
Research, development and engineering expenses	—	1
Selling, administrative and general expenses	9	28
Total Estimated savings	$ 35	$ 95

Overview

Third Quarter 2020 Review

Total revenue of $1.77 billion for third quarter 2020 declined 18.9% from third quarter 2019, including a 0.8-percentage point favorable impact from currency. The decrease in revenue reflected a decrease of 20.0% in Post sale revenue, including a 0.7-percentage point favorable impact from currency and a decrease of 15.2% in Equipment sales revenue, including a 0.9-percentage point favorable impact from currency.

Total revenue of $5.09 billion for the nine months ended September 30, 2020 declined 23.1% as compared to the prior year period, including a 0.3-percentage point unfavorable impact from currency. The decrease in revenue reflected a decrease of 22.0% in Post sale revenue, including a 0.3-percentage point unfavorable impact from currency, and a decrease of 27.1% in Equipment sales revenue, with no impact from currency.

The COVID-19 pandemic significantly impacted our third quarter 2020 and year to date revenues due to business closures and office building capacity restrictions that impacted our customers' purchasing decisions, and caused lower printing volumes on our devices. The biggest impact from the pandemic occurred in the second quarter 2020, while, the rate of decline of our revenues improved sequentially in third quarter 2020, as more businesses reopened and more employees returned to the workplace. Geographically, revenue declines were similar in both of our go-to-market regions for the year. The improvements in third quarter 2020 revenues grew the most sequentially, from second quarter 2020, in our EMEA Operations, primarily as a result of wider reopenings of workplaces and economies over the summer in the region, and higher installation of devices associated with our hybrid workplace promotions. EMEA revenues were also more favorably impacted by recent acquisitions in the region. The decrease of revenues in third quarter 2020 from our Americas Organization also improved sequentially as a result of business reopenings, primarily in our SMB and indirect channels, while the sequential recovery of Large Enterprise revenues in the region was smaller due to the more restricted reopening of large office buildings, as well as a larger mix of bundled contracts with fixed minimums. Our North American operations include a larger mix of government, education, healthcare and other large customers that have been less affected by business closures than our SMB customers.

Net income attributable to Xerox Holdings[1] and adjusted[2] Net income attributable to Xerox Holdings were as follows:

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2020	2019	B/(W)	2020	2019	B/(W)
Net income attributable to Xerox Holdings[(1)]	$ 90	$ 157	$ (67)	$ 115	$ 382	$ (267)
Adjusted[(2)] Net income attributable to Xerox Holdings	105	184	(79)	191	528	(337)

Third quarter 2020 Net income attributable to Xerox Holdings[1] decreased $67 million as compared to third quarter 2019 reflecting the impact from lower revenues primarily associated with the COVID-19 pandemic that were only partially offset by lower costs and expenses including lower Income tax expense as well as lower Transaction and related costs, net and Other expenses, net. Third quarter 2020 Adjusted[2] net income attributable to Xerox Holdings decreased $79 million as compared to third quarter 2019, reflecting lower revenues, which were only partially offset by lower costs and expenses and lower Income tax expense.

Net income attributable to Xerox Holdings[1] for the nine months ended September 30, 2020 decreased $267 million as compared to the prior year period reflecting the impact from lower revenues, primarily associated with the COVID-19 pandemic, and higher Transaction and related costs, net, that were only partially offset by lower costs and expenses, including lower Income tax expense as well as lower Restructuring and related costs and Other expenses, net. In addition, Net income attributable to Xerox Holdings[1] for the nine months ended September 30, 2020 includes the first quarter 2020 impact of a $61 million increase in our bad debt provision reflecting the expected impact from the COVID-19 pandemic on our receivable portfolio. Adjusted[2] net income attributable to Xerox Holdings for the nine months ended September 30, 2020 decreased $337 million as compared to the prior year period primarily reflecting lower revenues, which were only partially offset by lower costs and expenses including lower Income tax expense, partially offset by the increased bad debt provision.

Net income attributable to Xerox Holdings[1] for the three and nine months ended September 30, 2020 were both positively impacted by savings of approximately $35 million and $95 million, respectively, from temporary government assistance measures and furlough programs in the U.S., Canada and Europe. Refer to the Government Assistance and Furlough Programs section for additional information.

Cash flows provided by operating activities of continuing operations for the nine months ended September 30, 2020 were $313 million, as compared to $846 million in the prior year period primarily reflecting lower net income, as result of the COVID-19 pandemic, as well as increased use of working capital, net[3], partially offset by decreases in finance assets and lower payments for taxes due to lower pre-tax income. Cash used in investing activities for the nine months ended September 30, 2020 was $223 million including capital expenditures of $60 million and acquisitions of $193 million. Cash provided by financing activities for the nine months ended September 30, 2020 was $424 million reflecting proceeds of $1,507 million from the issuance of Senior Notes and $340 million from a secured financing arrangement, partially offset by payments of $1,051 million on Senior Notes, $150 million on repurchases of our Common Stock and dividend payments of $176 million.

2020 Outlook

As a result of the uncertainty created by the COVID-19 pandemic, in the first quarter 2020 we withdrew our previously disclosed outlooks for full year 2020 revenue, earnings, operating cash flows and capital allocation as disclosed in our 2019 Annual Report. At this time, we remain committed to delivering positive earnings and operating cash flows from continuing operations, after capital expenditures, in the fourth quarter. We also remain committed to paying our current dividend on common shares and returning at least 50% of operating cash flows from continuing operations, after capital expenditures, to shareholders. We expect to complete at least $150 million in share repurchases during the remainder of 2020.

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(1) Net income from continuing operations attributable to Xerox Holdings.
(2) See the "Non-GAAP Financial Measures" section for an explanation of the non-GAAP financial measure.
(3) Working capital, net reflects Accounts receivable, net, Inventories and Accounts payable.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of our financial condition and results of operations (MD&A) is based on the Condensed Consolidated Financial Statements and accompanying notes that have been prepared in accordance with GAAP. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

As discussed in our MD&A, during the first half of 2020 the company was significantly impacted by the economic disruption caused by the COVID-19 pandemic. This disruption required us to review the majority of our estimates to ensure we appropriately considered the impacts caused by the COVID-19 pandemic. The following is a discussion of several key estimates with respect to revenue recognition, allowance for doubtful accounts and credit losses, income taxes and goodwill. As the extent and duration of the impacts from the COVID-19 pandemic remain uncertain, the Company's estimates and assumptions may evolve as conditions change.

Revenue Recognition

As disclosed in our 2019 Annual Report, revenues associated with our service arrangements – maintenance and document management - are generally recognized as maintenance and printing services are rendered, which is generally on the basis of the number of images produced. Accordingly, this recognition methodology requires us to estimate customer usage at the end of a period since the customer is typically not invoiced for that usage until the following period. Normally this estimation process is straight-forward and objective based on our significant history with different types of customers and device usage as well as the fact that a majority of our devices have connectivity to Xerox so we can remotely read and collect usage data. In addition, as disclosed in our 2019 Annual report, our service arrangements normally include a minimum volume charge together with a variable charge, so the estimation process is limited to the variable component, which will vary based on the channel and geography. However, the impacts from the COVID-19 economic disruption that began in March 2020, as well as the related shutdowns of some of our customers, required us to further review our estimation process for the variable component to ensure we properly and objectively captured the impacts of the decline in volumes and not solely rely on historical usage data. We will continue to assess the usage data of our customers to ensure we properly adjust historical averages and recognize revenue consistent with those revised usage patterns and ultimately what is invoiced to the customer.

Allowance for Doubtful Accounts and Credit Losses

As disclosed in Notes 8 – Accounts Receivable, Net and Note 9 - Finance Receivables, Net, in the Condensed Consolidated Financial Statements consistent with our adoption of ASU 2016-13 effective January 1, 2020 (refer to Note 2 - Recent Accounting Pronouncements in the Condensed Consolidated Financial Statements), the allowance for doubtful accounts and credit losses is based on an assessment of past collection experience as well as consideration of current and future economic conditions and changes in our customer collection trends. In assessing the level of reserve in 2020, we had to critically assess current and forecasted economic conditions as a result of the COVID-19 pandemic to ensure we objectively included those expected impacts in the determination of our reserve. Our assessment also included current portfolio credit metrics and the level of reserves and write-offs we recorded on our receivable's portfolio during the credit crisis in 2008/09 as additional reference points to objectively determine the adequacy of our allowance. Refer also to the Selling, Administrative and General Expenses (SAG) section for additional discussion regarding the incremental bad debt provision recorded in the first quarter 2020 primarily related to the economic impact of the COVID-19 pandemic.

Income Taxes

As disclosed in our 2019 Annual Report, we record the estimated future tax effects of temporary differences between the tax bases of assets and liabilities and the amounts reported, as well as net operating loss and tax credit carryforwards. Deferred tax assets are assessed for realizability and, where applicable, a valuation allowance is recorded to reduce the total deferred tax asset to an amount that will, more-likely-than-not, be realized in the future. We apply judgment in assessing the realizability of these deferred tax assets and the need for any valuation allowances. In determining the amount of deferred tax assets that are more-likely-than-not to be realized, we considered historical profitability, projected future taxable income, the expected timing of the reversals of existing temporary difference and tax planning strategies.

Similar to other estimates during 2020, we needed to determine if any change in valuation allowances was required based on the rapid change in the economic environment and the expected changes in our financial projections for 2020 resulting from the impacts of the COVID-19 pandemic. Our effective tax rate for the nine months ended September 30, 2020 included an approximate 5-percentage point impact for additional valuation allowances, which were primarily the result of the negative impacts of the COVID-19 pandemic. We expect to continue to review projections and their potential impact on our assessment regarding the recoverability of our deferred tax asset balances in the fourth quarter 2020 and new or additions to existing valuation allowances may be required.

Goodwill

We perform our annual Goodwill impairment testing in the fourth quarter of each year. During the fourth quarter 2019 impairment testing, our estimated fair value of the Company was significantly in excess of our net book value. However, in the second quarter 2020, as a result of the continued negative financial impacts from the COVID-19 pandemic on our current and near-term future operations, the expected slower recovery during the latter half of 2020 as businesses return to their respective offices, as well as a sustained market capitalization below our book value, we determined there was a triggering event requiring an interim quantitative evaluation of Goodwill.

