

**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: June 30, 2018**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission File Number 001-04471**



**XEROX CORPORATION**

(Exact Name of Registrant as specified in its charter)

**New York**

(State or other jurisdiction of  
incorporation or organization)

**P.O. Box 4505, 201 Merritt 7  
Norwalk, Connecticut**

(Address of principal executive offices)

**16-0468020**

(IRS Employer  
Identification No.)

**06851-1056**

(Zip Code)

**(203) 968-3000**

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company  Emerging growth company   
(Do not check if smaller reporting 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.

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

**Class**

**Outstanding at June 30, 2018**

Common Stock, \$1 par value

255,101,733 shares

## FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report contain “forward-looking statements” as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate”, “believe”, “estimate”, “expect”, “intend”, “will”, “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management’s current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include but are not limited to: our ability to address our business challenges in order to reverse revenue declines, reduce costs and increase productivity so that we can invest in and grow our business; changes in economic and political conditions, trade protection measures, licensing requirements and tax laws in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that partners, subcontractors and software vendors will not perform in a timely, quality manner; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to manage changes in the printing environment and expand equipment placements; interest rates, cost of borrowing and access to credit markets; funding requirements associated with our employee pension and retiree health benefit plans; the risk that our operations and products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives and anti-corruption laws; the outcome of litigation and regulatory proceedings to which we may be a party; the outcome of our process to evaluate all strategic alternatives to maximize shareholder value, including terminating or restructuring Xerox’s relationship with FUJIFILM Holdings Corporation (“Fujifilm”); and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Quarterly Report on Form 10-Q, our quarterly report on Form 10-Q for the quarter ended March 31, 2018 and our 2017 Annual Report on Form 10-K, as well as our Current Reports on Form 8-K filed with the Securities and Exchange Commission (SEC).

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

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

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

**PART I — FINANCIAL INFORMATION**  
**ITEM 1 — FINANCIAL STATEMENTS**

**XEROX CORPORATION**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

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

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

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

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

(1) Refer to Note 16 - Other Comprehensive (Loss) Income for gross components of Other Comprehensive (Loss) Income, reclassification adjustments out of Accumulated Other Comprehensive Loss and related tax effects.

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

**XEROX CORPORATION**  
**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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

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

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

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Cash Flows from Operating Activities</b>				
Net income	\$ 114	\$ 170	\$ 140	\$ 212
Loss from discontinued operations, net of tax	—	—	—	6
Income from continuing operations	114	170	140	218
<b>Adjustments required to reconcile Net income to Cash flows from operating activities</b>				
Depreciation and amortization	139	135	278	268
Provisions	23	17	40	35
Net gain on sales of businesses and assets	(16)	(1)	(32)	(1)
Undistributed equity in net income of unconsolidated affiliates	(16)	10	52	(30)
Stock-based compensation	13	12	29	25
Restructuring and asset impairment charges	34	32	62	140
Payments for restructurings	(37)	(66)	(91)	(124)
Defined benefit pension cost	26	37	53	99
Contributions to defined benefit pension plans	(37)	(23)	(75)	(46)
(Increase) decrease in accounts receivable and billed portion of finance receivables	(10)	(63)	36	(140)
Decrease (increase) in inventories	16	(30)	(71)	(88)
Increase in equipment on operating leases	(63)	(50)	(119)	(102)
Decrease in finance receivables	57	69	142	134
Decrease (increase) in other current and long-term assets	37	14	19	(43)
Decrease in accounts payable and accrued compensation	(70)	(21)	(58)	—
Decrease in other current and long-term liabilities	(5)	(6)	(4)	(7)
Net change in income tax assets and liabilities	28	5	41	(36)
Net change in derivative assets and liabilities	(17)	44	(23)	99
Other operating, net	19	(4)	32	12
Net cash provided by operating activities of continuing operations	235	281	451	413
Net cash used in operating activities of discontinued operations	—	(15)	—	(95)
Net cash provided by operating activities	235	266	451	318
<b>Cash Flows from Investing Activities</b>				
Cost of additions to land, buildings, equipment and software	(32)	(21)	(50)	(47)
Proceeds from sales of land, buildings and equipment	16	—	32	1
Acquisitions, net of cash acquired	—	(65)	—	(76)
Collections of deferred proceeds from sales of receivables	—	51	—	99
Collections on beneficial interest from sales of finance receivables	—	5	—	11
Other investing, net	1	—	1	(29)
Net cash used in investing activities	(15)	(30)	(17)	(41)
<b>Cash Flows from Financing Activities</b>				
Net (payments) proceeds on short-term debt	—	—	(1)	1
Proceeds from issuance of long-term debt	3	2	5	5
Payments on long-term debt	(272)	(2)	(310)	(1,330)
Dividends	(68)	(68)	(135)	(155)
Other financing, net	(2)	(12)	(15)	141
Net cash used in financing activities	(339)	(80)	(456)	(1,338)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(28)	27	(19)	36
(Decrease) increase in cash, cash equivalents and restricted cash	(147)	183	(41)	(1,025)
Cash, cash equivalents and restricted cash at beginning of period	1,474	1,194	1,368	2,402
<b>Cash, Cash Equivalents and Restricted Cash at End of Period</b>	<b>\$ 1,327</b>	<b>\$ 1,377</b>	<b>\$ 1,327</b>	<b>\$ 1,377</b>

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

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

**XEROX CORPORATION**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

(in millions, except per-share data and where otherwise noted)

### Note 1 – Basis of Presentation

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2017 Annual Report on Form 10-K (“2017 Annual Report”) except as noted herein, and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2017 Annual Report.

In our opinion, all adjustments, which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented, have been made. These adjustments consist of normal recurring items. Interim results of operations are not necessarily indicative of the results of the full year.

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

### Note 2 – Adoption of New Revenue Recognition Standard

#### Adoption Summary:

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

We adopted this standard using the modified retrospective method of adoption. Under ASC Topic 606, based on the nature of our contracts and consistent with prior practice, we recognize revenue upon invoicing the customer for the large majority of our revenue. Additionally, the unit of accounting, that is, the identification of performance obligations, is consistent with prior revenue recognition practice. Accordingly, the adoption of this standard did not have a material impact for the large majority of our revenues. Lastly, a significant portion of our Equipment sales are either recorded as sales-type leases or through direct sales to distributors and resellers and these revenue streams are not impacted by the adoption of ASC Topic 606. The only change of significance identified in our adoption involves a change in the classification of certain revenues that were previously reported in Services revenues. These revenues, which are approximately \$50 annually, relate to certain analyst services performed in connection with the installation of equipment that are being considered part of the equipment sale performance obligation in 2018. Accordingly, in 2018 these revenues are now reported as part of Sales. As a result of this change, \$9 and \$20 of revenue was recorded, for the three and six months ended June 30, 2018, respectively, as Sales, which would have been previously recorded as Services revenue in prior periods.

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



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

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

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

**Revenue Recognition Summary:**

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

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

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

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

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

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

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

**Sales to distributors and resellers:** We utilize distributors and resellers to sell our equipment, supplies and maintenance services to end-user customers. We refer to our distributor and reseller network as our two-tier distribution model. Revenues on sales to distributors and resellers are generally recognized when products are shipped to such distributors and resellers. However, revenue is only recognized when the distributor or reseller has economic substance apart from the Company such that collectability is probable and we have no further obligations related to bringing about the resale, delivery or installation of the product that would impact transfer of control. Revenues associated with

maintenance agreements sold through distributors and resellers to end customers are recognized in a consistent manner to maintenance services. Revenue that may be subject to a reversal of revenue due to contractual terms or uncertainties is not recorded as revenue until the contractual provisions lapse or the uncertainties are resolved.

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

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

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

Revenues under bundled arrangements are allocated considering the relative standalone selling prices of the lease and non-lease deliverables included in the bundled arrangement. Lease deliverables include the equipment, financing, maintenance and other executory costs, while non-lease deliverables generally consist of the supplies and non-maintenance services. The allocation for the lease deliverables begins by allocating revenues to the maintenance and other executory costs plus a profit thereon. These elements are generally recognized over the term of the lease as service revenue. The remaining amounts are allocated to the equipment and financing elements, which are subjected to the accounting estimates noted below under "Leases".

**Leases:** The two primary lease accounting provisions we assess for the classification of transactions as sales-type or operating leases are: (1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and (2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Equipment placements included in arrangements meeting these conditions are accounted for as sales-type leases and revenue is recognized as noted above for Equipment. Equipment placements included in arrangements that do not meet these conditions are accounted for as operating leases and revenue is recognized over the term of the lease.

We consider the economic life of most of our products to be five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended. Residual values are not significant.

With respect to fair value, we perform an analysis of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices are indicative of fair value.

Our lease pricing interest rates, which are used in determining customer payments in a bundled lease arrangement, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer's credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have generally been adjusted if the rates vary by 25 basis points or more, cumulatively, from the rate last in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.

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

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

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

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

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

(1) Geographic area data is based upon the location of the subsidiary reporting the revenue.

(2) For the three and six months ended June 30, 2017, Equipment sale revenues exclude \$9 and \$20, respectively, of equipment-related training revenue, which was classified as Services under previous revenue guidance - see "Adoption Summary" above.

(3) Includes revenues from maintenance agreements on sold equipment as well as revenues associated with service agreements sold in our small and mid-sized business (SMB) focused channels and through our channel partners as Xerox Partner Print Services (XPPS).

(4) Primarily includes revenues from our Managed Document Services (MDS) offerings. Also includes revenues from embedded operating leases, which were not significant.

(5) Primarily reflects direct sales through bundled lease arrangements.

(6) Primarily reflects sales through our two-tier distribution channels.

## Other Revenue Recognition Policies

**Contract assets and liabilities:** We normally do not have contract assets, which are primarily unbilled accounts receivable that are conditional on something other than the passage of time. Our contract liabilities, which represent billings in excess of revenue recognized, are primarily related to advanced billings for maintenance and other services to be performed and were approximately \$107 and \$91 at June 30, 2018 and January 1, 2018, respectively. The majority of the balance at June 30, 2018 will be amortized to revenue over approximately the next 30 months.

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

For the three and six months ended June 30, 2018, the incremental direct costs of obtaining a contract of \$23 and \$40, respectively, were deferred and the related amortization was \$24 and \$48, respectively. The balance of deferred incremental direct costs net of accumulated amortization at June 30, 2018 was \$176. This amount is expected to be amortized over its estimated period of benefit, which we currently estimate to be approximately four years.

We may also incur costs associated with our services arrangements to generate or enhance resources and assets that will be used to satisfy our future performance obligations included in these arrangements. These costs are considered contract fulfillment costs. These costs are amortized over the contractual service period of the arrangement

to cost of services. In addition, we also provide inducements to certain customers in various forms, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract. Amounts deferred associated with contract fulfillment costs and inducements were \$10 at June 30, 2018.

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

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

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

## Note 3 – Recent Accounting Pronouncements

### Leases

In February 2016, the FASB issued **ASU 2016-02**, *Leases*, with additional amendments being issued in 2018. This update requires the recognition of right-to-use assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires qualitative and quantitative disclosure of key information regarding the amount, timing and uncertainty of cash flows arising from leasing arrangements to increase transparency and comparability among companies.

The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance as well as to the new revenue recognition guidance in ASU 2014-09. Some of these conforming changes such as those related to the definition of minimum lease payments, may potentially result in certain lease arrangements, which are currently accounted for as operating leases, being classified and accounted for as sales-type leases with a corresponding up-front recognition of equipment sales revenue.

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

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

### Financial Instruments - Credit Losses

In June 2016, the FASB issued **ASU 2016-13**, *Financial Instruments Credit Losses - Measurement of Credit Losses on Financial Instruments*, which requires measurement and recognition of expected credit losses for financial assets. The update impacts financial assets and net investment in leases that are not accounted for at fair value through Net income. This update is effective for our fiscal year beginning January 1, 2020, with early adoption permitted as of January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2016-13 on our consolidated financial statements.

### Cash Flows

In August 2016, the FASB issued **ASU 2016-15**, *Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments*. This update provides specific guidance on eight cash flow classification issues where current guidance is either unclear or does not include specific requirements. We adopted ASU 2016-15 effective for our fiscal year beginning January 1, 2018. This update includes specific guidance, that requires cash collected on beneficial interests received in a sale of receivables be classified as inflows from investing activities. Formerly, those collections were reported in operating cash flows. We reported \$56 and \$110 of collections on beneficial interests as operating cash inflows on the Statement of Cash Flows for the three and six months ended June 30, 2017, respectively. Accordingly, since the update must be applied retrospectively, our reported 2017 operating and investing cash flows

were revised in 2018 to report this amount as investing cash flows. There is no expected impact to our 2018 cash flows from this reporting change, due to the termination of all accounts receivable sales arrangements in North America and most arrangements in Europe and the final repurchase of previously sold finance receivables during the fourth quarter of 2017. The other seven issues noted in this update are not expected to have a material impact on our financial condition, results of operations or cash flows.