In prior years' quantitative tests we estimated the fair value of the entity by weighting the results of the income approach (discounted cash flow methodology) and market approach. However, as a result of limited market compares due to companies not providing guidance in this current economic environment, our interim quantitative evaluation of goodwill was based on the income approach to estimate fair value. The income approach, which we believe provides a result that is equally or more representative of fair value in the current circumstances, is based on the discounted cash flow method that uses the Company's estimates for future forecasted financial performance including revenues, operating expenses, and taxes, as well as working capital and capital asset requirements. Projected cash flows are then discounted to a present value employing a discount rate that properly accounts for the estimated market weighted-average cost of capital, as well as any risk unique to the subject cash flows. Our estimates regarding future forecasted cash flows accordingly reflected consideration of the continued negative financial impacts from the COVID-19 pandemic on our current and future operations as well expected recovery scenarios.

After completing our interim impairment review, we concluded that Goodwill was not impaired and, based on various forecast models and related sensitivity analysis, which we believe reflect the inherent uncertainty of the future, the excess of fair value over carrying value ranged between 10 and 20 percent. We believe the discount rate applied in our cases was an appropriate risk adjusted cost of capital and considers the current lower debt interest rates in the market. Although our internal forecasts clearly indicate that Xerox is and will be significantly impacted by the economic disruption caused by the COVID-19 pandemic in 2020, based on a review of macroeconomic and industry considerations, the business is expected to continue to recover in the second half of the year and recover further still in 2021 with the expectation of a return to normal trends by 2022. In addition, consistent with our historical results, we believe we have the ability, within a relevant range, to offset potential further delays in the recovery of our revenue base with cost reductions and productivity improvements to help manage and maintain our projected level of cash flows. Lastly, although our estimates of the fair value of the entity were in excess of our market capitalization, we believe the implied premiums that would be indicated at net book value or at our estimated fair values are reasonable. In performing its assessment, the Company believes it has made reasonable estimates based on the facts and circumstances that were available as of the second quarter reporting date in light of the developing situation resulting from the COVID-19 pandemic.

In the third quarter 2020, although business performance improved, we determined that the continued negative impacts on our current operations resulting from the COVID-19 pandemic and the impacts expected on our future operations as well as a market capitalization that remains less than book value required us to qualitatively assess whether a triggering event had occurred and whether it was more likely than not that our goodwill was impaired as of September 30, 2020. Based on our interim qualitative assessment as of September 30, 2020, we determined that it was more-likely-than-not that the fair value of the Company was greater than net book value and that we did not have a “triggering event” requiring a quantitative or Step 1 assessment of goodwill. Our review of macroeconomic and industry considerations, as well as the Company's financial results for the third quarter 2020 were all consistent with expectations and sensitivities assessed as part of our quantitative review performed in the second quarter 2020. Further, although our market capitalization remained below our net book value, the Company's market capitalization did improve in the third quarter 2020.

If assumptions or estimates in the fair value calculations change or if future cash flows vary from what was expected, including those assumptions relating to the duration and severity of the financial impact from the COVID-19 pandemic, this may impact the impairment analysis and could reduce the underlying cash flows used to estimate fair values and result in a decline in fair value that may trigger future impairment charges. We normally assess goodwill for impairment during the fourth quarter and based on the events and factors noted in 2020 – macroeconomic, industry and company – we plan to utilize a quantitative model for the assessment of the recoverability of our goodwill balance. As part of that quantitative assessment, we expect to monitor developments regarding the COVID-19 pandemic, including its impact to our forecasted revenues, expenses and cash flow, as well as our market capitalization. If the extent and duration of the economic disruption caused by the pandemic is longer or more severe than currently estimated there could be a material impact to our revenues and expected cash flows which in turn could negatively impact the recoverability of our Goodwill balance.

Financial Review

Revenues

	Three Months Ended September 30,				Nine Months Ended September 30,				% of Total Revenue	
(in millions)	2020	2019	% Change	CC % Change	2020	2019	% Change	CC % Change	2020	2019
Equipment sales	$ 419	$ 494	(15.2)%	(16.1)%	$ 1,054	$ 1,446	(27.1)%	(27.1)%	21 %	22 %
Post sale revenue	1,348	1,685	(20.0)%	(20.7)%	4,038	5,176	(22.0)%	(21.7)%	79 %	78 %
Total Revenue	$ 1,767	$ 2,179	(18.9)%	(19.7)%	$ 5,092	$ 6,622	(23.1)%	(22.8)%	100 %	100 %
Reconciliation to Condensed Consolidated Statements of Income:										
Sales	$ 651	$ 784	(17.0)%	(17.7)%	$ 1,676	$ 2,308	(27.4)%	(27.1)%		
Less: Supplies, paper and other sales	(232)	(290)	(20.0)%	(20.2)%	(622)	(862)	(27.8)%	(27.1)%		
Equipment sales	$ 419	$ 494	(15.2)%	(16.1)%	$ 1,054	$ 1,446	(27.1)%	(27.1)%		
Services, maintenance and rentals	$ 1,061	$ 1,335	(20.5)%	(21.3)%	$ 3,246	$ 4,130	(21.4)%	(21.2)%		
Add: Supplies, paper and other sales	232	290	(20.0)%	(20.2)%	622	862	(27.8)%	(27.1)%		
Add: Financing	55	60	(8.3)%	(8.8)%	170	184	(7.6)%	(7.3)%		
Post sale revenue	$ 1,348	$ 1,685	(20.0)%	(20.7)%	$ 4,038	$ 5,176	(22.0)%	(21.7)%		
Americas	$ 1,152	$ 1,488	(22.6)%	(22.2)%	$ 3,381	$ 4,402	(23.2)%	(22.8)%	66 %	67 %
EMEA	568	640	(11.3)%	(14.6)%	1,571	2,061	(23.8)%	(23.8)%	31 %	31 %
Other	47	51	(7.8)%	(7.8)%	140	159	(11.9)%	(11.9)%	3 %	2 %
Total Revenue[(1)]	$ 1,767	$ 2,179	(18.9)%	(19.7)%	$ 5,092	$ 6,622	(23.1)%	(22.8)%	100 %	100 %
Memo:										
Xerox Services	$ 661	$ 829	(20.3)%	(21.3)%	$ 2,041	$ 2,535	(19.5)%	(19.2)%	40 %	38 %

CC - See "Currency Impact" section for a description of Constant Currency.
(1) Refer to the "Geographic Sales Channels and Product and Offerings Definitions" section.

Total revenue for the three months ended September 30, 2020 decreased 18.9% as compared to the third quarter 2019, including a 0.8-percentage point favorable impact from currency and an approximate 1.4-percentage point favorable impact from recent partner dealer acquisitions, while total revenue for the nine months ended September 30, 2020 decreased 23.1% as compared to the prior year period, including a 0.3-percentage point unfavorable impact from currency and an approximate 1.1-percentage point favorable impact from recent partner dealer acquisitions.

The COVID-19 pandemic significantly impacted our revenue during 2020 due to business closures and office building capacity restrictions that impacted our customers' purchasing decisions and caused lower printing volumes on our devices. However, the rate of our revenue decline improved sequentially from second quarter, as more businesses slowly reopened and more employees returned to the workplace. Geographically, revenue declines were similar in both of our go-to-market regions for the nine months ended September 30, 2020, while revenue growth in third quarter 2020 from our EMEA Operations improved the most sequentially, primarily as a result of wider reopenings of workplaces and economies over the summer in the region, and higher installation of devices associated with our hybrid workplace promotions. EMEA revenues were also more favorably impacted by recent acquisitions in the region. The decrease of revenues in third quarter 2020 from our Americas Organization also improved sequentially as a result of business reopenings, primarily in our SMB and indirect channels, while the sequential recovery of Large Enterprise revenues in the region was smaller due to the more restricted reopening of large office buildings, as well as a larger mix of bundled contracts with fixed minimums. Our North American operations include a larger mix of government, education, healthcare and other large customers that have been less affected by business closures than our SMB customers. Our Latin American Operations had the largest revenue declines, consistent with the extensive lockdowns and the economic crisis throughout the region. Total revenue for the three and nine months ended September 30, 2020 reflected the following:

Post sale revenue

Post sale revenue primarily reflects contracted services, equipment maintenance, supplies and financing. These revenues are associated not only with the population of devices in the field, which is affected by installs and removals, but also by the page volumes generated from the usage of such devices and the revenue per printed page. Post sale revenue also includes transactional IT hardware sales and implementation services from our XBS organization. For the three months ended September 30, 2020 Post sale revenue decreased 20.0% as compared to the third quarter 2019, including a 0.7-percentage point favorable impact from currency, while Post Sale revenue decreased 22.0% for the nine months ended September 30, 2020, including a 0.3-percentage point unfavorable impact from currency. The COVID-19 pandemic significantly impacted our Post sale revenue since March 2020, however, its impact on our Post sale revenue slightly moderated later in the second quarter and continued to moderate during the third quarter, as business reopenings in certain geographical areas in the U.S. and Europe resulted in a gradual moderation of our page volume declines. The decline in Post sale revenue reflected the following:

- **Services, maintenance and rentals revenue** includes rental and maintenance revenue (including bundled supplies) as well as the post sale component of the document services revenue from our Xerox Services offerings.
    - For the three months ended September 30, 2020, these revenues decreased 20.5% as compared to the third quarter 2019, including a 0.8-percentage point favorable impact from currency. The decline at constant currency[1] reflected a lower population of devices (which is partially associated with continued lower Enterprise signings and lower installs in prior and current periods), an ongoing competitive price environment, and lower page volumes (including a higher mix of lower average-page-volume products) that are worse than pre-COVID-19 decline trends due to the impact of business closures during the quarter. While these revenues are contractual in nature, on average, our bundled services contracts include a minimum fixed charge and a significant variable component based on print volumes. The rate of decline of these revenues moderated during the quarter compared to the prior quarter as businesses reopened in certain geographical areas in the U.S. and EMEA.
    - For the nine months ended September 30, 2020, these revenues decreased 21.4% as compared to the prior year period, including a 0.2-percentage point unfavorable impact from currency. The decline at constant currency[1] reflected a lower population of devices (which is partially associated with continued lower Enterprise signings and lower installs in prior and current periods), an ongoing competitive price environment, and lower page volumes (including a higher mix of lower average-page-volume products) that are worse than pre-COVID-19 decline trends due to the impact of business closures since March 2020. While these revenues are contractual in nature, on average, our bundled services contracts include a minimum fixed charge and a significant variable component based on print volumes. The rate of decline of these revenues began to slightly moderate late in the first half of 2020, and continued to moderate during the third quarter 2020, as businesses started to reopen in certain geographical areas in the U.S. and EMEA.
- **Supplies, paper and other sales** includes unbundled supplies and other sales.
    - For the three months ended September 30, 2020, these revenues decreased 20.0% as compared to third quarter 2019, including a 0.2-percentage point favorable impact from currency and reflected lower supplies revenues associated with lower page volume trends, slightly offset by higher IT revenues from our XBS channel and from recently acquired IT dealers outside of the U.S. The decrease in supplies was significantly impacted by lower sales through indirect channels, as resellers, in response to the lower demand caused by the pandemic, reduced their inventory purchases to manage liquidity. We expect that such resellers will maintain low purchase levels and lower inventories until there is a stable recovery in sales activity.
    - For the nine months ended September 30, 2020, these revenues decreased 27.8% as compared to the prior year period, including a 0.7-percentage point unfavorable impact from currency and reflected lower supplies revenues associated with lower page volume trends, slightly offset by higher IT revenues from our XBS channel and from recently acquired IT dealers outside of the U.S. The decrease in supplies was significantly impacted by lower sales through indirect channels, as resellers, in response to the lower demand caused by the pandemic, reduced their inventory purchases to manage liquidity. We expect that such resellers will maintain low purchase levels and lower inventories until there is a stable recovery in sales activity.