Additionally, in November 2016 the FASB issued **ASU 2016-18, *Statement of Cash Flows - Restricted Cash***. The update requires that amounts generally described as restricted cash and restricted cash equivalents should be included with Cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted ASU 2016-18 effective for our fiscal year beginning January 1, 2018 and applied it retrospectively through a revision of previously reported amounts. We held \$64 and \$75 of restricted cash, currently reported in Other current or long-term assets at June 30, 2018 and December 31, 2017, respectively. The changes in our restricted cash balances were primarily related to our accounts receivable sales programs, which were terminated during the fourth quarter of 2017. Accordingly, this update is not expected to have a material impact on our financial condition, results of operations or cash flows. Refer to Note 5 - Supplementary Financial Information for additional information.

### Retirement Benefits

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

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

	Three Months Ended June 30, 2017		
	As Reported	Adjustment	As Recasted
Cost of sales	\$ 619	\$ —	\$ 619
Cost of services, maintenance and rentals	884	(12)	872
Research, development and engineering expenses	106	(4)	102
Selling, administrative and general expenses	643	(17)	626
Restructuring and related costs	40	(1)	39
Other expenses, net	34	34	68

  

	Six Months Ended June 30, 2017		
	As Reported	Adjustment	As Recasted
Cost of sales	\$ 1,186	\$ (2)	\$ 1,184
Cost of services, maintenance and rentals	1,784	(31)	1,753
Research, development and engineering expenses	224	(11)	213
Selling, administrative and general expenses	1,307	(47)	1,260
Restructuring and related costs	160	(3)	157
Other expenses, net	88	94	182

## Business Combinations

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

## Income Taxes

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

In February 2018, the FASB issued **ASU No. 2018-02**, *Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The update allows the reclassification from Accumulated other comprehensive income to Retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Act") enacted in December 2017. Consequently, the update eliminates the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. However, because the update only relates to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in Income from continuing operations is not affected. The update also requires certain disclosures about stranded tax effects. The update is effective for our fiscal year beginning January 1, 2019. Early adoption of this update is permitted, including adoption in any interim period. The update should be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the U.S. federal corporate income tax rate in the Tax Cuts and Jobs Act is recognized. The Company is currently evaluating the impact of adopting this new guidance.

In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 118 (as further clarified by the FASB's **ASU 2018-05**, *Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118*) to provide guidance for companies that may not have completed their accounting for the income tax effects of the Tax Act. SAB No. 118 provides for a provisional one year measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Act. SAB No. 118 provides guidance where: (i) the accounting for the income tax effect of the Tax Act is complete and reported in the Tax Act's enactment period, (ii) the accounting for the income tax effect of the Tax Act is incomplete and reported as provisional amounts based on reasonable estimates (to the extent determinable) subject to adjustments during a limited measurement period until complete, and (iii) accounting for the income tax effect of the Tax Act is not reasonably estimable (no related provisional amounts are reported in the enactment period) and entities would continue to apply accounting based on tax law provisions in effect prior to the Tax Act enactment until provisional amounts are reasonably estimable. SAB No. 118 requires disclosure of the reasons for incomplete accounting additional information or analysis needed, among other relevant information. During the fourth quarter 2017, we recorded an estimated non-cash provisional charge of \$400 reflecting the impact associated with the provisions of the Tax Act based on currently available information. No further adjustment of that estimated provisional charge was made in the first quarter 2018, however we continue to evaluate impacts from the Tax Act and likely will do so through the expected filing of our 2017 U.S. Tax Return in the third quarter 2018. Any adjustments to these provisional amounts will be reported as a component of Income tax expense in the reporting period in which any such adjustments are determined.

## Derivatives

In August 2017, the FASB issued **ASU 2017-12**, *Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*. The amendments in this update expand and refine hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments with the same income statement line item that the hedged item is reported and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. This update is effective for our fiscal year beginning January 1, 2019, with early adoption permitted at any interim period. We are currently evaluating the impact of the adoption of ASU 2017-12 on our consolidated financial statements.

**Other Updates**

In 2018, 2017 and 2016, the FASB also issued the following Accounting Standards Updates, which did not have or are not expected to have a material impact on our financial condition, results of operations or cash flows upon adoption. Those updates are as follows:

- **Investments - Debt Securities and Regulated Operations: ASU 2018-04**, (Topics 320 and 980) Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 117 and SEC Release No. 33-9273 (SEC Update).
- **Service Concession Arrangements: ASU 2017-10**, (Topic 853) Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force). This update is effective for our fiscal year beginning January 1, 2018.
- **Compensation - Stock Compensation: ASU 2017-09**, (Topic 718) Scope of Modification Accounting. This update is effective for our fiscal year beginning January 1, 2018.
- **Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets: ASU 2017-05**, (Subtopic 610-20) Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This update is effective for our fiscal year beginning January 1, 2018.
- **Financial Instruments - Classification and Measurement: ASU 2016-01**, Financial Instruments - Recognition and Measurement of Financial Instruments and Financial Liabilities. This update is effective for our fiscal year beginning January 1, 2018.

**Note 4 – Divestitures**

**Business Process Outsourcing (BPO)**

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

Summarized financial information for our Discontinued operations is as follows:

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

## Note 5 – Supplementary Financial Information

### Cash, Cash Equivalents and Restricted Cash

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

	June 30, 2018	December 31, 2017
<b>Cash and cash equivalents</b>	\$ 1,263	\$ 1,293
<b>Restricted cash</b>		
Tax and labor litigation deposits in Brazil	62	72
Other restricted cash	2	3
<b>Total Restricted cash</b>	<u>64</u>	<u>75</u>
<b>Cash, cash equivalents and restricted cash</b>	<u>\$ 1,327</u>	<u>\$ 1,368</u>

Restricted cash primarily relates to escrow cash deposits made in Brazil associated with tax and labor litigation. As more fully discussed in Note 18 - Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. Restricted cash amounts are classified in our Condensed Consolidated Balance Sheets based on when the cash is expected to be contractually or judicially released.

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

	June 30, 2018	December 31, 2017
Other current assets	\$ 1	\$ 1
Other long-term assets	63	74
<b>Total Restricted cash</b>	<u>\$ 64</u>	<u>\$ 75</u>

### Supplemental Cash Flow Information

Summarized cash flow information is as follows:

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

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



## Note 6 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	June 30, 2018	December 31, 2017
Invoiced	\$ 1,001	\$ 1,048
Accrued	353	368
Allowance for doubtful accounts	(57)	(59)
<b>Accounts receivable, net</b>	<b>\$ 1,297</b>	<b>\$ 1,357</b>

Amounts to be invoiced in the subsequent quarter for current services provided are included in amounts accrued.

We perform ongoing credit evaluations of our customers and adjust credit limits based upon customer payment history and current creditworthiness. The allowance for uncollectible accounts receivable is determined principally on the basis of past collection experience as well as consideration of current economic conditions and changes in our customer collection trends.

### Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. The accounts receivable sold are generally short-term trade receivables with payment due dates of less than 60 days. During the fourth quarter 2017, we terminated all accounts receivable sales arrangements in North America and all but one arrangement in Europe. The remaining facility in Europe enables us to sell accounts receivable associated with our distributor network on an ongoing basis, without recourse. Under this arrangement, we sell our entire interest in the related accounts receivable for cash and no portion of the payment is held back or deferred by the purchaser.

Of the accounts receivable sold and derecognized from our balance sheet, \$131 and \$161 remained uncollected as of June 30, 2018 and December 31, 2017, respectively.

Accounts receivable sales were as follows:

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

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

(2) Represents the difference between current and prior period receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the quarter and, (iii) currency.

## Note 7 - Finance Receivables, Net

### Finance Receivables – Allowance for Credit Losses and Credit Quality

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. Our finance receivable portfolios are primarily in the U.S., Canada and Europe. We generally establish customer credit limits and estimate the allowance for credit losses on a country or geographic basis. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

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

Allowance for Credit Losses:	United States	Canada	Europe	Other <sup>(1)</sup>	Total
<b>Balance at December 31, 2017</b>	\$ 56	\$ 15	\$ 35	\$ 2	\$ 108
Provision	5	—	4	—	9
Charge-offs	(5)	(1)	(4)	—	(10)
Recoveries and other <sup>(2)</sup>	—	—	1	—	1
<b>Balance at March 31, 2018</b>	\$ 56	\$ 14	\$ 36	\$ 2	\$ 108
Provision	4	1	4	—	9
Charge-offs	(4)	(1)	(3)	—	(8)
Recoveries and other <sup>(2)</sup>	—	—	(2)	—	(2)
<b>Balance at June 30, 2018</b>	\$ 56	\$ 14	\$ 35	\$ 2	\$ 107
<b>Finance receivables as of June 30, 2018 collectively evaluated for impairment<sup>(3)</sup></b>	\$ 1,962	\$ 356	\$ 1,256	\$ 56	\$ 3,630
<b>Balance at December 31, 2016</b>	\$ 55	\$ 16	\$ 37	\$ 2	\$ 110
Provision	4	—	5	—	9
Charge-offs	(6)	(2)	(2)	—	(10)
Recoveries and other <sup>(2)</sup>	—	2	—	—	2
<b>Balance at March 31, 2017</b>	\$ 53	\$ 16	\$ 40	\$ 2	\$ 111
Provision	4	1	1	—	6
Charge-offs	(10)	(1)	(3)	—	(14)
Recoveries and other <sup>(2)</sup>	1	—	4	—	5
<b>Balance at June 30, 2017</b>	\$ 48	\$ 16	\$ 42	\$ 2	\$ 108
<b>Finance receivables as of June 30, 2017 collectively evaluated for impairment<sup>(3)</sup></b>	\$ 2,028	\$ 383	\$ 1,336	\$ 64	\$ 3,811

(1) Includes developing market countries and smaller units.

(2) Includes the impacts of foreign currency translation and adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(3) Total Finance receivables exclude the allowance for credit losses of \$107 and \$108 at June 30, 2018 and 2017, respectively.

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

- **Investment grade:** This rating includes accounts with excellent to good business credit, asset quality and capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poor's (S&P) rating of BBB- or better. Loss rates in this category are normally less than 1%.
- **Non-investment grade:** This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 5%.
- **Substandard:** This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade evaluation when the lease was originated. Accordingly, there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are generally in the range of 7% to 10%.

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

	June 30, 2018				December 31, 2017			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$ 184	\$ 331	\$ 85	\$ 600	\$ 199	\$ 345	\$ 75	\$ 619
Government and education	459	65	7	531	490	61	6	557
Graphic arts	86	133	96	315	84	97	141	322
Industrial	80	81	16	177	82	84	14	180
Healthcare	82	51	9	142	88	48	9	145
Other	61	93	43	197	68	98	40	206
<b>Total United States</b>	<b>952</b>	<b>754</b>	<b>256</b>	<b>1,962</b>	<b>1,011</b>	<b>733</b>	<b>285</b>	<b>2,029</b>
Finance and other services	51	37	24	112	54	42	27	123
Government and education	42	4	4	50	48	5	5	58
Graphic arts	28	30	27	85	34	35	27	96
Industrial	18	11	10	39	20	12	11	43
Other	33	23	14	70	36	25	16	77
<b>Total Canada</b>	<b>172</b>	<b>105</b>	<b>79</b>	<b>356</b>	<b>192</b>	<b>119</b>	<b>86</b>	<b>397</b>
France	227	193	21	441	234	226	22	482
U.K./Ireland	101	127	11	239	106	150	10	266
Central <sup>(1)</sup>	187	128	13	328	189	149	16	354
Southern <sup>(2)</sup>	46	144	13	203	52	144	13	209
Nordics <sup>(3)</sup>	26	18	1	45	29	21	1	51
<b>Total Europe</b>	<b>587</b>	<b>610</b>	<b>59</b>	<b>1,256</b>	<b>610</b>	<b>690</b>	<b>62</b>	<b>1,362</b>
<b>Other</b>	<b>34</b>	<b>20</b>	<b>2</b>	<b>56</b>	<b>38</b>	<b>28</b>	<b>6</b>	<b>72</b>
<b>Total</b>	<b>\$ 1,745</b>	<b>\$ 1,489</b>	<b>\$ 396</b>	<b>\$ 3,630</b>	<b>\$ 1,851</b>	<b>\$ 1,570</b>	<b>\$ 439</b>	<b>\$ 3,860</b>

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

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

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

June 30, 2018							
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	\$ 14	\$ 3	\$ 2	\$ 19	\$ 581	\$ 600	\$ 10
Government and education	16	3	2	21	510	531	22
Graphic arts	11	1	—	12	303	315	4
Industrial	5	1	1	7	170	177	4
Healthcare	4	1	1	6	136	142	5
Other	6	1	1	8	189	197	5
<b>Total United States</b>	<b>56</b>	<b>10</b>	<b>7</b>	<b>73</b>	<b>1,889</b>	<b>1,962</b>	<b>50</b>
<b>Canada</b>	<b>7</b>	<b>2</b>	<b>1</b>	<b>10</b>	<b>346</b>	<b>356</b>	<b>20</b>
France	7	—	—	7	434	441	17
U.K./Ireland	1	1	—	2	237	239	—
Central <sup>(1)</sup>	1	1	1	3	325	328	8
Southern <sup>(2)</sup>	3	1	1	5	198	203	6
Nordics <sup>(3)</sup>	—	—	—	—	45	45	—
<b>Total Europe</b>	<b>12</b>	<b>3</b>	<b>2</b>	<b>17</b>	<b>1,239</b>	<b>1,256</b>	<b>31</b>
<b>Other</b>	<b>3</b>	<b>—</b>	<b>—</b>	<b>3</b>	<b>53</b>	<b>56</b>	<b>—</b>
<b>Total</b>	<b>\$ 78</b>	<b>\$ 15</b>	<b>\$ 10</b>	<b>\$ 103</b>	<b>\$ 3,527</b>	<b>\$ 3,630</b>	<b>\$ 101</b>

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

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

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

## Note 8 – Inventories

The following is a summary of Inventories by major category:

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



## Note 9 – Investment in Affiliates, at Equity

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

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

### Fuji Xerox

Equity in net income (loss) of Fuji Xerox is affected by certain adjustments required to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income (loss) that is different from that implied by our 25% ownership interest. In addition, the Equity in net income (loss) of Fuji Xerox for the three and six months ended June 30, 2018 includes after-tax restructuring and other charges of \$4 and \$83, respectively.