- **Financing revenue** is generated from financed equipment sale transactions. For the three months ended September 30, 2020, these revenues declined 8.3% as compared to third quarter 2019, including a 0.5-percentage point favorable impact from currency, while Financing revenue for the nine months ended September 30, 2020 decreased 7.6%, including a 0.3-percentage point unfavorable impact from currency and reflected a continued decline in the finance receivables balance due to lower equipment sales in prior periods.

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

Equipment sales revenue

	Three Months Ended September 30,				Nine Months Ended September 30,				% of Equipment Sales	
(in millions)	2020	2019	% Change	CC % Change	2020	2019	% Change	CC % Change	2020	2019
Entry	$ 55	$ 49	12.2%	11.6%	$ 129	$ 154	(16.2)%	(15.9)%	12%	11%
Mid-range	291	344	(15.4)%	(16.3)%	718	996	(27.9)%	(28.0)%	68%	69%
High-end	69	96	(28.1)%	(28.9)%	197	282	(30.1)%	(30.1)%	19%	19%
Other	4	5	(20.0)%	(20.0)%	10	14	(28.6)%	(28.6)%	1%	1%
Equipment sales	$ 419	$ 494	(15.2)%	(16.1)%	$ 1,054	$ 1,446	(27.1)%	(27.1)%	100%	100%

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

Equipment sales revenue decreased 15.2% for the three months ended September 30, 2020 as compared to third quarter 2019, including a 0.9-percentage point favorable impact from currency as well as the impact of price declines of approximately 5%, while for the nine months ended September 30, 2020, Equipment sales revenue decreased 27.1%, as compared to the prior year period, with no impact from currency, as well as the impact of price declines of approximately 5%. The COVID-19 pandemic has significantly impacted our equipment sales revenue during 2020 as a result of business closures and office building capacity restrictions that impacted our customers' purchasing decisions and caused delayed installations. The pandemic affected our operations in March 2020 and throughout the second quarter 2020, however, as businesses reopened in certain geographical areas of the U.S. and EMEA the impact of the pandemic on our equipment sales lessened compared to its impact in the first half of 2020, resulting in sequential improvement in third quarter 2020 in the rate of decline. The decline at constant currency[1] reflected the following:

- **Entry** - The increase for the three months ended September 30, 2020, as compared to third quarter 2019, was due to higher installs of lower-end printers and MFPs (primarily black and white devices) in EMEA and through our indirect channels in the U.S., in part associated with hybrid workplace promotions. The decrease for the nine months ended September 30, 2020, as compared to the prior year period, was primarily due to lower sales of devices through our indirect channels in EMEA, Latin America and the U.S. affected primarily by the COVID-19 pandemic and partially offset by higher installs of black and white devices in EMEA as well as the benefit of large order deals from Eurasia.
- **Mid-range** - The decrease for the three months ended September 30, 2020, as compared to third quarter 2019, was driven primarily by the COVID-19 pandemic and related office closures, which impacted sales of this group of products more due to their prevalence in office-team settings. Higher sales to our government and education sector customers in North America, as well as strong demand for our recently launched PrimeLink devices and our new generation of ConnectKey devices, provided a partial offset. The decrease for the nine months ended September 30, 2020, as compared to the prior year period, was primarily driven by the COVID-19 pandemic and related office closures, which has more significantly impacted our sales through indirect channels in the U.S. and Europe, as resellers in response to lower demand caused by the pandemic, have reduced their inventory purchases to manage liquidity, partially offset by strong demand for our recently launched PrimeLink devices and our new generation of ConnectKey devices.
- **High-end** - The decrease for the three months ended September 30, 2020, as compared to third quarter 2019, primarily reflected lower installs of our Versant entry-production color, Iridesse and iGen production presses, partially offset by higher installs of our cut-sheet inkjet systems. The decrease in our equipment sales revenue from production color systems was partially impacted by the COVID-19 pandemic, particularly affecting installs of our Versant and Iridesse systems due to their higher mix to the SMB segment where production printing applications depend on business reopening activity. The decrease for the nine months ended September 30, 2020, as compared to the prior year period, primarily reflected lower installs of our Versant entry-production color and iGen production presses, as well as lower installs of our Iridesse production presses in EMEA, which were partially offset by demand for our recently launched Baltoro Inkjet press. The decrease in our equipment sales revenue from production color systems was partially impacted by the COVID-19 pandemic, primarily in

our European operations, where the distribution of our Iridesse systems through indirect channels was affected by furlough adoptions and lower inventory purchases as dealers managed their liquidity.

Total Installs

Installs reflect new placement of devices only (i.e., measure does not take into account removal of devices which may occur as a result of contract renewals or cancellations). Revenue associated with equipment installations may be reflected up-front in Equipment sales or over time either through rental income or as part of our Xerox Services revenues (which are both reported within our Post sale revenues), depending on the terms and conditions of our agreements with customers. Installs include activity from Xerox Services and Xerox-branded products shipped to our XBS sales unit. Detail by product group (see *Geographic Sales Channels and Product and Offerings Definitions)* is shown below.

Installs for the third quarter 2019:

Entry

- 9% decrease in color multifunction devices reflecting lower installs of ConnectKey devices through our indirect channels in the U.S. and in EMEA.
- 52% increase in black-and-white multifunction devices reflecting higher activity primarily from indirect channels in the U.S. and developing regions in EMEA. The increase is primarily driven by higher sales of low-end devices associated with large order deals from Eurasia and hybrid workplace promotions.

Mid-Range(1)

- 21% decrease in mid-range color installs primarily reflecting lower installs of multifunction color devices partially offset by strong demand for our recently launched PrimeLink entry-production color devices and our new generation of ConnectKey multi-function devices.
- 19% decrease in black-and-white mid-range installs reflecting in part global market trends partially offset by strong demand for our recently launched PrimeLink light-production devices and our new generation of ConnectKey multi-function devices.

High-End(1)

- 38% decrease in high-end color installs reflecting primarily lower installs of our lower-end Versant devices and of our Iridesse and iGen production systems, partially offset by higher installs of our Baltoro cut-sheet inkjet systems.
- 13% decrease in high-end black-and-white systems reflecting lower installs of our Nuvera devices along with market trends.

Installs for the nine months ended September 30, 2020:

Entry

- 21% decrease in color multifunction devices reflecting lower installs of ConnectKey devices through our indirect channels in the U.S. and in EMEA.
- 15% increase in black-and-white multifunction devices reflecting higher activity primarily from sales in the lower end of the portfolio through indirect channels in our developing regions in EMEA, partially offset by lower installs through our indirect channels in Latin America and the U.S.

Mid-Range(1)

- 31% decrease in mid-range color installs primarily reflecting lower installs of multifunction color devices partially offset by strong demand for our recently launched PrimeLink entry-production color devices and our new generation of ConnectKey multi-function devices.
- 26% decrease in mid-range black-and-white reflecting in part global market trends partially offset by strong demand for our recently launched PrimeLink light-production multi-function devices and our new generation of ConnectKey multi-function devices.

High-End(1)

- 50% decrease in high-end color installs reflecting primarily lower installs of our lower-end Versant devices, along with lower installs of our Iridesse production systems, partially offset by strong demand for our recently-launched Baltoro cut-sheet inkjet systems.
- 16% decrease in high-end black-and-white systems reflecting lower installs of our Nuvera devices along with market trends.

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(1) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales; including Fuji Xerox digital front-end sales for the three and nine months ended September 30, 2020 Mid-range color devices decreased 21% and 31%, respectively, and High-end color systems decreased 39% and 50%, respectively.

Geographic Sales Channels and Product and Offerings Definitions

Our business is aligned to a geographic focus and is primarily organized on the basis of go-to-market sales channels, which are structured to serve a range of customers for our products and services. In 2019 we changed our geographic structure to create a more streamlined, flatter and more effective organization, as follows:

- Americas, which includes our sales channels in the U.S. and Canada, as well as Mexico, and Central and South America.
- EMEA, which includes our sales channels in Europe, the Middle East, Africa and India.
- Other, primarily includes sales to and royalties from Fuji Xerox, and our licensing revenue.

Our products and offerings include:

- “Entry”, which includes A4 devices and desktop printers. Prices in this product group can range from approximately $150 to $3,000.
- “Mid-Range”, which includes A3 Office and Light Production devices that generally serve workgroup environments in mid to large enterprises. Prices in this product group can range from approximately $2,000 to $75,000+.
- “High-End”, which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises. Prices for these systems can range from approximately $30,000 to $1,000,000+.
- Xerox Services, includes solutions and services that span from managing print to automating processes to managing content. Our primary offerings are Intelligent Workplace Services (IWS), as well as Digital and Cloud Print Services (including centralized print services) and Communication and Marketing Solutions.