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

Fuji Xerox recorded a cumulative charge of JPY 12 billion (approximately \$110 based on the Yen/U.S. Dollar average exchange rate for the quarter ended March 31, 2018 of 108.07) in their net loss for the quarter ended March 31, 2018 (our first quarter 2018) related to the correction of these additional adjustments and misstatements. Our recognition of 25% of Fuji Xerox's net loss for Xerox's first quarter 2018 included an approximately \$28 charge related to these adjustments and misstatements. We determined that the impact of the out-of-period misstatements was not material to Xerox's consolidated financial statements for any individual prior quarter or year and the adjustment to correct the misstatements is not expected to be material to our full year 2018 results.

Summarized financial information for Fuji Xerox was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Summary of Operations</b>				
Revenues	\$ 2,226	\$ 2,325	\$ 4,691	\$ 4,884
Costs and expenses	2,098	2,191	4,869	4,543
<b>Income (Loss) before Income Taxes</b>	128	134	(178)	341
Income tax expense	50	32	11	76
<b>Net Income (Loss)</b>	78	102	(189)	265
Less: Net income attributable to noncontrolling interests	1	1	1	2
<b>Net Income (Loss) – Fuji Xerox</b>	<b>\$ 77</b>	<b>\$ 101</b>	<b>\$ (190)</b>	<b>\$ 263</b>
Weighted Average Exchange Rate <sup>(1)</sup>	109.05	111.01	108.54	112.42

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

## Note 10 – Restructuring Programs

During the six months ended June 30, 2018, we recorded net restructuring and asset impairment charges of \$62, which included \$64 of severance costs related to headcount reductions of approximately 950 employees worldwide and \$12 of lease cancellation costs. These costs were partially offset by \$14 of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives.

Information related to restructuring program activity is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments <sup>(2)</sup>	Total
<b>Balance at December 31, 2017</b>	\$ 108	\$ 1	\$ —	\$ 109
Provision	24	12	—	36
Reversals	(8)	—	—	(8)
<b>Net current period charges<sup>(1)</sup></b>	16	12	—	28
Charges against reserve and currency	(41)	(11)	—	(52)
<b>Balance at March 31, 2018</b>	\$ 83	\$ 2	\$ —	\$ 85
Provision	40	—	—	40
Reversals	(6)	—	—	(6)
<b>Net current period charges<sup>(1)</sup></b>	34	—	—	34
Charges against reserve and currency	(39)	(1)	—	(40)
<b>Balance at June 30, 2018</b>	\$ 78	\$ 1	\$ —	\$ 79

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

(2) Charges associated with asset impairments represent the write-down of the related assets to their new cost basis and are recorded concurrently with the recognition of the provision.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Charges against reserve and currency	\$ (40)	\$ (59)	\$ (92)	\$ (116)
Effects of foreign currency and other non-cash items	3	(7)	1	(8)
<b>Restructuring cash payments</b>	<b>\$ (37)</b>	<b>\$ (66)</b>	<b>\$ (91)</b>	<b>\$ (124)</b>

## Note 11 – Debt

### Bridge Facility

Refer to Note 19 - Fuji Xerox Transaction and Recent Developments for additional information regarding the bridge loan facility that was terminated during the second quarter of 2018.

### Interest Expense and Income

Interest expense and income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Interest expense <sup>(1)</sup>	\$ 60	\$ 57	\$ 123	\$ 126
Interest income <sup>(2)</sup>	72	76	146	154

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

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

## Note 12 – Financial Instruments

### Interest Rate Risk Management

We use interest rate swap agreements to manage our interest rate exposure and to achieve a desired proportion of variable and fixed rate debt. These derivatives may be designated as **fair value hedges** or **cash flow hedges** depending on the nature of the risk being hedged.

#### Fair Value Hedges

As of June 30, 2018, pay variable/receive fixed interest rate swaps with notional amounts of \$300 and net liability fair value of \$5 were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings for the six months ended June 30, 2018.

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

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Note 2021	2014	\$ 300	\$ (5)	2.95%	4.5%	Libor	2021

### Foreign Exchange Risk Management

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

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

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

#### Foreign Currency Cash Flow Hedges

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



## Summary of Derivative Instruments Fair Value

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

Designation of Derivatives	Balance Sheet Location	June 30, 2018		December 31, 2017	
<b>Derivatives Designated as Hedging Instruments</b>					
Foreign exchange contracts - forwards	Other current assets	\$	5	\$	1
	Other current liabilities		(2)		(15)
Foreign currency options	Other current assets		2		—
	Other current liabilities		(1)		—
Interest rate swaps	Other long-term assets		—		1
	Other long-term liabilities		(5)		—
	<b>Net designated derivative liability</b>	<b>\$</b>	<b>(1)</b>	<b>\$</b>	<b>(13)</b>
<b>Derivatives NOT Designated as Hedging Instruments</b>					
Foreign exchange contracts – forwards	Other current assets	\$	19	\$	1
	Other current liabilities		(4)		(10)
	<b>Net undesignated derivative asset (liability)</b>	<b>\$</b>	<b>15</b>	<b>\$</b>	<b>(9)</b>
<b>Summary of Derivatives</b>					
	Total Derivative Assets	\$	26	\$	3
	Total Derivative Liabilities		(12)		(25)
	<b>Net Derivative asset (liability)</b>	<b>\$</b>	<b>14</b>	<b>\$</b>	<b>(22)</b>

## Summary of Derivative Instruments Gains (Losses)

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

### Designated Derivative Instruments Gains (Losses)

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

Gain (Loss) on Derivative Instruments	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Fair Value Hedges - Interest Rate Contracts</b>				
Derivative (loss) gain recognized in interest expense	\$ (1)	\$ 2	\$ (6)	\$ 1
Hedged item gain (loss) recognized in interest expense	1	(2)	6	(1)
<b>Cash Flow Hedges - Foreign Exchange Forward Contracts and Options</b>				
Derivative (loss) gain recognized in OCI (effective portion)	\$ (2)	\$ (22)	\$ 10	\$ (13)
Derivative Loss reclassified from AOCL to income - Cost of sales (effective portion)	—	(4)	(12)	(8)

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

As of June 30, 2018, a net after-tax gain of \$2 was recorded in Accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into Net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

### Non-Designated Derivative Instruments Gains (Losses)

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

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

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

For the three and six months ended June 30, 2018 currency (losses) gains, net were \$(1) and \$1, respectively. For the three and six months ended June 30, 2017 currency losses, net were \$(1) and \$(4), respectively. Net currency gains and losses include the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives as well as the re-measurement of foreign currency-denominated assets and liabilities and are included in Other expenses, net.

### Note 13 – Fair Value of Financial Assets and Liabilities

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

	June 30, 2018	December 31, 2017
<b>Assets:</b>		
Foreign exchange contracts - forwards	\$ 24	\$ 2
Foreign currency options	2	—
Interest rate swaps	—	1
Deferred compensation investments in mutual funds	19	18
<b>Total</b>	<b>\$ 45</b>	<b>\$ 21</b>
<b>Liabilities:</b>		
Foreign exchange contracts - forwards	\$ 6	\$ 25
Foreign currency options	1	—
Interest rate swaps	5	—
Deferred compensation plan liabilities	18	19
<b>Total</b>	<b>\$ 30</b>	<b>\$ 44</b>

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

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

### Summary of Other Financial Assets and Liabilities

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

	June 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 1,263	\$ 1,263	\$ 1,293	\$ 1,293
Accounts receivable, net	1,297	1,297	1,357	1,357
Short-term debt and current portion of long-term debt	412	411	282	283
Long-term debt	4,813	4,815	5,235	5,373

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

## Note 14 – Employee Benefit Plans

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

Components of Net Periodic Benefit Costs:	Three Months Ended June 30,					
	Pension Benefits				Retiree Health	
	U.S. Plans		Non-U.S. Plans		2018	2017
	2018	2017	2018	2017	2018	2017
Service cost	\$ —	\$ 1	\$ 7	\$ 8	\$ 1	\$ 1
Interest cost	34	32	38	38	7	7
Expected return on plan assets	(36)	(30)	(62)	(54)	—	—
Recognized net actuarial loss	6	6	15	19	—	—
Amortization of prior service credit	(1)	(1)	(1)	(1)	(1)	(1)
Recognized settlement loss	26	19	—	—	—	—
Defined benefit plans	29	27	(3)	10	7	7
Defined contribution plans <sup>(1)</sup>	10	10	7	7	n/a	n/a
<b>Net Periodic Benefit Cost</b>	<b>39</b>	<b>37</b>	<b>4</b>	<b>17</b>	<b>7</b>	<b>7</b>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income:</b>						
Net actuarial loss (gain) <sup>(2)</sup>	12	12	—	—	10	(11)
Amortization of net actuarial loss	(32)	(25)	(15)	(19)	—	—
Amortization of prior service credit	1	1	1	1	1	1
<b>Total Recognized in Other Comprehensive (Loss) Income<sup>(3)</sup></b>	<b>(19)</b>	<b>(12)</b>	<b>(14)</b>	<b>(18)</b>	<b>11</b>	<b>(10)</b>
<b>Total Recognized in Net Periodic Benefit Cost and Other Comprehensive (Loss) Income</b>	<b>\$ 20</b>	<b>\$ 25</b>	<b>\$ (10)</b>	<b>\$ (1)</b>	<b>\$ 18</b>	<b>\$ (3)</b>

Components of Net Periodic Benefit Costs:	Six Months Ended June 30,					
	Pension Benefits				Retiree Health	
	U.S. Plans		Non-U.S. Plans		2018	2017
	2018	2017	2018	2017	2018	2017
Service cost	\$ 1	\$ 2	\$ 13	\$ 15	\$ 2	\$ 2
Interest cost	67	66	77	77	13	14
Expected return on plan assets	(70)	(61)	(125)	(107)	—	—
Recognized net actuarial loss	12	11	30	38	—	—
Amortization of prior service credit	(1)	(1)	(2)	(2)	(2)	(2)
Recognized settlement loss	51	61	—	—	—	—
Defined benefit plans	60	78	(7)	21	13	14
Defined contribution plans <sup>(1)</sup>	19	20	14	14	n/a	n/a
<b>Net Periodic Benefit Cost</b>	<b>79</b>	<b>98</b>	<b>7</b>	<b>35</b>	<b>13</b>	<b>14</b>
<b>Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive (Loss) Income:</b>						
Net actuarial (gain) loss <sup>(2)</sup>	(46)	20	—	—	10	(11)
Amortization of net actuarial loss	(63)	(72)	(30)	(38)	—	—
Amortization of prior service credit	1	1	2	2	2	2
<b>Total Recognized in Other Comprehensive (Loss) Income<sup>(3)</sup></b>	<b>(108)</b>	<b>(51)</b>	<b>(28)</b>	<b>(36)</b>	<b>12</b>	<b>(9)</b>
<b>Total Recognized in Net Periodic Benefit Cost and Other Comprehensive (Loss) Income</b>	<b>\$ (29)</b>	<b>\$ 47</b>	<b>\$ (21)</b>	<b>\$ (1)</b>	<b>\$ 25</b>	<b>\$ 5</b>

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

(2) The net actuarial (gain) loss for U.S. Plans primarily reflects (i) the re-measurement of our primary U.S. pension plans as a result of the payment of periodic settlements and (ii) adjustments for the actuarial valuation results based on January 1st plan census data.

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

## Contributions

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

	Six Months Ended June 30,		Year Ended December 31,	
	2018	2017	Estimated 2018	2017
U.S. plans	\$ 14	\$ 12	\$ 76	\$ 675
Non-U.S. plans	61	34	116	161
<b>Total Pension</b>	<b>\$ 75</b>	<b>\$ 46</b>	<b>\$ 192</b>	<b>\$ 836</b>
Retiree Health	\$ 29	\$ 32	\$ 62	\$ 64

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

## Note 15 – Shareholders' Equity

(share data in thousands)

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL <sup>(4)</sup>	Xerox Shareholders' Equity	Non- controlling Interests	Total Equity
<b>Balance at December 31, 2017</b>	\$ 255	\$ 3,893	\$ 4,856	\$ (3,748)	\$ 5,256	\$ 37	\$ 5,293
Cumulative effect of change in accounting principles <sup>(1)</sup>	—	—	120	—	120	—	120
Comprehensive income (loss), net	—	—	135	(24)	111	5	116
Cash dividends declared - common <sup>(2)</sup>	—	—	(130)	—	(130)	—	(130)
Cash dividends declared - preferred <sup>(3)</sup>	—	—	(7)	—	(7)	—	(7)
Stock option and incentive plans, net	—	27	—	—	27	—	27
Distributions to noncontrolling interests	—	—	—	—	—	(11)	(11)
<b>Balance at June 30, 2018</b>	<b>\$ 255</b>	<b>\$ 3,920</b>	<b>\$ 4,974</b>	<b>\$ (3,772)</b>	<b>\$ 5,377</b>	<b>\$ 31</b>	<b>\$ 5,408</b>
	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL <sup>(4)</sup>	Xerox Shareholders' Equity	Non- controlling Interests	Total Equity
<b>Balance at December 31, 2016</b>	\$ 254	\$ 3,858	\$ 4,934	\$ (4,337)	\$ 4,709	\$ 38	\$ 4,747
Comprehensive income, net	—	—	206	327	533	7	540
Cash dividends declared - common <sup>(2)</sup>	—	—	(129)	—	(129)	—	(129)
Cash dividends declared - preferred <sup>(3)</sup>	—	—	(7)	—	(7)	—	(7)
Stock option and incentive plans, net	—	17	—	—	17	—	17
Distributions to noncontrolling interests	—	—	—	—	—	(10)	(10)
<b>Balance at June 30, 2017</b>	<b>\$ 254</b>	<b>\$ 3,875</b>	<b>\$ 5,004</b>	<b>\$ (4,010)</b>	<b>\$ 5,123</b>	<b>\$ 35</b>	<b>\$ 5,158</b>

(1) Includes \$117 related to the adoptions of the new Revenue Recognition Standard, see Note 2 for additional information, and \$3 related to our share of Fuji Xerox's adoption of ASU 2016-01 - Financial Instruments - Classification and Measurement.

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

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

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

## Treasury Stock

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

## Stock-Based Compensation

We have a long-term incentive plan whereby eligible employees may be granted restricted stock units (RSUs), performance shares (PSs) and/or stock options (SOs). We grant stock-based compensation awards in order to continue to attract and retain qualified employees and to better align employees' interests with those of our shareholders. Each of these awards is subject to settlement with newly issued shares of our common stock.

Stock-based compensation expense was as follows:

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

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

### Restricted Stock Units

Compensation expense for RSUs is based upon the grant date market price and is recognized on a straight-line basis over a three-year graded-vesting period, based on management's estimate of the number of shares expected to vest. RSUs vest on a graded schedule as follows: 25% after one year of service, 25% after two years of service, and 50% after three years of service from the date of grant. Prior to the April 2018 grant, RSUs vested on a three-year cliff basis from the date of grant. Shares awarded to employees who are retirement-eligible at the date of grant, become retirement-eligible during the vesting period, or are terminated not-for-cause (e.g. as part of a restructuring initiative), vest based on service provided from the date of grant to the date of separation on a pro-rata share of each individual graded-vesting tranche. Shares granted during the three months ended June 30, 2018 were 1,012, with a corresponding weighted average grant date fair value of \$28.03 per share.

### Performance Shares

In connection with the April 2018 grant, the Board approved the following changes to the PS performance goals: the Earnings Per Share (EPS) metric was replaced with a Total Shareholder Return (TSR) metric and the Cash Flow from Operations metric was replaced with a Free Cash Flow metric. The Board retained the Revenue metric as a performance goal as well as the three-year performance period for all measures. The performance metrics are equally weighted; accordingly, each PS grant is two-thirds performance based (revenue and free cash flow) and one-third market-based (TSR). The performance goals are independent of each other and depending on the achievement of these metrics, a recipient of a PS award is entitled to receive a number of shares equal to a percentage, ranging from 0% to 200% of the PS award granted. PSs retain the three-year cliff vesting from the date of grant.

### Performance-Based Component

PSs vest contingent upon meeting pre-determined cumulative goals for revenue and free cash flow. The fair value of the performance-based component of our PSs is based upon the grant-date market price. Compensation expense is recognized on a straight-line basis over the vesting period, based on management's estimate of the number of shares expected to vest. If the cumulative three-year actual results exceed the stated targets, all plan participants have the potential to earn additional shares of common stock up to a maximum overachievement of 100% of the original grant. If the stated targets are not met, any recognized compensation cost would be reversed. Shares granted during the three months ended June 30, 2018 were 667, with a corresponding weighted average grant date fair value of \$28.07 per share.

In connection with the April 2018 grant, the Board only approved the performance measures and corresponding weightings for the 2018 performance year. The performance measures for 2019 and 2020 were expected to be determined by the Board at a later date in connection with the closing of the Fuji Xerox Transaction, which was terminated in May 2018. The Board is expected to approve measures for the 2019 and 2020 performance periods sometime during the second half of 2018. However, since the 2019 and 2020 performance measures have not been approved as of June 30, 2018, the criteria needed to establish a grant date has not been met and therefore the fair value of the April 2018 grant will continue to be revalued based on the period end stock price for each subsequent reporting period until the grant date criteria has been met.

## Market-Based Component

The TSR metric is based on the percentage change in the Company's stock price plus the dividends paid over the three-year measurement period. Payout for this portion of the PS will be determined based on Xerox's percentage change compared to the shareholder returns of the peer group of companies approved by the compensation committee of the Board (as disclosed in the 2018 annual proxy statement). Since the TSR portion of the PS award represents a market condition, a Monte Carlo simulation was used to determine the grant-date fair value. A summary of the key valuation input assumptions used in the Monte Carlo simulation relative to PS awards granted were as follows:

	Three Months Ended June 30, 2018
Term	3 years
Risk-free interest rate <sup>(1)</sup>	2.39%
Dividend yield <sup>(2)</sup>	3.24%
Xerox's historical volatility <sup>(3)</sup>	29.12%
Weighted average fair value <sup>(4)</sup>	\$ 32.21

(1) The risk-free interest rate was based on the zero-coupon U.S. Treasury yield curve from the valuation date, with a maturity matched to the TSR performance period.

(2) The dividend yield was calculated as the expected quarterly dividend divided by Xerox's three-month average stock price as of the valuation date.

(3) Xerox's historical volatility is calculated from daily stock returns over a 3.0-year look-back term from the valuation date.

(4) The weighted average of fair values used to record compensation expense as determined by the Monte Carlo simulation.

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

Percentile	Payout as a Percent of Target <sup>(1)</sup>
80 <sup>th</sup> and above	200%
50 <sup>th</sup>	100%
25 <sup>th</sup>	35%
Below 25 <sup>th</sup>	0%

(1) For performance between the levels described above, the degree of vesting is interpolated on a linear basis.

Compensation expense is recognized on a straight-line basis over the vesting period based on the fair value determined by the Monte Carlo simulation and, except in cases of employee forfeiture, cannot be reversed regardless of performance. Shares granted during the three months ended June 30, 2018 were 333.

## Stock Options

The Board also approved the granting of SOs as part of the 2018 plan design. Except for the conversion of options relating to our acquisition of Affiliated Computer Systems in 2010, we have not issued any SOs since 2004. Compensation expense associated with SOs is based upon the grant date fair value determined by utilizing the Black-Scholes (BS) option-pricing model and is recorded on a straight-line basis over a three-year graded-vesting period, based on management's estimate of the number of SOs expected to vest. SOs vest on a graded schedule as follows: 25% after one year of service, 25% after two years of service, and 50% after three years of service from the date of grant. Similar to RSUs, SOs awarded to employees who are retirement-eligible at the date of grant, become retirement-eligible during the vesting period, or are terminated not-for-cause, vest based on service provided from the date of grant to separation, on a pro-rata share of each individual vesting tranche.

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

	Three Months Ended June 30, 2018
Expected term <sup>(1)</sup>	6.13 years
Expected volatility <sup>(2)</sup>	27.25%
Expected dividend yield <sup>(3)</sup>	3.25%
Risk-free interest rate <sup>(4)</sup>	2.63%
Weighted average fair value <sup>(5)</sup>	\$ 5.75

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

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

**Note:** Management's estimate of the number of shares expected to vest at the time of grant reflects an estimate for forfeitures based on our historical forfeiture rate to date. Should actual forfeitures differ from management's estimate, the activity will be reflected in a subsequent period.

## Note 16 - Other Comprehensive (Loss) Income

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2018		2017		2018		2017	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax	Pre-tax	Net of Tax
<b>Translation Adjustments (Losses) Gains</b>	\$ (335)	\$ (322)	\$ 204	\$ 204	\$ (151)	\$ (146)	\$ 338	\$ 337
<b>Unrealized (Losses) Gains</b>								
Changes in fair value of cash flow hedges - (losses) gains	(2)	(1)	(22)	(17)	10	7	(13)	(11)
Changes in cash flow hedges reclassified to earnings <sup>(1)</sup>	—	—	4	2	12	10	8	4
Other (losses) gains	(2)	(2)	1	1	(3)	(3)	1	1
<b>Net unrealized (losses) gains</b>	(4)	(3)	(17)	(14)	19	14	(4)	(6)
<b>Defined Benefit Plans (Losses) Gains</b>								
Net actuarial/prior service (losses) gains	(22)	(16)	(1)	(1)	36	27	(9)	(6)
Prior service amortization <sup>(2)</sup>	(3)	(3)	(3)	(2)	(5)	(4)	(5)	(3)
Actuarial loss amortization/settlement <sup>(2)</sup>	47	35	44	30	93	70	110	74
Fuji Xerox changes in defined benefit plans, net <sup>(3)</sup>	(3)	(3)	8	8	(24)	(24)	21	21
Other gains (losses) <sup>(4)</sup>	77	77	(64)	(64)	39	39	(89)	(89)
<b>Changes in defined benefit plans gains (losses)</b>	96	90	(16)	(29)	139	108	28	(3)
<b>Other Comprehensive (Loss) Income</b>	(243)	(235)	171	161	7	(24)	362	328
Less: Other comprehensive income attributable to noncontrolling interests	—	—	—	—	—	—	1	1
<b>Other Comprehensive (Loss) Income Attributable to Xerox</b>	<u>\$ (243)</u>	<u>\$ (235)</u>	<u>\$ 171</u>	<u>\$ 161</u>	<u>\$ 7</u>	<u>\$ (24)</u>	<u>\$ 361</u>	<u>\$ 327</u>

(1) Reclassified to Cost of sales - refer to Note 12 - Financial Instruments for additional information regarding our cash flow hedges.

(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 14 - Employee Benefit Plans for additional information.

(3) Represents our share of Fuji Xerox's benefit plan changes.

(4) Primarily represents currency impact on cumulative amount of benefit plan net actuarial losses and prior service credits in AOCL.

## Accumulated Other Comprehensive Loss (AOCL)

AOCL is comprised of the following:

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

(1) Includes our share of Fuji Xerox.