Costs, Expenses and Other Income

Summary of Key Financial Ratios

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

(in millions)	Three Months Ended September 30, 2020	2019	B/(W)	Nine Months Ended September 30, 2020	2019	B/(W)
Gross Profit	$ 651	$ 872	$ (221)	$ 1,927	$ 2,634	$ (707)
RD&E	76	100	24	236	280	44
SAG	444	510	66	1,411	1,573	162
Equipment Gross Margin	25.5 %	34.5 %	(9.0) pts.	26.7 %	32.9 %	(6.2) pts.
Post sale Gross Margin	40.3 %	41.6 %	(1.3) pts.	40.7 %	41.7 %	(1.0) pts.
Total Gross Margin	36.8 %	40.0 %	(3.2) pts.	37.8 %	39.8 %	(2.0) pts.
RD&E as a % of Revenue	4.3 %	4.6 %	0.3 pts.	4.6 %	4.2 %	(0.4) pts.
SAG as a % of Revenue	25.1 %	23.4 %	(1.7) pts.	27.7 %	23.8 %	(3.9) pts.
Pre-tax Income	$ 119	$ 223	$ (104)	$ 149	$ 486	$ (337)
Pre-tax Income Margin	6.7 %	10.2 %	(3.5) pts.	2.9 %	7.3 %	(4.4) pts.
Adjusted(1) Operating Profit	$ 131	$ 262	$ (131)	$ 280	$ 781	$ (501)
Adjusted(1) Operating Margin	7.4 %	12.0 %	(4.6) pts.	5.5 %	11.8 %	(6.3) pts.

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

Pre-tax Income Margin

Third quarter 2020 pre-tax income margin of 6.7% decreased 3.5-percentage points as compared to third quarter 2019. The decrease primarily reflected the impact of lower adjusted[1] operating margin (see below), of 4.6-percentage points, partially offset by lower Other expenses, net, Transaction and related, costs, net and Restructuring and related costs.

Pre-tax income margin for the nine months ended September 30, 2020 of 2.9% decreased 4.4-percentage points as compared to the prior year period. The decrease primarily reflected the impact of lower adjusted[1] operating margin (see below), of 6.3-percentage points, partially offset by lower Restructuring and related costs and Other expenses, net.

Adjusted[1] Operating Margin

Third quarter 2020 adjusted[1] operating margin of 7.4% decreased 4.6-percentage points as compared to third quarter 2019 reflecting the impact of lower revenues, primarily as a result of the significant effect of the COVID-19 pandemic on our business, partially offset by cost and expense reductions associated with our Project Own It transformation actions as well additional savings from various cost reduction actions to mitigate the impact of the pandemic, including approximately $35 million from temporary government assistance measures and furlough programs (see the **Government Assistance and Furlough Programs** section for further details) and other reductions in discretionary spend such as near-term targeted marketing programs and the use of contract employees and the temporary suspension of 401(k) matching contributions for the year 2020, as well as lower compensation incentives consistent with lower sales and operating results. The suspension of the 401(k) matching contribution in the third quarter 2020 resulted in a 0.7-percentage point benefit from the reversal in the third quarter 2020 of the accrual through the second quarter 2020. The decrease was also affected by an approximate 1.0-percentage point unfavorable combined impact from higher tariffs and transaction currency.

Adjusted[1] operating margin for the nine months ended September 30, 2020 of 5.5% decreased 6.3-percentage points as compared to prior year period reflecting the impact of lower revenues, primarily as a result of the significant effect of the COVID-19 pandemic on our business and a 1.2-percentage point unfavorable impact due to an increase in bad debt expense of $61 million in the first quarter 2020, to reflect the expected impact to our customer base and related outstanding trade and finance receivable portfolio as a result of the economic disruption caused by the pandemic. These negative impacts were partially offset by cost and expense reductions associated with our Project Own It transformation actions as well as additional savings from various cost reduction actions to mitigate the impact of the pandemic, including approximately $95 million from temporary government assistance measures and furlough programs in the second and third quarters of 2020 (see the **Government Assistance and Furlough Programs** section for further details) and other reductions in discretionary spend such as near-term targeted marketing programs and the use of contract employees and the temporary suspension of 401(k) matching contributions for the year 2020, as well as lower compensation incentives consistent with lower sales and operating results. The decrease was also affected by an approximate 0.8-percentage point unfavorable combined impact from higher tariffs and transaction currency.

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

Gross Margin

Third quarter 2020 gross margin of 36.8% decreased 3.2-percentage points as compared to third quarter 2019, reflecting the impact of lower revenues (including from our higher margin post sale stream) primarily as a result of the significant effect of the COVID-19 pandemic due to business closures, as well as price promotions, and an approximate 1.0-percentage point adverse combined impact from transaction currency and higher tariffs. These headwinds were partially offset by the cost savings from our Project Own It transformation actions, as well as the additional cost reduction actions to mitigate the impact of the pandemic, including savings of approximately $26 million from temporary government assistance measures and furlough programs and other reductions in discretionary spend such as the use of contract employees and the temporary suspension of 401(k) matching contributions.

Gross margin for the nine months ended September 30, 2020 of 37.8% decreased 2.0-percentage points as compared to the prior year period, reflecting the impact of lower revenues (including from our higher margin post sale stream) primarily as a result of the significant effect of the COVID-19 pandemic due to business closures, as well as price promotions, and an approximate 0.8-percentage point adverse combined impact from transaction currency and higher tariffs. These headwinds were partially offset by the benefits from our Project Own It transformation actions, as well as additional cost reduction actions to mitigate the impact of the pandemic, including savings of approximately $66 million from temporary government assistance measures and furlough programs and other reductions in discretionary spend such as the use of contract employees and the temporary suspension of 401(k) matching contributions.

Gross margins are expected to continue to be negatively impacted in future periods as a result of an increase in the cost of our imported products due to higher import tariffs. We currently estimate an approximate $30 million cost impact from these higher tariffs for the full year 2020.

Third quarter 2020 equipment gross margin of 25.5% decreased 9.0-percentage points as compared to third quarter 2019, reflecting the pressure from lower revenues (primarily as a result of COVID-19 related business closures) and an unfavorable mix of growth in low-end devices as well as the adverse impact of price incentives, transaction currency and incremental tariff costs partially offset by the benefit of cost reductions from Project Own It.

Equipment gross margin for the nine months ended September 30, 2020 of 26.7% decreased 6.2-percentage points as compared to the prior year period, reflecting the impact of lower revenues (primarily as a result of COVID-19 related business closures) as well as the adverse impact of price incentives, transaction currency and incremental tariff costs partially offset by the benefit of cost reductions from Project Own It.

Third quarter 2020 Post sale gross margin of 40.3% decreased 1.3-percentage points as compared to third quarter 2019, reflecting the impact of lower revenues (primarily as a result of COVID-19 related business closures impacting page volumes) and price erosion on contract renewals, partially offset by productivity and cost savings and restructuring savings associated with Project Own It transformation actions, as well as savings from our additional cost reduction actions to mitigate the impact of the pandemic, including approximately $25 million of savings from temporary government assistance measures and furlough programs and other reductions in discretionary spend such as the use of contract employees and the temporary suspension of 401(k) matching contributions.

Post sale gross margin for the nine months ended September 30, 2020 of 40.7% decreased 1.0-percentage points as compared to the prior year period, reflecting the impact of lower revenues (primarily as a result of COVID-19 related business closures impacting page volumes) and price erosion on contract renewals, partially offset by productivity and cost savings and restructuring savings associated with Project Own It transformation actions, as well as savings from our additional cost reduction actions to mitigate the impact of the pandemic, including approximately $65 million of savings from temporary government assistance measures and furlough programs and other reductions in discretionary spend such as the use of contract employees and the temporary suspension of 401(k) matching contributions.

Research, Development and Engineering Expenses (RD&E)

(in millions)	Three Months Ended September 30, 2020	Three Months Ended September 30, 2019	Change	Nine Months Ended September 30, 2020	Nine Months Ended September 30, 2019	Change
R&D	$ 61	$ 84	$ (23)	$ 194	$ 234	$ (40)
Sustaining engineering	15	16	(1)	42	46	(4)
Total RD&E Expenses	$ 76	$ 100	$ (24)	$ 236	$ 280	$ (44)

Third quarter 2020 RD&E as a percentage of revenue of 4.3% decreased by 0.3-percentage points as compared to third quarter 2019, primarily due to the benefit of cost reductions that outpaced the impact of revenue declines.

RD&E of $76 million decreased $24 million as compared to third quarter 2019 reflecting savings from Project Own It that enhanced simplification and rationalization in our core technology spend, and other temporary cost actions, as well as a favorable impact from the timing of investments, partially offset by higher spend in our innovation areas.

RD&E as a percentage of revenue for the nine months ended September 30, 2020 of 4.6% increased by 0.4-percentage points as compared to the prior year period, primarily due to the impact of revenue declines that outpaced the benefit of cost reductions.

RD&E for the nine months ended September 30, 2020 of $236 million decreased $44 million as compared to the prior year period, reflecting savings from Project Own It that enhanced simplification and rationalization in our core technology spend, and other temporary cost actions, as well as a favorable impact from the timing of investments, partially offset by higher spend in our innovation areas.

Selling, Administrative and General Expenses (SAG)

Third quarter 2020 SAG as a percentage of revenue of 25.1% increased by 1.7-percentage points as compared to third quarter 2019, primarily due to the impact of lower revenues, partially offset by the benefits from cost savings and restructuring associated with our Project Own It transformation actions, and savings from additional cost reduction actions to mitigate the impact of the pandemic, including approximately $9 million from temporary government assistance measures and furlough programs, and other reductions in discretionary spend such as near-term targeted marketing programs, the use of contract employees and the temporary suspension of 401(k) matching contributions, as well as lower compensation incentives consistent with lower sales and operating results.

Third quarter 2020 SAG of $444 million decreased by $66 million as compared to third quarter 2019, reflecting cost savings and restructuring savings associated with our Project Own It transformation actions and from additional cost reduction actions to mitigate the impact of the pandemic, as described above, partially offset by expenses from recent acquisitions.

SAG as a percentage of revenue for the nine months ended September 30, 2020 of 27.7% increased by 3.9-percentage points as compared to the prior year period and included a 1.2-percentage point unfavorable impact due to the increase in bad debt expense of $61 million in the first quarter 2020, as compared to the prior year period. The increase also reflected the impact of lower revenues, partially offset by the benefits from cost savings and restructuring associated with our Project Own It transformation actions and savings from additional cost reduction actions to mitigate the impact of the pandemic, including approximately $28 million from temporary government assistance measures and furlough programs, and other reductions in discretionary spend such as near-term targeted marketing programs and the use of contract employees and the temporary suspension of the 401(k) matching contributions, as well as lower compensation incentives consistent with lower sales and operating results.