**Note 17 – Earnings per Share**

(share data in thousands)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Basic Earnings (Loss) per Share:</b>				
Net Income from Continuing Operations Attributable to Xerox	\$ 112	\$ 166	\$ 135	\$ 212
Accrued dividends on preferred stock	(3)	(3)	(7)	(7)
Adjusted Net income from continuing operations available to common shareholders	109	163	128	205
Net loss from discontinued operations attributable to Xerox	—	—	—	(6)
Adjusted Net income available to common shareholders	\$ 109	\$ 163	\$ 128	\$ 199
Weighted average common shares outstanding	254,895	254,193	254,791	254,107
<b>Basic Earnings (Loss) per Share:</b>				
Continuing operations	\$ 0.42	\$ 0.64	\$ 0.50	\$ 0.81
Discontinued operations	—	—	—	(0.03)
<b>Basic Earnings per Share</b>	\$ 0.42	\$ 0.64	\$ 0.50	\$ 0.78
<b>Diluted Earnings (Loss) per Share:</b>				
Net Income from Continuing Operations Attributable to Xerox	\$ 112	\$ 166	\$ 135	\$ 212
Accrued dividends on preferred stock	(3)	—	(7)	(7)
Adjusted Net income from continuing operations available to common shareholders	109	166	128	205
Net loss from discontinued operations attributable to Xerox	—	—	—	(6)
Adjusted Net income available to common shareholders	\$ 109	\$ 166	\$ 128	\$ 199
Weighted average common shares outstanding	254,895	254,193	254,791	254,107
<b>Common shares issuable with respect to:</b>				
Stock options	—	—	—	—
Restricted stock and performance shares	3,052	2,275	2,931	2,190
Convertible preferred stock	—	6,742	—	—
Adjusted Weighted average common shares outstanding	257,947	263,210	257,722	256,297
<b>Diluted Earnings (Loss) per Share:</b>				
Continuing operations	\$ 0.42	\$ 0.63	\$ 0.50	\$ 0.80
Discontinued operations	—	—	—	(0.02)
<b>Diluted Earnings per Share</b>	\$ 0.42	\$ 0.63	\$ 0.50	\$ 0.78
The following securities were not included in the computation of diluted earnings per share as they were either contingently issuable shares or shares that if included would have been anti-dilutive:				
Stock options	1,097	—	1,097	—
Restricted stock and performance shares	4,329	2,375	4,450	2,460
Convertible preferred stock	6,742	—	6,742	6,742
<b>Total Anti-Dilutive Securities</b>	12,168	2,375	12,289	9,202
<b>Dividends per Common Share</b>	\$ 0.25	\$ 0.25	\$ 0.50	\$ 0.50

## Note 18 – Contingencies and Litigation

### Legal Matters

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

### Brazil Tax and Labor Contingencies

Our Brazilian operations are involved in various litigation matters and have received or been the subject of numerous governmental assessments related to indirect and other taxes, as well as disputes associated with former employees and contract labor. The tax matters, which comprise a significant portion of the total contingencies, principally relate to claims for taxes on the internal transfer of inventory, municipal service taxes on rentals and gross revenue taxes. We are disputing these tax matters and intend to vigorously defend our positions. Based on the opinion of legal counsel and current reserves for those matters deemed probable of loss, we do not believe that the ultimate resolution of these matters will materially impact our results of operations, financial position or cash flows.

The labor matters principally relate to claims made by former employees and contract labor for the equivalent payment of all social security and other related labor benefits, as well as consequential tax claims, as if they were regular employees. As of June 30, 2018, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately \$510, with the decrease from our December 31, 2017 balance of approximately \$600, primarily related to currency, partially offset by new cases and interest. With respect to the unreserved balance of approximately \$510, the majority has been assessed by management as being remote as to the likelihood of ultimately resulting in a loss to the Company. In connection with the above proceedings, customary local regulations may require us to make escrow cash deposits or post other security of up to half of the total amount in dispute. As of June 30, 2018, we had \$62 of escrow cash deposits for matters we are disputing and additional letters of credit and surety bonds of \$113 and \$91, respectively, which include associated indexation. There were no liens on any of our Brazilian assets as of June 30, 2018. Generally, any escrowed amounts would be refundable and any liens would be removed to the extent the matters are resolved in our favor. We routinely assess all these matters as to the probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

### Litigation Against the Company

#### Pending Litigation Relating to the Fuji Transaction:

#### 1. *Deason v. Fujifilm Holdings Corp., et al.; Deason v. Xerox Corp., et al.; In re Xerox Corporation Consolidated Shareholder Litigation:*

In February 2018, five complaints, including four putative class actions (which have been consolidated), were filed by Xerox shareholders in the Supreme Court of the State of New York, County ("Court") in connection with the proposed transaction to combine Xerox and Fuji Xerox ("Fuji Transaction") (refer to Note 19 - Fuji Xerox Transaction and Recent Developments). All of the complaints name as defendants Xerox, its directors, and FUJIFILM Holdings Corporation ("Fujifilm"). The complaint in one of the actions also names as a defendant Ursula M. Burns, the former Chief Executive Officer of Xerox. The plaintiffs allege, among other things, that Xerox's directors breached their fiduciary duties in negotiating, approving, and purportedly making false and misleading disclosures about the Fuji Transaction, and that Fujifilm aided and abetted those breaches. The complaint in one of the actions further alleges that Xerox and the director defendants engaged in common law fraud by purportedly failing to disclose information about the joint venture agreements between Xerox and Fujifilm. The lawsuits seek injunctive relief preventing the previously proposed transactions, and/or additional disclosures by Xerox's directors, unspecified damages from Xerox's directors, costs and attorneys' fees, as well as other relief.

Another complaint filed by Darwin Deason, a Xerox shareholder, against Xerox and its directors in the same Court on March 2, 2018 alleged that defendants breached their fiduciary duties by refusing Mr. Deason's request for a waiver of the deadline for nomination of a new slate of Xerox directors, and sought to enjoin Xerox and its directors from enforcing Xerox's advance notice by-laws, thereby allowing Mr. Deason to proceed with the nominations, as well as costs, fees, and other relief.

On April 27, 2018, the Court issued decisions and orders granting plaintiffs' preliminary injunction motions, which (i) enjoin Xerox from "taking any further action to consummate the change of control transaction between Xerox and Fuji that was announced on January 31, 2018 pending a final determination of the claims asserted in the underlying action;" (ii) enjoin Xerox from enforcing its advance notice bylaw provision requiring shareholders to nominate directors for election at the 2018 annual shareholder meeting by December 11, 2017; and (iii) require Xerox to waive such advance notice bylaw provision to permit the noticing of a slate of director nominees for election at the 2018 annual shareholder meeting, and denying defendants' motions to dismiss.

On May 1, 2018, Xerox entered into a Director Appointment, Nomination and Settlement Agreement (the "Settlement Agreement") with Carl Icahn and Darwin Deason, among others, that would have resolved the pending proxy contest in connection with Xerox's 2018 Annual Meeting of Shareholders, as well as the ongoing litigation brought by Mr. Deason against Xerox and its directors related to the Fuji Transaction. The agreement expired by its terms on May 3, 2018 without becoming effective.

On May 7, 2018, defendants filed with the Supreme Court of the State of New York, Appellate Division, First Judicial Department, notices of appeal of, and motions to stay pending appeal, the lower Court's decision and order. Defendants also moved the appellate court for interim relief ordering that the appeal be heard on an expedited basis. At a hearing before the appellate court on May 7, 2018, the appellate court ruled that the appeals would be heard on an expedited basis and granted a partial interim stay allowing Xerox and Fujifilm to take steps to seek regulatory approvals related to the Fuji Transaction pending a ruling from the appellate court on defendants' motions to stay pending appeal.

On May 13, 2018, a settlement agreement with respect to the Deason cases was signed on behalf of plaintiff Deason, the Icahn Group and related parties, and all defendants except Fujifilm, and a memorandum of understanding regarding settlement of the putative class case was signed by all defendants except Fujifilm. Pursuant to the settlements, the settling defendants withdrew their appeal and motion to stay in the Deason cases. The settling defendants also withdrew their motion to stay in the putative class case. Fujifilm's appeal and motion for a stay of the proceedings in the first Deason case and the putative class case remain pending before the Appellate Division. The Court entered a stipulation of discontinuance as to the settling parties in the second Deason case on May 14, 2018, and agreed on June 22, 2018 to do the same in the first Deason case.

On June 14, 2018, Fujifilm filed answers in the first Deason case and the putative class case, along with cross-claims against the members of the Xerox Board (as constituted before May 13, 2018) and a third-party complaint against Xerox director Jonathan Christodoro, seeking contribution for any potential award against Fujifilm for aiding and abetting purported breaches of fiduciary duties.

On June 19, 2018, the putative class plaintiffs filed a motion for preliminary approval of a stipulation of settlement that would resolve the claims asserted by the plaintiffs in the putative class case against all defendants, other than Fujifilm. Carmen Ribbe, the plaintiff in the below derivative action, and Fujifilm filed oppositions to the motion on July 10, 2018.

On June 22, 2018, the Court entered an order denying a joint motion by the putative class plaintiffs and the settling defendants to dissolve the injunction in the class case as against the settling defendants, and entered an order denying Fujifilm's motion to dissolve the injunctions in the class case and the first Deason case in their entirety. The class has not yet been certified, and preliminary approval has not been granted.

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

## **2. Ribbe v. Jacobson, et al.:**

On May 24, 2018, a shareholder derivative complaint was filed with the Court by Carmen Ribbe against all defendants in the putative class action described above, as well as Centerview Partners, LLC. Plaintiff made no pre-complaint demand. The *Ribbe* complaint contains allegations of breaches of fiduciary duty similar to those in the putative class complaint, and further alleges that Fujifilm and Centerview aided and abetted those breaches, and that the directors breached their fiduciary duties and wasted corporate assets by, among other things, agreeing to releases of claims

against them and allowing certain alleged payments in settlement of the *Deason* and putative class cases. It seeks unspecified damages for Xerox, rescission or reformation of the *Deason* and putative class settlements, restitution of funds allegedly paid to the directors, injunctive relief against wrongful practices, costs and attorneys' fees, as well as other relief. Xerox has not yet responded to the complaint. Xerox believes the lawsuit is meritless and will vigorously defend it. At this time, however, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment, or settlement occurs.

### **3. Fujifilm Holdings Corp. v. Xerox Corporation:**

On June 18, 2018, Fujifilm filed a complaint against Xerox in the U.S. District Court for the Southern District of New York, relating to the Fuji Transaction agreements. The complaint alleges that Xerox (1) willfully breached the Fuji Transaction agreements by purporting to terminate them to appease Messrs. Icahn and Deason and using as a pretext issues with Fujifilm's untimely submitted financials, and by settling the *Deason* litigation without notice to or consent by Fujifilm; (2) willfully breached the implied covenant of good faith and fair dealing by failing to support and use best efforts to conclude the Fuji Transaction, thus depriving Fujifilm of the benefit of its bargain; and (3) effected a change in Xerox's recommendation regarding the Fuji Transaction, entitling Fujifilm to terminate the Fuji Transaction agreements and to receive from Xerox a \$183 termination fee. Fujifilm seeks a judgment for damages to be determined at trial in an amount in excess of \$1.0 billion plus punitive damages; a declaration regarding the alleged change in recommendation such that Fujifilm may terminate the transaction and Xerox must pay the \$183 termination fee and other remedies; costs and attorneys' fees; and other relief the court may deem appropriate. Xerox has not yet responded to the complaint.

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

**State of Texas v. Xerox Corporation, Xerox State Healthcare, LLC, and ACS State Healthcare, LLC:** On May 9, 2014, the State of Texas, via the Texas Office of Attorney General (the "State"), filed a lawsuit in the 53rd Judicial District Court of Travis County, Texas. The lawsuit alleges that Xerox Corporation, Xerox State Healthcare, LLC and ACS State Healthcare (collectively "the Defendants") violated the Texas Medicaid Fraud Prevention Act in the administration of ACS State Healthcare's contract with the Texas Department of Health and Human Services ("HHSC"). Xerox Corporation provided a guaranty of contractual performance with respect to the ACS State Healthcare's contract. The State alleges that the Defendants made false representations of material facts regarding the processes, procedures, implementation and results regarding the prior authorization of orthodontic claims. The State seeks recovery of actual damages, two times the amount of any overpayments made as a result of unlawful acts, civil penalties, pre- and post-judgment interest and all costs and attorneys' fees. The State references the amount in controversy as exceeding hundreds of millions of dollars. The Defendants filed their Answer in June 2014 denying all allegations. In August 2017, the State of Texas filed a Second Amended Petition, which makes substantially similar allegations and seeks similar remedies as the original lawsuit. On October 23, 2017, Xerox Corporation filed a Motion for Summary Judgment seeking judgment in Xerox's favor on all claims against it. On July 2, 2018, the Court denied the State of Texas' motion for a determination of the adequacy of its pleadings as to Xerox or in the alternative, seeking leave to amend its petition to bring additional claims against Xerox. The Defendants will continue to vigorously defend themselves in this matter. This matter is a "Conduent Liability", as defined in the Separation and Distribution Agreement dated as of December 31, 2016 between Xerox Corporation and Conduent Incorporated, for which Conduent is required to indemnify Xerox. Conduent is entitled to direct the defense of this matter.

**Oklahoma Firefighters Pension and Retirement System v. Xerox Corporation, Ursula M. Burns, Luca Maestri, Kathryn A. Mikells, Lynn R. Blodgett, Robert K. Zapfel, David H. Bywater and Mary Scanlon:** On October 21, 2016, the Oklahoma Firefighters Pension and Retirement System ("plaintiff") filed a purported securities class action complaint against Xerox Corporation, Ursula Burns, Luca Maestri, Kathryn Mikells, Lynn Blodgett and Robert Zapfel (collectively, "defendants") in the U.S. District Court for the Southern District of New York on behalf of the plaintiff and certain purchasers or acquirers of Xerox common stock. The complaint alleged that defendants made false and misleading statements, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5, relating to the operations and prospects of Xerox's Health Enterprise business. Plaintiff sought, among other things, unspecified monetary damages and attorneys' fees. Other, similar lawsuits may follow. On December 28, 2016, the Court entered a stipulated order setting out a schedule for amendment of the complaint and for defendants' response

to that complaint following the Court's appointment of lead plaintiff under the Private Securities Litigation Reform Act. On February 28, 2017, the Court issued an opinion and order appointing the Arkansas Public Employees Retirement System ("APERS") as lead plaintiff. On May 1, 2017, APERS filed an amended complaint, alleging substantially similar claims and seeking substantially similar relief, but adding David Bywater and Mary Scanlon as defendants. On June 30, 2017, defendants moved to dismiss the amended complaint, and the motions were fully briefed on October 13, 2017. On March 20, 2018, the Court entered an opinion and order granting the motions, and on March 23, 2018, the Court entered a judgment of dismissal and closed the case. On April 20, 2018, plaintiffs filed a notice of appeal in the U.S. Court of Appeals for the Second Circuit. Xerox will vigorously defend against this matter. At this time, it is premature to make any conclusion regarding the probability of incurring material losses in this litigation. Should developments cause a change in our determination as to an unfavorable outcome, or result in a final adverse judgment or settlement, there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in determination, judgment, or settlement occurs.

### **Other Contingencies**

We have issued or provided approximately \$328 of guarantees as of June 30, 2018 in the form of letters of credit or surety bonds issued to i) support certain insurance programs; ii) support our obligations related to the Brazil tax and labor contingencies; and iii) support certain contracts, primarily with public sector customers, which require us to provide a surety bond as a guarantee of our performance of contractual obligations.

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

### **Indemnifications**

We have indemnified, subject to certain deductibles and limits, the purchasers of businesses or divested assets for the occurrence of specified events under certain of our divestiture agreements. Where appropriate, an obligation for such indemnifications is recorded as a liability. Since the obligated amounts of these types of indemnifications are often not explicitly stated and/or are contingent on the occurrence of future events, the overall maximum amount of the obligation under such indemnifications cannot be reasonably estimated. Other than obligations recorded as liabilities at the time of divestiture, we have not historically made significant payments for these indemnifications. Additionally, under certain of our acquisition agreements, we have provided for additional consideration to be paid to the sellers if established financial targets are achieved post-closing. We have recognized liabilities for these contingent obligations based on an estimate of the fair value of these contingencies at the time of acquisition. Contingent obligations related to indemnifications arising from our divestitures and contingent consideration provided for by our acquisitions are not expected to be material to our financial position, results of operations or cash flows.

## **Note 19 – Fuji Xerox Transaction and Recent Developments**

### **Pending Litigation Relating to the Fuji Transaction**

Refer to Note 18 - Contingencies and Litigation for discussion of the Pending Litigation Relating to the Fuji Xerox Transaction.

### **Fuji Xerox Transaction Overview and Termination of Agreement**

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

On May 13, 2018, prior to the entry into the Settlement Agreement discussed in Note 18 - Contingencies and Litigation, the Company delivered a written notice of termination of the Subscription Agreement to Fujifilm in accordance with the terms of the Subscription Agreement, which provided the Company with certain terminations rights, including (a) if the audited financial statements of FX deviate in any material respect from the unaudited financial statements of FX and its subsidiaries provided to the Company prior to the date of the Subscription Agreement and (b) if Fujifilm or FX fails to perform any covenant or agreement set forth in the Subscription Agreement that would cause certain conditions to

the consummation of the transactions contemplated by the Subscription Agreement not to be satisfied, which breach or failure to perform cannot be cured or, if capable of cure, has not been cured by the earlier of 30 days following written notice thereof from the Company to Fujifilm. By virtue of the termination of the Subscription Agreement, the Redemption Agreement terminated automatically. The Company's termination of the Transaction Agreements is the subject of pending litigation.

As a result of the failure by Fujifilm to deliver the audited financial statements of FX by April 15, 2018 and the material deviations reflected in the audited financial statements of FX, when delivered, the Company determined that it is in the best interest of the Company and its shareholders to terminate the Subscription Agreement in accordance with the termination rights set forth therein, taking into account other circumstances limiting the ability of the Company, Fujifilm and FX to consummate a transaction.

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

### **Bridge Facility Termination**

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

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

### **Note 20 – Subsequent Event**

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

## **ITEM 2 — MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

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

### **Currency Impact**

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

## Overview

### Fuji Xerox Transaction and Recent Developments

Refer to Note 18 - Contingencies and Litigation and Note 19 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements for additional information related to this terminated transaction and related matters.

### Fuji Xerox Adjustments

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

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

Fuji Xerox recorded a cumulative charge of JPY 12 billion (approximately \$110 million based on the Yen/U.S. Dollar average exchange rate for the quarter ended March 31, 2018 of 108.07) in their net loss for the quarter ended March 31, 2018 (our first quarter 2018) related to the correction of these additional adjustments and misstatements. Our recognition of 25% of Fuji Xerox's net loss for Xerox's first quarter 2018 included an approximately \$28 million charge related to these adjustments and misstatements. We determined that the impact of the out-of-period misstatements was not material to Xerox's consolidated financial statements for any individual prior quarter or year and the adjustment to correct the misstatements is not expected to be material to our full year 2018 results.

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

### Second Quarter 2018 Review

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

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

Total revenue of \$4.95 billion for the six months ended June 30, 2018 declined 1.5% from the prior year period and included a 2.8-percentage point favorable impact from currency. Post sale revenue of \$3.89 billion, which represented 79% of total revenue, declined 1.7% and included a 2.9-percentage point favorable impact from currency. The decline in post sale revenue primarily reflected continuing lower page volume trends, an ongoing competitive price environment, a lower population of devices, as well as the higher mix of installs of lower usage devices. These declines were partially offset by higher revenues from our Managed Document Services and Global Imaging business as well as higher paper sales revenue. Total equipment revenue of \$1.06 billion declined 0.8% including a 2.5-percentage point favorable impact from currency. Excluding the impact from currency, the decline of total equipment revenue reflected the impact of lower OEM equipment sales and reflected price declines of approximately 5%. The decline in Equipment sales also reflected the overall market decline trends and unfavorable mix.

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

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

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

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

Operating cash flow from continuing operations attributable to Xerox for the six months ended June 30, 2018 was \$451 million, as compared to \$413 million for the prior year period. The increase was primarily due to the prior year reclassification of \$110 million of collections of deferred proceeds and beneficial interests from the sale of receivables to investing cash flows as a result of an accounting change (refer to Note 3 - Recent Accounting Pronouncements in the Condensed Consolidated Financial Statements for additional information) and improved working capital<sup>2</sup>.

Cash used in investing activities for the six months ended June 30, 2018 was \$17 million and included capital expenditures of \$50 million, which were partially offset by proceeds of \$32 million from the sale of non-core business assets. Cash used in financing activities of \$456 million for the six months ended June 30, 2018 primarily reflects payments of \$265 million on Senior Notes, \$25 million related to the termination of a capital lease obligation, \$19 million of bridge facility costs and dividend payments of \$135 million.

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

(2) Working capital reflects Accounts receivable, net, Inventories and Accounts payable and accrued compensation.



## Financial Review

### Revenues

(in millions)	Three Months Ended June 30,				Six Months Ended June 30,				% of Total Revenue 2018	% of Total Revenue 2017
	2018	2017	% Change	CC % Change	2018	2017	% Change	CC % Change		
Equipment sales	\$ 561	\$ 556	0.9 %	(0.6)%	\$ 1,060	\$ 1,069	(0.8)%	(3.3)%	21%	21%
Post sale revenue	1,949	2,011	(3.1)%	(5.0)%	3,885	3,952	(1.7)%	(4.6)%	79%	79%
<b>Total Revenue</b>	<b>\$ 2,510</b>	<b>\$ 2,567</b>	<b>(2.2)%</b>	<b>(4.0)%</b>	<b>\$ 4,945</b>	<b>\$ 5,021</b>	<b>(1.5)%</b>	<b>(4.3)%</b>	<b>100%</b>	<b>100%</b>
<b>Reconciliation to Condensed Consolidated Statements of Income:</b>										
Sales	\$ 1,017	\$ 1,010	0.7 %	(0.3)%	\$ 1,950	\$ 1,946	0.2 %	(2.8)%		
Less: Supplies, paper and other sales	(456)	(463)	(1.5)%	(2.0)%	(890)	(897)	(0.8)%	(2.2)%		
Add: Equipment- related training <sup>(1)</sup>	—	9	NM	NM	—	20	NM	NM		
<b>Equipment sales</b>	<b>\$ 561</b>	<b>\$ 556</b>	<b>0.9 %</b>	<b>(0.6)%</b>	<b>\$ 1,060</b>	<b>\$ 1,069</b>	<b>(0.8)%</b>	<b>(3.3)%</b>		
Services, maintenance and rentals	\$ 1,425	\$ 1,483	(3.9)%	(6.1)%	\$ 2,856	\$ 2,925	(2.4)%	(5.0)%		
Add: Supplies, paper and other sales	456	463	(1.5)%	(2.0)%	890	897	(0.8)%	(2.2)%		
Add: Financing	68	74	(8.1)%	(10.9)%	139	150	(7.3)%	(10.8)%		
Less: Equipment- related training <sup>(1)</sup>	—	(9)	NM	NM	—	(20)	NM	NM		
<b>Post sale revenue</b>	<b>\$ 1,949</b>	<b>\$ 2,011</b>	<b>(3.1)%</b>	<b>(5.0)%</b>	<b>\$ 3,885</b>	<b>\$ 3,952</b>	<b>(1.7)%</b>	<b>(4.6)%</b>		
North America	\$ 1,514	\$ 1,534	(1.3)%	(1.8)%	\$ 2,952	\$ 3,007	(1.8)%	(2.3)%	60%	60%
International	898	895	0.3 %	(3.9)%	1,789	1,747	2.4 %	(4.7)%	36%	35%
Other	98	138	(29.0)%	(29.0)%	204	267	(23.6)%	(23.6)%	4%	5%
<b>Total Revenue<sup>(2)</sup></b>	<b>\$ 2,510</b>	<b>\$ 2,567</b>	<b>(2.2)%</b>	<b>(4.0)%</b>	<b>\$ 4,945</b>	<b>\$ 5,021</b>	<b>(1.5)%</b>	<b>(4.3)%</b>	<b>100%</b>	<b>100%</b>

#### Memo:

Managed Document Services <sup>(3)</sup>	\$ 871	\$ 833	4.6 %	2.3 %	\$ 1,733	\$ 1,653	4.8 %	1.5 %	35%	33%
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CC - See "Currency Impact" section for a description of Constant Currency.

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

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

(3) Excluding Equipment revenue, Managed Document Services (MDS) was \$752 million and \$736 million for the three months ended June 30, 2018 and 2017, respectively, representing an increase of 2.2% including a 2.1-percentage point favorable impact from currency. For the six months ended June 30, 2018 and 2017, excluding equipment revenue, MDS was \$1,505 million and \$1,450 million, respectively, representing an increase of 3.8% including a 3.2-percentage point favorable impact from currency.

Total revenue for the three months ended June 30, 2018 decreased 2.2% as compared to second quarter 2017, with a 1.8-percentage point favorable impact from currency, while total revenue for the six months ended June 30, 2018 decreased 1.5% as compared to the prior year period, with a 2.8-percentage point favorable impact from currency. Total revenue reflected the following:

**Post sale revenue** primarily reflects contracted services, equipment maintenance, supplies and financing. These revenues are associated with the population of devices in the field, which is affected by installs and removals, as well as the page volumes generated by the usage of such devices and the revenue per printed page. Post sale revenue for the three months ended June 30, 2018 decreased 3.1% as compared to second quarter 2017, with a 1.9-percentage point favorable impact from currency, while Post sale revenue for the six months ended June 30, 2018 decreased 1.7% as compared to the prior year period, with a 2.9-percentage point favorable impact from currency. Post sale revenue reflected the following:

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

- For the three months ended June 30, 2018 Service, maintenance and rentals revenues decreased 3.9% as compared to second quarter 2017, with a 2.2-percentage point favorable impact from currency. The decline at constant currency<sup>1</sup> reflected the continuing trends of lower page volumes (including a higher mix of lower usage products), an ongoing competitive price environment, and a lower population of devices, which are partially associated with lower signings and installs in prior periods. These impacts are partially offset by higher revenues from MDS, driven by our SMB-focused channels, along with revenues from our Global Imaging business, inclusive of acquisitions.
- For the six months ended June 30, 2018 Service, maintenance and rentals revenues decreased 2.4% as compared to the prior year period, with a 2.6-percentage point favorable impact from currency. The decline at constant currency<sup>1</sup> reflected the continuing trends of lower page volumes (including a higher mix of lower usage products), an ongoing competitive price environment and a lower population of devices, which are partially associated with lower signings and installs in prior periods. These impacts are partially offset by higher revenues from MDS, driven by our SMB-focused channels, along with revenues from our Global Imaging business, inclusive of acquisitions, and higher revenues from developing markets.
- Supplies, paper and other sales** includes unbundled supplies and other sales.
  - For the three months ended June 30, 2018 Supplies paper and other sales decreased 1.5% as compared to second quarter 2017, with a 0.5-percentage point favorable impact from currency. The decline at constant currency<sup>1</sup> was driven by lower network integration and software licensing sales, while paper and supplies revenues increased, excluding original equipment manufacturer (OEM), supplies primarily from higher sales in developing markets and our Global Imaging business.
  - For the six months ended June 30, 2018 Supplies paper and other sales decreased 0.8% as compared to the prior year period, with a 1.4-percentage point favorable impact from currency. The decline at constant currency<sup>1</sup> was driven by continued declines in OEM supplies as well as lower supplies demand consistent with a lower population of devices in the field and lower network integration and software licensing sales, partially offset by higher paper sales and supplies sales within our Global Imaging business.
- Financing revenue** is generated from financed equipment sale transactions. For the three months ended June 30, 2018 Financing revenue decreased 8.1% compared to second quarter 2017, with a 2.8-percentage point favorable impact from currency, while Financing revenue decreased 7.3% for the six months ended June 30, 2018 as compared to the prior year period, with a 3.5-percentage point favorable impact from currency. The decrease in these revenues reflected a declining finance receivables balance due to lower equipment sales in prior periods.