SAG for the nine months ended September 30, 2020 of $1,411 million decreased $162 million as compared to the prior year period, reflecting cost savings and restructuring savings associated with our Project Own It transformation actions and from additional cost reduction actions to mitigate the impact of the pandemic, as noted above. These savings were partially offset by the increase in bad debt expense as described above, as well as expenses from recent acquisitions.

During first quarter 2020, our bad debt provision was $61 million higher than the prior year period, primarily reflecting the expected impact on our customer base and related outstanding receivables portfolio as a result of the economic disruption caused by the COVID-19 pandemic. The majority of the increased provision is related to finance receivables due to their larger balance and longer-term nature. During the second and third quarters 2020, write-offs as well as the bad debt reserves for our trade and finance receivables portfolios were in line with our models and consistent with future expectations regarding the impacts from the COVID-19 pandemic. We continue to monitor developments regarding the pandemic, including business closures and mitigating government support actions and as a result our reserves may need to be updated in future periods. Bad debt expense for third quarter 2020 of $16 million was $3 million higher as compared to third quarter 2019, while bad debt expense for the nine months ended September 30, 2020 of $103 million was $65 million higher compared to the prior year period as a result of the increase in the bad debts provision recorded in first quarter 2020 as described above. Bad debt expense of approximately 2.7 percent of total gross receivables on a trailing-twelve-month basis (TTM) remained higher than the 2019 trend of less than one percent, reflecting the significant increase in first quarter 2020.

Restructuring and Related Costs

We incurred restructuring and related costs of $20 million for the third quarter 2020, as compared to $27 million for third quarter 2019, and $64 million for the nine months ended September 30, 2020 as compared to $176 million in the prior year period. These costs were primarily related to implementation of initiatives under our business transformation projects including Project Own It. The following is a breakdown of those costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2020	2019	2020	2019
Restructuring and severance[(1)]	$ 18	$ 12	$ 57	$ 37
Asset impairments[(2)]	4	2	6	48
Other contractual termination costs[(3)]	1	1	2	18
Net reversals[(4)]	(3)	(7)	(18)	(23)
Restructuring and asset impairment costs	20	8	47	80
Retention related severance/bonuses[(5)]	(2)	11	9	31
Contractual severance costs[(6)]	—	3	4	41
Consulting and other costs[(7)]	2	5	4	24
Total	$ 20	$ 27	$ 64	$ 176

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(1) Reflects headcount reductions of approximately 650 and 150 employees worldwide for the three months ended September 30, 2020 and 2019, respectively, and 1,100 and 450 employees worldwide for the nine months ended September 30, 2020 and 2019, respectively.

(2) Primarily related to the exit and abandonment of leased and owned facilities. The charge includes the accelerated write-off of $2 million for the three months ended September 30, 2020 and 2019, respectively, and $3 million and $36 million for the nine months ended September 30, 2020 and 2019, respectively, for leased right-of-use assets, as well as $2 million and $0 million for the three months ended September 30, 2020 and 2019, respectively, and $3 million and $12 million for the nine months ended September 30, 2020 and 2019, respectively, for owned assets upon exit from the facilities, net of any potential sublease income and other recoveries.

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

(4) Reflects net reversals for changes in estimated reserves from prior period initiatives.

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

(6) Amounts for nine months ended September 30, 2019 include approximately $38 million for estimated severance and other related costs we were contractually required to pay in connection with employees transferred as part of the shared service arrangement entered into with HCL Technologies in the first quarter 2019.

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

Third quarter 2020 actions impacted several functional areas, with approximately 30% focused on gross margin improvements, approximately 65% focused on SAG reductions and the remainder focused on RD&E optimization.

Third quarter 2019 actions impacted several functional areas, with approximately 50% focused on gross margin improvements, approximately 45% focused on SAG reductions and the remainder focused on RD&E optimization.

The restructuring and related costs reserve balance as of September 30, 2020 for all programs was $87 million, which is expected to be paid over the next twelve months.

Refer to Note 12 - Restructuring Programs in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Transaction and Related Costs, Net

We recognized a credit of $(6) million for the three months ended September 30, 2020 for Transaction and related costs, net, primarily related to adjustments to costs from third party providers of professional services associated with certain strategic M&A projects. Transaction and related costs, net were $18 million for the nine months ended September 30, 2020 primarily related to costs from third party providers of professional services associated with certain strategic M&A projects including our terminated proposal to acquire HP Inc.

Amortization of Intangible Assets

Amortization of intangible assets for the three months ended September 30, 2020 of $13 million increased by $4 million, primarily due to the impact from 2020 partner dealer acquisitions, while Amortization of intangible assets for the nine months ended September 30, 2020 of $34 million decreased by $1 million as compared to the prior year period as a result of the write-off of trade names in prior periods associated with our realignment and consolidation of certain XBS sales units as part of Project Own It transformation actions, partially offset by intangible amortization associated with 2020 and 2019 acquisitions.

Worldwide Employment

Worldwide employment was approximately 25,500 as of September 30, 2020 and decreased by approximately 1,500 from December 31, 2019. The reduction resulted from net attrition (attrition net of gross hires), of which a large portion is not expected to be back filled, as well as the impact of organizational changes.

Other Expenses, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2020	2019	2020	2019
Non-financing interest expense[(1)]	$ 30	$ 27	$ 69	$ 81
Non-service retirement-related costs	(13)	(2)	(20)	21
Interest income	(1)	(2)	(12)	(9)
Gains on sales of businesses and assets	(28)	(19)	(29)	(20)
Litigation matters	(1)	(8)	(1)	(8)
Contract termination costs - IT services	—	(8)	3	(8)
Currency losses, net	—	4	4	6
All other expenses, net	(2)	7	1	13
Other expenses, net	$ (15)	$ (1)	$ 15	$ 76

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(1) Includes interest expense of $11 million that is attributable to Senior Notes issued by Xerox Holdings. Refer to Note 13 - Debt in the Condensed Consolidated Financial Statements for additional information regarding debt activity in 2020.

Non-Financing Interest Expense

Third quarter 2020 non-financing interest expense of $30 million was $3 million higher than third quarter 2019. When combined with financing interest expense (Cost of financing), total interest expense decreased by $1 million from third quarter 2019 primarily reflecting a lower average debt balance in the third quarter as the impact from the incremental $770 million of net new senior unsecured debt was only partially reflected in the quarter.

For the nine months ended September 30, 2020 non-financing interest expense of $69 million was $12 million lower than the prior year period. When combined with financing interest expense (Cost of financing), total interest expense decreased by $21 million from the prior year period primarily reflecting a lower average debt balance as the impact from the incremental $770 million of net new senior unsecured debt was only partially reflected in the third quarter 2020.

In October 2020, the Company completed the early redemption of $750 million of Senior Notes due May 2021. Refer to Note 22 - Subsequent Event in the Condensed Consolidated Financial Statements for additional information.

Refer to Note 13 - Debt in the Condensed Consolidated Financial Statements, for additional information regarding debt activity and the interest expense.

Non-Service Retirement-Related Costs

Non-service retirement-related costs for the three and nine months ended September 30, 2020 decreased $11 million and $41 million, respectively, compared to the prior year periods, primarily driven by lower losses from pension settlements in the U.S and lower discount rates.

Refer to Note 16 - Employee Benefit Plans in the Condensed Consolidated Financial Statements, for additional information regarding non-service retirement-related costs.

Interest Income

Interest income for the nine months ended September 30, 2020 increased $3 million compared to the prior year period, primarily reflecting interest on a higher cash balance as a result of cash proceeds received from the sales of our indirect 25% equity interest in Fuji Xerox Co., Ltd. (FX) and indirect 51% partnership interest in Xerox International Partners (XIP) completed in fourth quarter 2019, partially offset by lower market interest rates.

Gains on Sales of Businesses and Assets

Gains on the sales of businesses and assets increased $9 million for the three and nine months ended September 30, 2020, respectively, as compared to both prior year periods reflecting higher proceeds from sales of non-core business assets.

Litigation Matters

Litigation matters increased $7 million for the three and nine months ended September 30, 2020, respectively, as compared to both prior year periods, reflecting the favorable resolution of certain litigation matters in third quarter 2019.

Contract Termination Costs - IT Services

Contract termination costs - IT services increased $8 million and $11 million for the three and nine months ended September 30, 2020, respectively, as compared to both prior year periods, reflecting an adjustment in 2019 to a $43 million penalty recorded in fourth quarter 2018, associated with the termination of an IT services arrangement.

Income Taxes

Third quarter 2020 effective tax rate was 24.4%. On an adjusted[1] basis, third quarter 2020 effective tax rate was 21.1%. This rate was higher than the U.S. federal statutory tax rate of 21% primarily due to state taxes, the geographical mix of profits which includes non-deductible items on lower pre-tax income and an increase in deferred tax asset valuation allowances partially offset by the impact from various tax law changes. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net as well as non-service retirement-related costs and other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

The effective tax rate for the nine months ended September 30, 2020 was 24.2%. On an adjusted[1] basis, the effective tax rate for the nine months ended September 30, 2020 was 23.8%. This rate was higher than the U.S. federal statutory tax rate of 21% primarily due to state taxes, the geographical mix of profits which includes non-deductible items on lower pre-tax income and an increase in deferred tax asset valuation allowances partially offset by a benefit of approximately 6.0% for the impact from various tax law changes. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net as well as non-service retirement-related costs and other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

Third quarter 2019 effective tax rate was 29.6%. On an adjusted[1] basis, third quarter 2019 effective tax rate was 27.3%. These rates were higher than the U.S. federal statutory tax rate of 21% primarily due to state taxes and the geographical mix of profits. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net as well as non-service retirement-related costs and other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

The effective tax rate for the nine months ended September 30, 2019 was 21.8% and included a benefit of $31 million related to the January 2019 finalization of regulations that govern the repatriation tax from the 2017 Tax Cuts and Jobs Act (the Tax Act). On an adjusted[1] basis, the effective tax rate for the nine months ended September 30, 2019 was 26.7%. This rate was higher than the U.S. federal statutory tax rate of 21% primarily due to state taxes and the geographical mix of profits. The adjusted[1] effective tax rate excludes the tax impacts associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and non-service retirement-related costs as well as other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section, which included the impact of the Tax Act.

Our effective tax rate is based on nonrecurring events as well as recurring factors, including the taxation of foreign income. In addition, our effective tax rate will change based on discrete or other nonrecurring events that may not be predictable.

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

Equity in Net Income of Unconsolidated Affiliates

In November 2019, Xerox Holdings sold its remaining indirect 25% equity interest in Fuji Xerox, which had been previously accounted for as an equity method investment. Refer to **Discontinued Operations** below and Note 6 - Divestitures, in the Condensed Consolidated Financial Statements for additional information regarding the sale of Fuji Xerox. Accordingly, our remaining investment in Affiliates, at Equity at September 30, 2020 largely consists of several minor investments in entities in the Middle East region.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2020	2019	2020	2019
Equity in net income of unconsolidated affiliates - Fuji Xerox(1)	$ —	$ 57	$ —	$ 132
Equity in net income of unconsolidated affiliates - continuing operations	—	1	2	5
Total Equity in net income of unconsolidated affiliates	$ —	$ 58	$ 2	$ 137
Fuji Xerox after-tax restructuring and other charges	$ —	$ —	$ —	$ 19

(1) Equity in net income for Fuji Xerox for 2019 is reported in Income from discontinued operations, net of tax.

Net Income from Continuing Operations

Third quarter 2020 Net income from continuing operations attributable to Xerox Holdings was $90 million, or $0.41 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox Holdings was $105 million, or $0.48 per diluted share. Third quarter 2020 adjustments to Net income from continuing operations included Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and non-service retirement-related costs as well as other discrete, unusual or infrequent items (see Non-GAAP Financial Measures).

Net income from continuing operations attributable to Xerox Holdings for the nine months ended September 30, 2020 was $115 million, or $0.49 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox Holdings was $191 million, or $0.84 per diluted share and included the negative impact of a $61 million pre-tax increase in bad debt expense (approximately $43 million after-tax) as compared to the prior year period, primarily reflecting the expected impact to our customer base and related outstanding receivables portfolio as a result of the economic disruption caused by the COVID-19 pandemic. Adjustments to Net income from continuing operations for the nine months ended September 30, 2020 included Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net, non-service retirement-related costs, as well as other discrete, unusual or infrequent items (see Non-GAAP Financial Measures).

Third quarter 2019 Net income from continuing operations attributable to Xerox Holdings was $157 million, or $0.68 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox Holdings was $184 million, or $0.80 per diluted share. Third quarter 2019 adjustments to Net income from continuing operations included Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and non-service retirement-related costs as well as other discrete, unusual or infrequent items (see Non-GAAP Financial Measures).

Net income from continuing operations attributable to Xerox Holdings for the nine months ended September 30, 2019 was $382 million, or $1.62 per diluted share. On an adjusted[1] basis, Net income from continuing operations attributable to Xerox Holdings was $528 million, or $2.24 per diluted share. Adjustments to Net income from continuing operations for the nine months ended September 30, 2019 included Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and non-service retirement-related costs, as well as other discrete, unusual or infrequent items (see Non-GAAP Financial Measures).

Refer to Note 20 - Earnings per Share in the Condensed Consolidated Financial Statements, for additional information regarding the calculation of basic and diluted earnings per share.

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

Discontinued Operations

In November 2019, Xerox Holdings completed a series of transactions to restructure its relationship with FUJIFILM Holdings Corporation (FH), including the sale of its indirect 25% equity interest in Fuji Xerox Co., Ltd. (FX) for approximately $2.2 billion as well as the sale of its indirect 51% partnership interest in Xerox International Partners (XIP) for approximately $23 million (collectively the Sales). As a result of the Sales and the related strategic shift in our business, the historical financial results of our equity method investment in FX and our XIP business (which was consolidated) for the periods prior to the Sales are reflected as a discontinued operation and as such, their impact is excluded from continuing operations for all periods presented.

Refer to Note 6 - Divestitures in the Condensed Consolidated Financial Statements for additional information regarding discontinued operations.

Other Comprehensive Income (Loss)

Third quarter 2020 Other Comprehensive Income, Net Attributable to Xerox Holdings was $88 million and included the following: i) net translation adjustment gains of $179 million reflecting the significant strengthening of our major foreign currencies against the U.S. Dollar; ii) $1 million of net unrealized gains; and iii) $92 million of net losses from the changes in defined benefit plans primarily due to net actuarial losses as a result of lower discount rates in the U.S and the negative impacts from currency, partially offset by settlements. This compares to Other Comprehensive Loss, Net Attributable to Xerox Holdings of $203 million for the third quarter 2019, which reflected the following: i) $155 million of net translation adjustment losses reflecting the significant weakening of our major foreign currencies against the U.S. Dollar; ii) $48 million of net losses from the changes in defined benefit plans primarily due to net actuarial losses as a result of lower discount rates in the U.S., partially offset by settlements and the positive impacts from currency; and iii) $1 million net unrealized gains.

Other Comprehensive Income, Net Attributable to Xerox Holdings for the nine months ended September 30, 2020 was $53 million and included the following: i) $42 million of net gains from the changes in defined benefit plans is primarily due to the amortization and recognition of net actuarial losses from AOCL[1]; ii) net translation adjustment gains of $7 million reflecting the strengthening of our major foreign currencies against the U.S. Dollar; and iii) $4 million of net unrealized gains. This compares to Other Comprehensive Loss, Net Attributable to Xerox Holdings of $158 million for the nine months ended September 30, 2019, which reflected the following: i) $122 million of net translation adjustment losses, reflecting the significant weakening of our major foreign currencies against the U.S. Dollar; ii) $38 million of net losses from the changes in defined benefit plans; and iii) $3 million of net unrealized gains.

Refer to Note 19 - Other Comprehensive Income (Loss) in the Condensed Consolidated Financial Statements, for the components of Other Comprehensive Income (Loss), Note 14 - Financial Instruments in the Condensed Consolidated Financial Statements, for additional information regarding unrealized (losses) gains, net, and Note 16 - Employee Benefit Plans in the Condensed Consolidated Financial Statements, for additional information regarding net changes in our defined benefit plans.

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(1) AOCL - Accumulated other comprehensive loss.

Capital Resources and Liquidity

Our financial results through September 30, 2020 were significantly impacted by COVID-19 related business closures and office building capacity restrictions that impacted our customers' purchasing decisions and caused delayed installations and lower printing volumes on our devices. However, we believe we have sufficient liquidity to manage the business through the economic disruption caused by this pandemic:

- A majority of our business is contractually based and our bundled services contracts, on average, include not only a variable component linked to print volumes, but also a fixed minimum, which provides us with a continuing stream of operating cash flow.
- As of September 30, 2020, total cash, cash equivalents and restricted cash were $3,297 million and, apart from the restricted cash of $55 million, was readily accessible for use. In October 2020, we completed the early redemption of $750 million of the approximately $1,062 million Senior Notes due in May 2021 from cash on hand. Refer to Note 13 - Debt in the Condensed Consolidated Financial Statements for additional information.
- We have access to an undrawn $1.8 billion Credit Facility that matures in August 2022. In connection with the issuance of our $1.5 billion of new Senior Notes, we amended the Credit Facility debt covenants to consider our level of cash on hand as part of our principal debt balance. Refer to Note 13 - Debt in the Condensed Consolidated Financial Statements for additional information.
- We have utilized a combination of capital markets financing and securitization to refinance all 2020 debt maturities and a portion of our 2021 debt maturities, significantly reducing our near-term debt commitments and improving our liquidity. Refer to Note 22 - Subsequent Event in the Condensed Consolidated Financial Statements for additional information regarding the early redemption of a portion of the Senior Notes due 2021.
- We have focused our efforts on incremental actions to prioritize and preserve cash as we manage through the pandemic. These actions include the use of available temporary government assistance measures and furlough programs and the reduction of discretionary spend such as near-term targeted marketing programs, the use of contract employees and the temporary suspension of 401(k) matching contributions, as well as lower compensation incentives consistent with lower sales and operating results.

Cash Flow Analysis

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

	Nine Months Ended September 30,		
(in millions)	2020	2019	Change
Net cash provided by operating activities of continuing operations	$ 313	$ 846	$ (533)
Net cash provided by operating activities of discontinued operations	—	49	(49)
Net cash provided by operating activities	313	895	(582)
Net cash used in investing activities	(223)	(68)	(155)
Net cash provided by (used in) financing activities	424	(983)	1,407
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(12)	(13)	1
Increase (decrease) in cash, cash equivalents and restricted cash	502	(169)	671
Cash, cash equivalents and restricted cash at beginning of period	2,795	1,148	1,647
Cash, Cash Equivalents and Restricted Cash at End of Period	$ 3,297	$ 979	$ 2,318

Cash Flows from Operating Activities

Net cash provided by operating activities of continuing operations was $313 million for the nine months ended September 30, 2020. The $533 million decrease in operating cash from the prior year period was primarily due to the following:

- $495 million decrease in pre-tax income before depreciation and amortization, provisions, gain on sales of businesses and assets, restructuring and related costs and defined benefit pension costs.
- $305 million decrease from higher levels of inventory primarily due to lower sales volume.
- $125 million decrease in other current and long-term liabilities, reflecting lower accruals, particularly incentive-related payments associated with our indirect channel partners and decreases in deferred revenue reflecting lower sales activity.
- $50 million decrease from accrued compensation primarily related to lower compensation costs and the year-over-year timing of payments.
- $45 million decrease from lower accounts payable primarily due to decreased spending and the year-over-year timing of supplier and vendor payments.

- $272 million increase from accounts receivable primarily due to lower revenue as well as timing of collections.
- $124 million increase primarily related to a higher level of run-off due to lower originations of finance receivables of $97 million and lower equipment on operating leases of $27 million.
- $53 million increase from net taxes primarily due to lower payments in 2020 as a result of lower pre-tax income.
- $47 million increase primarily due to lower restructuring and related costs as compared to the prior year.

Cash Flows from Investing Activities

Net cash used in investing activities was $223 million for the nine months ended September 30, 2020. The $155 million change from the prior year period was primarily due to four acquisitions completed in the current year for $193 million compared to two acquisitions in the prior year for $42 million.

Cash Flows from Financing Activities

Net cash provided by financing activities was $424 million for the nine months ended September 30, 2020. The $1,407 million increase in cash from the prior year period was primarily due to the following:

- $1,168 million increase from net debt activity. 2020 reflects proceeds of $1,507 million from a Senior Notes offering and $340 million from a secured financing arrangement offset by payments of $1,051 million on Senior Notes, $22 million on the secured financing arrangement and $13 million of deferred debt issuance costs. 2019 reflects payments of $406 million on Senior Notes.
- $218 million increase due to share repurchases.
- $11 million increase from lower distributions of noncontrolling interests.