**Equipment sales revenue**

(in millions)	Three Months Ended June 30,				Six Months Ended June 30,				% of Equipment Sales	
	2018	2017	% Change	CC % Change	2018	2017	% Change	CC % Change	2018	2017
Entry <sup>(1)</sup>	\$ 62	\$ 55	12.7%	10.6%	\$ 115	\$ 111	3.6%	(0.3)%	11%	10%
Mid-range	390	358	8.9%	7.4%	724	690	4.9%	2.6%	68%	65%
High-end	100	109	(8.3)%	(9.9)%	192	206	(6.8)%	(9.7)%	18%	19%
Other <sup>(1)</sup>	9	34	(73.5)%	(73.5)%	29	62	(53.2)%	(53.2)%	3%	6%
<b>Equipment sales<sup>(2)</sup></b>	<b>\$ 561</b>	<b>\$ 556</b>	<b>0.9%</b>	<b>(0.6)%</b>	<b>\$ 1,060</b>	<b>\$ 1,069</b>	<b>(0.8)%</b>	<b>(3.3)%</b>	<b>100%</b>	<b>100%</b>

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

(1) In 2018, revenues from our OEM business are included in Other, which had historically been reported within Entry. This reclassification was made to provide better transparency to our business results. Prior year amounts have been adjusted to conform to this change.

(2) In 2018, upon adoption of ASU 2014-09 Revenue Recognition, revenue from training related to equipment installation is now included in Equipment Sales (previously included in Post sale revenue). Prior year amounts have been adjusted to conform to this change.

Equipment sales revenue increased 0.9% for the three months ended June 30, 2018 as compared to second quarter 2017, with a 1.5-percentage point favorable impact from currency and was impacted by price declines of approximately 5% (which were in-line with our historic declines). The modest decline at constant currency<sup>1</sup> included an approximate 4.0-percentage point unfavorable impact from lower OEM equipment sales while it also benefited from a favorable comparison as second quarter 2017 was measurably impacted by the timing of our ConnectKey product introductions. The increase in entry reflected higher sales of our ConnectKey devices in developing markets and U.S. indirect channels. The increase in mid-range reflected higher installs of new products across North America including higher large account sales as well as higher revenues from developing markets. The decrease in high-end sales primarily reflected lower revenues from iGen, at the top-end of the portfolio, along with lower revenues from black-and-white systems consistent with market decline trends; these declines were partially mitigated by higher activity from the recently launched Iridesse production press.

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

## Total Installs

Revenue associated with equipment installations (discussed below) may be reflected up-front in Equipment sales or over time either through rental income or as part of our Managed Document Services revenues (which are both reported within our post sale revenues), depending on the terms and conditions of our agreements with customers. Install activity includes Managed Document Services and Xerox-branded products shipped to Global Imaging business. Detail by product group (see *Geographic Sales Channels and Product and Offerings Definitions*) is shown below:

Installs in the second quarter of 2018:

### Entry<sup>(1)</sup>

- 21% increase in color multifunction devices, reflecting demand for recently launched products across nearly all channels.
- 21% increase in black-and-white multifunction devices, driven largely by higher activity from low-end devices in developing markets as well as higher sales through U.S. indirect channels.

### Mid-Range<sup>(2)</sup>

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

### High-End<sup>(2)</sup>

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

Installs for the six months ended June 30, 2018:

### Entry<sup>(1)</sup>

- 13% increase in color multifunction devices, reflecting demand for recently launched products across nearly all channels.
- 20% increase in black-and-white multifunction devices, driven largely by higher activity from low-end devices in developing markets as well as higher sales through U.S. indirect channels.

### Mid-Range<sup>(2)</sup>

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

### High-End<sup>(2)</sup>

- 3% decrease in high-end color systems, as growth from Iridesse and Versant products was offset by lower installs of iGen and lower-end production systems.
- 11% decrease in high-end black-and-white systems reflecting market trends.

## Signings

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

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

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

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

New business TCV for the three months ended June 30, 2018 increased 2.9% from second quarter 2017, with a 0.9-percentage point favorable impact from currency, led by contracts signed in Europe. New business TCV for the six months ended June 30, 2018 decreased 1.0% from the prior year period, with a 1.1-percentage point favorable impact from currency. On a TTM basis, new business decreased 1.8% at constant currency<sup>1</sup>.

## Renewal Rate

Renewal rate is defined as the annual recurring revenue (ARR) on contracts that are renewed during the period as a percentage of ARR on all contracts for which a renewal decision was made during the period. Contract renewal rate for the second quarter of 2018 was 75%, compared to our full year 2017 renewal rate of 84%.

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

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

## Geographic Sales Channels and Product and Offerings Definitions

Our business is aligned to a geographic focus and is primarily organized on the basis of go-to-market sales channels, which are structured to serve a range of customers for our products and services:

- North America, which includes our sales channels in the U.S. and Canada.
- International, which includes our sales channels in Europe, Eurasia, Latin America, Middle East, Africa and India.
- Other primarily includes our OEM business, as well as sales to and royalties from Fuji Xerox, and our licensing revenue.

Our products and offerings include:

- "Entry", which includes A4 devices and desktop printers. Prices in this product group can range from approximately \$150 to \$3,000.
- "Mid-Range", which includes A3 Office and Light Production devices that generally serve workgroup environments in mid to large enterprises. Prices in this product group can range from approximately \$2,000 to \$75,000+.
- "High-End", which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises. Prices for these systems can range from approximately \$30,000 to \$1,000,000+.
- Managed Document Services (MDS) revenue, which includes solutions and services that span from managing print to automating processes to managing content. Our primary offerings within MDS are Managed Print Services (including from Global Imaging Systems), as well as workflow automation services, and Centralized Print Services and Solutions (CPS). MDS excludes Communications and Marketing Solutions (CMS).

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

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

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

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

### Pre-tax Income Margin

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

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

### Adjusted<sup>1</sup> Operating Margin

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

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

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

### Gross Margin

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

Gross margin for the six months ended June 30, 2018 of 39.9% decreased 0.3-percentage points as compared to the prior year period, including a 0.6-percentage points favorable impact from transaction currency, and also reflecting lower post sale margin as well as a less profitable mix of revenues and the impact of pricing, which more than offset cost productivity and savings, including savings from restructuring.

Second quarter 2018 equipment gross margin of 31.8% increased 3.1-percentage points as compared to second quarter 2017, reflecting benefits from transaction currency and cost productivity savings partially offset by an unfavorable mix due to higher sales of lower end devices.

Equipment gross margin for the six months ended June 30, 2018 of 32.1% increased 2.4-percentage points as compared to the prior year period, reflecting benefits from transaction currency and cost productivity savings.

Second quarter 2018 post sale gross margin of 42.1% decreased 1.8-percentage points as compared to second quarter 2017 reflecting a one-time negative impact related to the timing of a manufacturing facility consolidation, as well as lower revenues that were only partially offset by productivity savings and modestly favorable transaction currency.

Post sale gross margin for the six months ended June 30, 2018 of 42.0% decreased 1.0-percentage points as compared to the prior year period reflecting the impact of lower revenues, partially offset by net productivity savings and modestly favorable transaction currency.

### Research, Development and Engineering Expenses (RD&E)

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

Second quarter 2018 RD&E as a percentage of revenue of 4.0% was flat compared to second quarter 2017.

RD&E of \$101 million decreased \$1 million compared to second quarter 2017 and reflected cost reductions, including restructuring savings, and lower expenses from the sale of a business and associated transfers of resources to third parties during the prior year.

RD&E as a percentage of revenue for the six months ended June 30, 2018 of 4.1% was 0.1-percentage points lower compared to the prior year period.

RD&E of \$201 million decreased \$12 million compared to the prior year period and reflected cost reductions, including restructuring savings and lower expenses from the sale of a business and associated transfers of resources to third parties during the prior year, partially offset by additional investments in new innovation projects.

### Selling, Administrative and General Expenses (SAG)

SAG as a percentage of revenue of 24.9% increased 0.5-percentage points compared to second quarter 2017, including a 0.8-percentage point unfavorable impact from the exit of a real estate facility and the termination of an IT project.

SAG of \$624 million was \$2 million lower than second quarter 2017, including an approximate \$10 million unfavorable impact from currency as well as \$20 million of charges related to the accelerated depreciation from the early termination of a capital lease associated with a surplus facility (\$13 million) and the write-off of an IT project (\$7 million). These adverse impacts were more than offset by cost savings, including restructuring savings, which were partially offset by higher compensation and benefit expense as well as sales incentives. Bad debt expense of \$12 million was \$3 million higher than second quarter 2017 and remained at less than one percent of receivables.

SAG as a percentage of revenue for the six months ended June 30, 2018 of 25.3% increased 0.2-percentage points compared to the prior year period, including a 0.5-percentage point unfavorable impact from the exit of a real estate facility and the termination of an IT project.

SAG of \$1,252 million for the six months ended June 30, 2018 was \$8 million lower than the prior year period, including an approximate \$29 million unfavorable impact from currency as well as \$29 million of charges related to the accelerated depreciation from the early termination of a capital lease associated with a surplus facility (\$22 million) and the write-off of an IT project (\$7 million). These adverse impacts were more than offset by cost savings, including restructuring savings, which were partially offset by higher compensation and benefit expense as well as expenses from Global Imaging acquisitions. Bad debt expense of \$25 million increased \$3 million compared to the prior year period and remained at less than one percent of receivables.

## Restructuring and Related Costs

Second quarter 2018 Restructuring and related costs of \$34 million included \$40 million of severance costs related to headcount reductions of approximately 550 employees worldwide. These costs were partially offset by \$6 million of net reversals for changes in estimated reserves from prior period initiatives. Second quarter 2018 actions impacted several functional areas, with approximately 30% focused on gross margin improvements, approximately 65% on SAG reductions and the remainder focused on RD&E optimization.

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

Second quarter 2017 Restructuring and related costs of \$39 million included net restructuring and asset impairment charges of \$32 million as well as \$7 million of additional costs primarily related to professional support services associated with the implementation of the strategic transformation program. Second quarter 2017 net restructuring and asset impairment charges of \$32 million included \$49 million of severance costs related to headcount reductions of approximately 500 employees worldwide and \$1 million of lease cancellation charges. These costs were partially offset by \$18 million of net reversals for changes in estimated reserves from prior period initiatives, which included a \$5 million favorable adjustment on the early termination of the lease for the corporate airplane. The second quarter 2017 actions impacted several functional areas, with approximately 35% focused on gross margin improvements, approximately 60% on SAG reductions and the remainder focused on RD&E optimization.

Restructuring and related costs were \$157 million for the six months ended June 30, 2017 and included net restructuring and asset impairment charges of \$140 million as well as \$17 million of additional costs primarily related to professional support services associated with the implementation of the strategic transformation program. Net restructuring and asset impairment charges for the six months ended June 30, 2017 of \$140 million included \$157 million of severance costs related to headcount reductions of approximately 1,500 employees worldwide and \$3 million of lease cancellation costs partially offset by \$20 million of net reversals for changes in estimated reserves from prior period initiatives, which included a \$5 million favorable adjustment on the early termination of the lease for the corporate airplane.

The restructuring reserve balance as of June 30, 2018 for all programs was \$79 million, of which \$76 million is expected to be spent over the next twelve months.

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

## Transaction and Related Costs, Net

We recorded \$96 million of Transaction and related costs, net for the six months ended June 30, 2018, which included the following:

- Costs related to the previously disclosed settlement agreement reached with certain shareholders as well as third-party legal and other related costs associated with on-going litigation resulting from the terminated combination transaction and other related shareholder actions.
- \$19 million of costs related to the commitment for a \$2.5 billion unsecured bridge loan facility, which was terminated concurrent with the termination of the Fuji Xerox combination transaction.
- Insurance recoveries of approximately \$15 million for litigation and related settlement costs. We continue to pursue additional recoveries from insurance carriers and other parties for costs and expenses related to the terminated transaction and shareholder litigation and therefore additional recoveries and adjustments may be recorded in future periods, when finalized. As previously disclosed, in July 2018, we reached a settlement with a financial advisor for the refund of approximately \$13.5 million, which will be recorded in the third quarter 2018.
- Costs related to the proposed combination transaction with Fuji Xerox, which was terminated in May 2018, primarily for third-party accounting, legal, consulting and other similar types of services.