Cash, Cash Equivalents and Restricted Cash

Refer to Note 7 - Supplementary Financial Information in the Condensed Consolidated Financial Statements for additional information regarding Cash, cash equivalents and restricted cash.

Operating Leases

We have operating leases for real estate and vehicles in our domestic and international operations as well as for certain equipment in our domestic operations. Additionally, we have identified embedded operating leases within certain supply chain contracts for warehouses, primarily within our domestic operations. Our leases have remaining terms of up to twelve years and a variety of renewal and/or termination options.

Refer to Note 11 - Lessee in the Condensed Consolidated Financial Statements for additional information regarding our leases accounted under lessee accounting.

Debt and Customer Financing Activities

The following summarizes our debt:

(in millions)	September 30, 2020	December 31, 2019
Principal debt balance[1]	$ 5,082	$ 4,313
Net unamortized discount	(3)	(16)
Debt issuance costs	(28)	(17)
Fair value adjustments[2]		
- terminated swaps	3	1
- current swaps	—	1
Total Debt	$ 5,054	$ 4,282

(1) Includes Notes Payable of $2 million as of September 30, 2020. There were no Notes Payable as of December 31, 2019.
(2) Fair value adjustments include the following: (i) fair value adjustments to debt associated with terminated interest rate swaps, which are being amortized to interest expense over the remaining term of the related notes; and (ii) changes in fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported inclusive of any fair value adjustment.

Credit Rating Downgrade

In August, the Company's $1.0 billion Senior Notes due 2023 were downgraded by S&P and, pursuant to the terms of the Notes, the coupon rate on the Notes increased by 0.25% from 4.125% to 4.375% per annum.

Finance Assets and Related Debt

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

(in millions)	September 30, 2020	December 31, 2019
Total finance receivables, net[1]	$ 3,076	$ 3,351
Equipment on operating leases, net	301	364
Total Finance Assets, net[2]	$ 3,377	$ 3,715

(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, 2019 includes an increase of $24 million due to currency.*

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

(in millions)	September 30, 2020	December 31, 2019
Finance receivables debt[1]	$ 2,692	$ 2,932
Equipment on operating leases debt	263	319
Financing debt	2,955	3,251
Core debt	2,099	1,031
Total Debt	$ 5,054	$ 4,282

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

Sales of Accounts Receivable

Activity related to sales of accounts receivable is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2020	2019	2020	2019
Estimated increase (decrease) to operating cash flows[1]	$ 54	$ (33)	$ (86)	$ (33)

(1) *Represents the difference between current and prior period accounts receivable sales adjusted for the effects of currency. The increase for the three months ended September 30, 2020 reflects increased sales activity in the channel.*

Refer to Note 8 - Accounts Receivable, Net in the Condensed Consolidated Financial Statements for additional information regarding our accounts receivable sales arrangements.

Liquidity and Financial Flexibility

We manage our worldwide liquidity using internal cash management practices, which are subject to i) the statutes, regulations and practices of each of the local jurisdictions in which we operate, ii) the legal requirements of the agreements to which we are a party and iii) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our principal debt maturities are spread over the next five years as follows:

(in millions)	Amount[1]
2020 Q4[2]	$ 2
2021[3]	1,222
2022	300
2023	1,158
2024	300
2025	750
2026 and thereafter	1,350
Total	$ 5,082

(1) *Includes fair value adjustments.*
(2) *Includes Notes Payable of $2 million as of September 30, 2020.*
(3) *Includes $750 million of Senior Notes due May 2021 that were redeemed in October 2020. Refer to Note 22 - Subsequent Event in the Condensed Consolidated Financial Statements for additional information regarding the early redemption of these Senior Notes.*

Treasury Stock

In the third quarter 2020 Xerox Holdings repurchased 8.0 million shares of our common stock for an aggregate cost of $150 million, including fees. No share repurchases were made in the first or second quarter of 2020. We expect to repurchase an additional $150 million of our common stock in the fourth quarter 2020.

Shared Services Arrangement with HCL Technologies

In March 2019, as part of Project Own It, Xerox entered into a shared services arrangement with HCL Technologies (HCL) pursuant to which we transitioned certain global administrative and support functions, including, among others, selected information technology and finance functions (excluding accounting), from Xerox to HCL. This transition was expected to be completed during 2020, however, as a result of delays caused by the COVID-19 pandemic, the transition is now expected to extend into 2021. HCL is expected to make certain ongoing investments in software, tools and other technology to consolidate, optimize and automate the transferred functions with the goal of providing improved service levels and significant cost savings. The shared services arrangement with HCL includes a remaining aggregate spending commitment of approximately $1.2 billion over the next 6 years. However, we can terminate the arrangement at any time at our discretion, subject to payment of termination fees that decline over the term, or for cause.

For the three and nine months ended September 30, 2020, we incurred net charges of approximately $49 million and $139 million, respectively, associated with this arrangement. The cost has been allocated to the various functional expense lines in the Condensed Consolidated Statements of Income based on an assessment of the nature and amount of the costs incurred for the various transferred functions prior to their transfer to HCL.

Financial Risk Management

We are exposed to market risk from foreign currency exchange rates and interest rates, which could affect operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments. We utilize derivative financial instruments to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We enter into limited types of derivative contracts, including interest rate swap agreements, foreign currency spot, forward and swap contracts and net purchased foreign currency options to manage interest rate and foreign currency exposures. Our primary foreign currency market exposures include the Japanese Yen, Euro and U.K. Pound Sterling. The fair market values of all our derivative contracts change with fluctuations in interest rates and/or currency exchange rates and are designed so that any changes in their values are offset by changes in the values of the underlying exposures. Derivative financial instruments are held solely as risk management tools and not for trading or speculative purposes. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

We are required to recognize all derivative instruments as either assets or liabilities at fair value in the balance sheet. As permitted, certain of these derivative contracts have been designated for hedge accounting treatment. Certain of our derivatives that do not qualify for hedge accounting are effective as economic hedges. These derivative contracts are likewise required to be recognized each period at fair value and therefore do result in some level of volatility. The level of volatility will vary with the type and amount of derivative hedges outstanding, as well as fluctuations in the currency and interest rate markets during the period. The related cash flow impacts of all of our derivative activities are reflected as cash flows from operating activities.

By their nature, all derivative instruments involve, to varying degrees, elements of market and credit risk. The market risk associated with these instruments resulting from currency exchange and interest rate movements is expected to offset the market risk of the underlying transactions, assets and liabilities being hedged. We do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with these instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

The current market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 14 – Financial Instruments in the Condensed Consolidated Financial Statements for further discussion and information on our financial risk management strategies.

Non-GAAP Financial Measures

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

A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below as well as in the third quarter 2020 presentation slides available at www.xerox.com/investor.

These non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with GAAP.

Adjusted Earnings Measures

- Net income and Earnings per share (EPS)
- Effective tax rate

The above measures were adjusted for the following items:

Restructuring and related costs: Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our transformation programs beyond those normally included in restructuring and asset impairment charges. Restructuring consists of costs primarily related to severance and benefits paid to employees pursuant to formal restructuring and workforce reduction plans. Asset impairment includes costs incurred for those assets sold, abandoned or made obsolete as a result of our restructuring actions, exiting from a business or other strategic business changes. Additional costs for our transformation programs are primarily related to the implementation of strategic actions and initiatives and include third-party professional service costs as well as one-time incremental costs. All of these costs can vary significantly in terms of amount and frequency based on the nature of the actions as well as the changing needs of the business. Accordingly, due to that significant variability, we will exclude these charges since we do not believe they provide meaningful insight into our current or past operating performance nor do we believe they are reflective of our expected future operating expenses as such charges are expected to yield future benefits and savings with respect to our operational performance.

Amortization of intangible assets: The amortization of intangible assets is driven by our acquisition activity which can vary in size, nature and timing as compared to other companies within our industry and from period to period. The use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well. Amortization of intangible assets will recur in future periods.

Transaction and related costs, net: Transaction and related costs, net are costs and expenses primarily associated with certain strategic M&A projects. These costs are primarily for third-party legal, accounting, consulting and other similar type professional services as well as potential legal settlements that may arise in connection with those M&A transactions. These costs are considered incremental to our normal operating charges and were incurred or are expected to be incurred solely as a result of the planned transactions. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.

Non-service retirement-related costs: Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in other expenses, net. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.

Other discrete, unusual or infrequent items: We excluded the following items given their discrete, unusual or infrequent nature and their impact on our results for each period:

- Contract termination costs - IT Services
- Impacts associated with the Tax Cuts and Jobs Act (the "Tax Act") enacted in December 2017

We believe the exclusion of these items allows investors to better understand and analyze the results for the period as compared to prior periods and expected future trends in our business.

Adjusted Operating Income and Margin

We calculate and utilize adjusted operating income and margin measures by adjusting our reported pre-tax income and margin amounts. In addition to the costs and expenses noted as adjustments for our Adjusted Earnings measures, adjusted operating income and margin also exclude the remaining amounts included in Other expenses, net, which are primarily non-financing interest expense and certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business.

Constant Currency (CC)

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

Summary

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

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

Net Income and EPS reconciliation:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2020		2019		2020		2019	
(in millions, except per share amounts)	Net Income	EPS	Net Income	EPS	Net Income	EPS	Net Income	EPS
Reported[1]	$ 90	$ 0.41	$ 157	$ 0.68	$ 115	$ 0.49	$ 382	$ 1.62
Adjustments:								
Restructuring and related costs	20		27		64		176	
Amortization of intangible assets	13		9		34		35	
Transaction and related costs, net	(6)		4		18		8	
Non-service retirement-related costs	(13)		(2)		(20)		21	
Contract termination costs - IT services	—		(8)		3		(8)	
Income tax on adjustments[2]	1		(7)		(23)		(55)	
Tax Act	—		4		—		(31)	
Adjusted	$ 105	$ 0.48	$ 184	$ 0.80	$ 191	$ 0.84	$ 528	$ 2.24
Dividends on preferred stock used in adjusted EPS calculation[3]		$ 4		$ —		$ 11		$ —
Weighted average shares for adjusted EPS[3]		213		231		215		235
Fully diluted shares at September 30, 2020[4]		208						

(1) Net income and EPS from continuing operations attributable to Xerox Holdings.
(2) Refer to Effective Tax Rate reconciliation.
(3) Average shares for the calculation of adjusted diluted EPS for 2020 exclude 7 million shares associated with our Series A convertible preferred stock and therefore earnings include the preferred stock dividend. Average shares for the calculation of adjusted diluted EPS for 2019 include 7 million shares associated with our Series A convertible preferred stock and therefore exclude the preferred stock dividend.
(4) Represents common shares outstanding at September 30, 2020 plus potential dilutive common shares as used for the calculation of adjusted diluted EPS for the third quarter 2020. The amount excludes shares associated with our Series A convertible preferred stock as they are expected to be anti-dilutive for the year.

Effective Tax Rate reconciliation:

	Three Months Ended September 30,					
	2020			2019		
(in millions)	Pre-Tax Income	Income Tax Expense (Benefit)	Effective Tax Rate	Pre-Tax Income	Income Tax Expense (Benefit)	Effective Tax Rate
Reported[(1)]	$ 119	$ 29	24.4 %	$ 223	$ 66	29.6 %
Non-GAAP Adjustments[(2)]	14	(1)		30	7	
Tax Act	—	—		—	(4)	
Adjusted[(3)]	$ 133	$ 28	21.1 %	$ 253	$ 69	27.3 %

	Nine Months Ended September 30,					
	2020			2019		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax Income	Income Tax Expense	Effective Tax Rate
Reported[(1)]	$ 149	$ 36	24.2 %	$ 486	$ 106	21.8 %
Non-GAAP Adjustments[(2)]	99	23		232	55	
Tax Act	—	—		—	31	
Adjusted[(3)]	$ 248	$ 59	23.8 %	$ 718	$ 192	26.7 %

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

Operating Income and Margin reconciliation:

	Three Months Ended September 30,					
	2020			2019		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[(1)]	$ 119	$ 1,767	6.7 %	$ 223	$ 2,179	10.2 %
Adjustments:						
Restructuring and related costs	20			27		
Amortization of intangible assets	13			9		
Transaction and related costs, net	(6)			4		
Other expenses, net	(15)			(1)		
Adjusted	$ 131	$ 1,767	7.4 %	$ 262	$ 2,179	12.0 %

	Nine Months Ended September 30,					
	2020			2019		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
Reported[(1)]	$ 149	$ 5,092	2.9 %	$ 486	$ 6,622	7.3 %
Adjustments:						
Restructuring and related costs	64			176		
Amortization of intangible assets	34			35		
Transaction and related costs, net	18			8		
Other expenses, net	15			76		
Adjusted	$ 280	$ 5,092	5.5 %	$ 781	$ 6,622	11.8 %

(1) Pre-Tax Income and Revenue from continuing operations.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

Xerox Holdings Corporation

The management of Xerox Holdings Corporation evaluated, with the participation of its principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of its 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, the principal executive officer and principal financial officer of Xerox Holdings Corporation have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures of Xerox Holdings Corporation were effective to ensure that information that is required to be disclosed in the reports that is filed or submitted 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 Holdings Corporation, including its consolidated subsidiaries, and was accumulated and communicated to the management of Xerox Holdings Corporation, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Xerox Corporation

The management of Xerox Corporation evaluated, with the participation of its principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of its 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, the principal executive officer and principal financial officer of Xerox Corporation have concluded that, as of the end of the period covered by this report, the disclosure controls and procedures of Xerox Corporation were effective to ensure that information that is required to be disclosed in the reports that is filed or submitted 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 its consolidated subsidiaries, and was accumulated and communicated to the management of Xerox Corporation, 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

Xerox Holdings Corporation

As required by paragraph (d) of Rule 13a-15 under the Exchange Act, we evaluated changes in our internal control over financial reporting during the last fiscal quarter. There were no changes identified in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Xerox Corporation

As required by paragraph (d) of Rule 13a-15 under the Exchange Act, we evaluated changes in our internal control over financial reporting during the last fiscal quarter. There were no changes identified in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are 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 21 – 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 II, Item 1A of the combined Xerox Holdings Corporation and Xerox Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 ("Second Quarter 2020 Form 10-Q Report"). The risk factors set forth in the Second Quarter 2020 Form 10-Q Report have been updated from the risk factors contained in our combined Annual Report on Form 10-K for the year ended December 31, 2019.

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

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2020

During the quarter ended September 30, 2020, Xerox Holdings Corporation issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the Act).

Dividend Equivalent:

(a) Securities issued on July 31, 2020: Xerox Holdings Corporation issued 2,827 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 Xerox Holdings Corporation: Jonathan Christodoro, Keith Cozza, Joseph J. Echevarria, Nicholas Graziano, Cheryl Gordon Krongard and Scott Letier.

(c) The DSUs were issued at a deemed purchase price of $15.35 per DSU (aggregate price $43,394), based upon the market value on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Xerox Holdings Corporation's 2004 Equity Compensation Plan for Non-Employee Directors (as amended and restated in 2019 (the 2019 Restatement)).

(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, 2020

Repurchases of Xerox Holdings Corporation's Common Stock, par value $1 per share, include the following:

Board Authorized Share Repurchase Program:

	Total Number of Shares Purchased	Average Price Paid per Share(1)	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(2)	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs(2)
July 1 through 31	—	$ —	—	$700,027,664
August 1 through 31	2,214,773	18.77	2,214,773	658,445,939
September 1 through 30	5,792,465	18.72	5,792,465	550,027,675
Total	8,007,238		8,007,238	

(1) Exclusive of fees and costs.

(2) Of the $1.0 billion of share repurchase authority previously granted by Xerox Holdings Corporation's Board of Directors, exclusive of fees and expenses, approximately $450 million has been used through September 30, 2020. Repurchases may be made on the open market, or through derivative or negotiated contracts. Open-market repurchases will be made in compliance with the Securities and Exchange Commission's Rule 10b-18, and are subject to market conditions, as well as applicable legal and other considerations.

Repurchases Related to Stock Compensation Programs[1]:

	Total Number of Shares Purchased	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plans or Programs
July 1 through 31	627,283	$ 15.17	n/a	n/a
August 1 through 31	—	—	n/a	n/a
September 1 through 30	—	—	n/a	n/a
Total	627,283			

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

(2) Exclusive of fees and costs.

ITEM 3 — DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 — MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 — OTHER INFORMATION

None.

ITEM 6 — EXHIBITS

4.1	Amendment No. 3 to Credit Agreement, dated as of July 31, 2020, among Xerox Corporation, Xerox Holdings Corporation, certain Lenders signatory thereto, and Citibank, N.A., as administrative agent.
	Incorporated by reference to Exhibit 4.1 to Xerox Holdings Corporation's and Xerox Corporation's Current Report on Form 8-K dated August 3, 2020.
4.2	Indenture dated August 6, 2020 among Xerox Holdings Corporation, Xerox Corporation and U.S. Bank National Association, as Trustee, with respect to Xerox Holdings Corporation's 5.000% Senior Notes due 2025.
	Incorporated by reference to Exhibit 4.1 to Xerox Holdings Corporation's and Xerox Corporation's Current Report on Form 8-K dated August 6, 2020.
4.3	Indenture dated August 6, 2020 among Xerox Holdings Corporation, Xerox Corporation and U.S. Bank National Association, as Trustee, with respect to Xerox Holdings Corporation's 5.500% Senior Notes due 2028.
	Incorporated by reference to Exhibit 4.2 to Xerox Holdings Corporation's and Xerox Corporation's Current Report on Form 8-K dated August 6, 2020.
31(a)(1)	Certification of Xerox Holdings Corporation CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(a)(2)	Certification of Xerox Corporation CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)(1)	Certification of Xerox Holdings Corporation CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)(2)	Certification of Xerox Corporation CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32(a)	Certification of Xerox Holdings Corporation CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32(b)	Certification of Xerox Corporation 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	The following financial information from Xerox Holdings Corporation and Xerox Corporation's combined Quarterly Report on Form 10-Q for the quarter ended September 30, 2020 was formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Xerox Holdings Corporation Condensed Consolidated Statements of Income, (ii) Xerox Holdings Corporation Condensed Consolidated Statements of Comprehensive Income, (iii) Xerox Holdings Corporation Condensed Consolidated Balance Sheets, (iv) Xerox Holdings Corporation Condensed Consolidated Statements of Cash Flows, (v) Xerox Corporation Condensed Consolidated Statements of Income, (vi) Xerox Corporation Condensed Consolidated Statements of Comprehensive Income, (vii) Xerox Corporation Condensed Consolidated Balance Sheets, (viii) Xerox Corporation Condensed Consolidated Statements of Cash Flows, and (ix) Notes to the Condensed Consolidated Financial Statements.
104	The cover page from this Quarterly Report on Form 10-Q, (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized. The signatures for each undersigned shall be deemed to relate only to matters having reference to such company and its subsidiaries.

XEROX HOLDINGS CORPORATION
(Registrant)

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

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

Date: November 4, 2020

XEROX CORPORATION
(Registrant)

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

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

Date: November 4, 2020

EXHIBIT INDEX

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104	The cover page from this Quarterly Report on Form 10-Q, (formatted as Inline XBRL and contained in Exhibit 101).

CEO CERTIFICATIONS

I, Giovanni Visentin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Holdings 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 4, 2020

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Principal Executive Officer

CEO CERTIFICATIONS

I, Giovanni Visentin, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 4, 2020

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Principal Executive Officer

CFO CERTIFICATIONS

I, Xavier Heiss, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Xerox Holdings 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 4, 2020

/s/ Xavier Heiss

Xavier Heiss
Interim Principal Financial Officer

CFO CERTIFICATIONS

I, Xavier Heiss, 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 4, 2020

/S/ XAVIER HEISS

Xavier Heiss
Interim 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 Holdings Corporation, a New York corporation (the "Company"), for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Giovanni Visentin, Vice Chairman and Chief Executive Officer of the Company, and Xavier Heiss, Executive Vice President and Interim Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

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

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Chief Executive Officer
November 4, 2020

/S/ XAVIER HEISS

Xavier Heiss
Interim Chief Financial Officer
November 4, 2020

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 Holdings Corporation and will be retained by Xerox Holdings Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

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

In connection with the Form 10-Q of Xerox Corporation, a New York corporation (the "Company"), for the quarter ended September 30, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Giovanni Visentin, Vice Chairman and Chief Executive Officer of the Company, and Xavier Heiss, Executive Vice President and Interim Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

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

/S/ GIOVANNI VISENTIN

Giovanni Visentin
Chief Executive Officer
November 4, 2020

/S/ XAVIER HEISS

Xavier Heiss
Interim Chief Financial Officer
November 4, 2020

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.