## Amortization of Intangible Assets

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

## Worldwide Employment

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

## Other Expenses, Net

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

### Non-Financing Interest Expense

Non-financing interest expense for the three months ended June 30, 2018 was \$27 million and increased \$3 million as compared to the second quarter of 2017. When combined with financing interest expense (Cost of financing), total interest expense increased by \$3 million as compared to the second quarter of 2017 due to a higher debt balance reflecting \$1.0 billion of new debt issued in the third quarter 2017 to fund, among other things, a \$500 million voluntary contribution to our U.S. defined benefit pension plans partially offset by lower average interest rates.

Non-financing interest expense for the six months ended June 30, 2018 was \$56 million and decreased \$4 million as compared to the prior year period. When combined with financing interest expense (Cost of financing), total interest expense decreased by \$3 million from the prior year comparable period primarily due to a lower debt balance reflecting debt repayments of approximately \$1.3 billion in the first quarter 2017 partially offset by \$1.0 billion of new debt issued in the third quarter 2017 to fund, among other things, a \$500 million voluntary contribution to our U.S. defined benefit pension plans; the decline also reflected lower average interest rates.

### Non-Service Retirement-Related Costs

Non-service retirement-related costs decreased \$9 million and \$44 million, respectively, for the three and six months ended June 30, 2018 compared to the prior year periods. Both period decreases were primarily driven by the favorable impact of higher pension contributions and asset returns in the prior year. The decrease for the six months ended June 30, 2018 was also driven by lower losses from pension settlements as compared to the prior year period.

### Gains on Sales of Businesses and Assets

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

### Loss on Early Extinguishment of Debt

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

### Income Taxes

Second quarter 2018 effective tax rate was 28.6%. On an adjusted<sup>1</sup> basis, second quarter 2018 effective tax rate was 26.7%. These rates were higher than the U.S. statutory tax rate of 21% primarily due to impacts associated with the 2017 Tax Act, as discussed below, as well as the geographical mix of profits. The adjusted<sup>1</sup> effective tax rate excludes the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and Non-service retirement-related costs.

The effective tax rate for the six months ended June 30, 2018 was 29.2% and on an adjusted<sup>1</sup> basis, the six months ended June 30, 2018 effective tax rate was 27.5%. Both rates were higher than the U.S. statutory tax rate of 21% primarily due to impacts associated with the 2017 Tax Act, as discussed below, as well as the geographical mix of profits. The adjusted<sup>1</sup> effective tax rate excludes the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and Non-service retirement-related costs.



Second quarter 2017 effective tax rate was 22.3%. On an adjusted<sup>1</sup> basis, second quarter 2017 effective tax rate was 27.0%. Both rates were lower than the U.S. statutory tax rate of 35% primarily due to foreign tax credits and the geographic mix of profits. The adjusted<sup>1</sup> effective tax rate excludes the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets and Non-service retirement-related costs.

The effective tax rate for the six months ended June 30, 2017 was 10.7% and on an adjusted<sup>1</sup> basis, the six months ended June 30, 2017 effective tax rate was 27.0%. Both rates were lower than the U.S. statutory tax rate of 35% primarily due to foreign tax credits and the geographic mix of profits. The adjusted<sup>1</sup> effective tax rate excludes the majority of the benefit from the re-measurement of certain unrecognized tax positions as well as the tax benefits associated with the following charges: Restructuring and related costs, Amortization of intangible assets, Non-service retirement-related costs and other discrete items.

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

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

### Tax Cuts and Jobs Act (the "Tax Act")

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

During the fourth quarter 2017, we recorded an estimated non-cash charge of \$400 million reflecting the impact associated with the provisions of the Tax Act based on currently available information. Our estimated charge incorporates assumptions made based on our current interpretation of the Tax Act as well as currently available information and may change, possibly materially, as we complete our analysis and receive additional clarification and implementation guidance. Changes in interpretations and assumptions as well as actions we may take as a result of the Tax Act may also impact this estimated charge. The \$400 million estimated provisional charge continues to be our best estimate of the impacts from the Tax Act and no further adjustment of that charge was made in the six months ended June 30, 2018. However, we continue to evaluate the impacts from the Tax Act and likely will do so through the filing of our 2017 U.S. Tax Return in the third quarter 2018. Any adjustments to these provisional amounts will be reported as a component of Income tax expense in the reporting period in which any such adjustments are determined.

Effective January 1, 2018, we became subject to several provisions of the Tax Act including computations related to Global Intangible Low Taxed Income ("GILTI"), Foreign Derived Intangible Income ("FDII"), Base Erosion and Anti-Abuse Tax ("BEAT"), and IRC Section 163(j) interest limitation (Interest Limitation). Our current estimate for the GILTI, FDII and Interest Limitation rules was determined to be immaterial, however we currently estimate that we are subject to BEAT. Accordingly, our effective tax rate for the three and six months ended June 30, 2018 includes the estimated impact for BEAT, which has also been incorporated into our estimated annual effective tax for 2018. Similar to the provisional charge recorded in the fourth quarter 2017 associated with the enactment of the Tax Act, the estimates for these additional provisions of the Tax Act were made based on our current interpretation of the Tax Act as well as currently available information and may change, as we complete our analysis and receive additional clarification and implementation guidance. Changes in interpretations and assumptions as well as actions we may take as a result of the Tax Act may also impact these estimates.

### Equity in Net Income (Loss) of Unconsolidated Affiliates

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Total Equity in net income (loss) of unconsolidated affiliates	\$ 19	\$ 20	\$ (49)	\$ 60
Fuji Xerox after-tax restructuring and other charges included in equity income (loss)	4	3	83	3

Equity in net income (loss) of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox Net income (loss). For the three and six months ended June 30, 2018, equity income decreased \$1 million and \$109 million, respectively, as compared to the prior year periods. The six months ended June 30, 2018 equity loss included an approximate \$28 million charge related to the out-of-period adjustments described in Note 9 - Investments in Affiliates, at Equity, in the Condensed Consolidated Financial Statements and in the "Fuji Xerox Adjustments" section above.

Equity in net income (loss) of unconsolidated affiliates for the three and six months ended June 30, 2018 included \$1 million and \$80 million, respectively, of higher year-over-year charges related to our share of Fuji Xerox after-tax restructuring and other charges. Other charges include costs associated with the terminated combination transaction discussed in Note 19 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements.

### Net Income from Continuing Operations

Second quarter 2018 Net income from continuing operations attributable to Xerox was \$112 million, or \$0.42 per diluted share. On an adjusted<sup>1</sup> basis, Net income from continuing operations attributable to Xerox was \$213 million, or \$0.80 per diluted share. Second quarter 2018 adjustments to Net income include Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and Non-service retirement-related costs as described in our Non-GAAP Financial Measures section.

Net income from continuing operations attributable to Xerox for the six months ended June 30, 2018 was \$135 million, or \$0.50 per diluted share. On an adjusted<sup>1</sup> basis, Net income from continuing operations attributable to Xerox was \$391 million, or \$1.48 per diluted share and includes Restructuring and related costs, Amortization of intangible assets, Transaction and related costs, net and Non-service retirement-related costs as described in our Non-GAAP Financial Measures section.

Second quarter 2017 Net income from continuing operations attributable to Xerox was \$166 million, or \$0.63 per diluted share. On an adjusted<sup>1</sup> basis, Net income from continuing operations attributable to Xerox was \$224 million, or \$0.86 per diluted share. Second quarter 2017 adjustments to Net income include Restructuring and related costs, Amortization of intangible assets, and Non-service retirement-related costs as described in our Non-GAAP Financial Measures section.

Net income from continuing operations attributable to Xerox for the six months ended June 30, 2017 was \$212 million, or \$0.80 per diluted share. On an adjusted<sup>1</sup> basis, Net income from continuing operations attributable to Xerox was \$400 million, or \$1.52 per diluted share and includes Restructuring and related costs, Amortization of intangible assets, and Non-service retirement-related costs as well as other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

Refer to Note 17 - Earnings per Share in the Condensed Consolidated Financial Statements, for additional information regarding the calculation of basic and diluted earnings per share.

<sup>(1)</sup> Refer to the Net income and EPS reconciliation table in the "Non-GAAP Financial Measures" section.

### Discontinued Operations

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

### Net Income

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

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

### Other Comprehensive (Loss) Income

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

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

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

Refer to Note 12 - Financial Instruments in the Condensed Consolidated Financial Statements, for additional information regarding unrealized (losses) gains, net, and Note 14 - Employee Benefit Plans in the Condensed Consolidated Financial Statements, for additional information regarding net changes in our defined benefit plans.

## Capital Resources and Liquidity

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

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

## Cash Flow Analysis

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

(in millions)	Six Months Ended June 30,		Change
	2018	2017	
Net cash provided by operating activities of continuing operations	\$ 451	\$ 413	\$ 38
Net cash used in operating activities of discontinued operations	—	(95)	95
Net cash provided by operating activities	451	318	133
Net cash used in investing activities	(17)	(41)	24
Net cash used in financing activities	(456)	(1,338)	882
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(19)	36	(55)
Decrease in cash, cash equivalents and restricted cash	(41)	(1,025)	984
Cash, cash equivalents and restricted cash at beginning of period	1,368	2,402	(1,034)
<b>Cash, Cash Equivalents and Restricted Cash at End of Period</b>	<b>\$ 1,327</b>	<b>\$ 1,377</b>	<b>\$ (50)</b>

## Cash Flows from Operating Activities

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

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

## Cash Flows from Investing Activities

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

- \$99 million decrease primarily as a result of the termination of certain accounts receivables sales arrangements in fourth quarter 2017.
- \$76 million increase due to no acquisitions in 2018.
- \$31 million increase primarily from the sale of non-core business assets in 2018.

## Cash Flows from Financing Activities

Net cash used in financing activities was \$456 million for the six months ended June 30, 2018. The \$882 million decrease in the use of cash from the prior year period was primarily due to the following:

- \$1,018 million decrease from net debt activity. 2018 reflects payments of \$265 million on Senior Notes, \$25 million related to the termination of a capital lease obligation and \$19 million of bridge facility costs. 2017 reflects payments of \$1.0 billion on Senior Notes and net payments of \$326 million on the tender and exchange of certain Senior Notes including transaction costs.
- \$20 million decrease from common and preferred stock dividends.
- \$161 million increase resulting from the prior year final cash adjustment with Conduent.

## Cash, Cash Equivalents and Restricted Cash

Refer to Note 5 - Supplementary Financial Information in the Condensed Consolidated Financial Statements for additional information regarding Cash, cash equivalents and restricted cash.

## Debt and Customer Financing Activities

The following summarizes our debt:

(in millions)	June 30, 2018	December 31, 2017
Principal debt balance <sup>(1)</sup>	\$ 5,286	\$ 5,579
Net unamortized discount	(30)	(35)
Debt issuance costs	(28)	(32)
Fair value adjustments <sup>(2)</sup>		
- terminated swaps	(8)	4
- current swaps	5	1
<b>Total Debt</b>	<b>\$ 5,225</b>	<b>\$ 5,517</b>

(1) Includes Notes Payable of \$4 million and \$6 million as of June 30, 2018 and December 31, 2017, respectively.

(2) Fair value adjustments include the following - (i) fair value adjustments to debt associated with terminated interest rate swaps, which are being amortized to interest expense over the remaining term of the related notes; and (ii) changes in fair value of hedged debt obligations attributable to movements in benchmark interest rates. Hedge accounting requires hedged debt instruments to be reported inclusive of any fair value adjustment.

## Finance Assets and Related Debt

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

(in millions)	June 30, 2018	December 31, 2017
Total finance receivables, net <sup>(1)</sup>	\$ 3,523	\$ 3,752
Equipment on operating leases, net	438	454
<b>Total Finance Assets, net<sup>(2)</sup></b>	<b>\$ 3,961</b>	<b>\$ 4,206</b>

(1) Includes (i) Billed portion of finance receivables, net, (ii) Finance receivables, net and (iii) Finance receivables due after one year, net as included in our Condensed Consolidated Balance Sheets.

(2) The change from December 31, 2017 includes a decrease of \$64 million due to currency.

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

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

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

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

## Debt Activity

### Bridge Facility

Refer to Note 19 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements for additional information regarding the bridge facility that was terminated during the second quarter of 2018.

### Sales of Accounts Receivable

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

Refer to Note 6 - Accounts Receivable, Net in the Condensed Consolidated Financial Statements for additional information regarding our accounts receivable sales arrangements.

### Liquidity and Financial Flexibility

We manage our worldwide liquidity using internal cash management practices, which are subject to (1) the statutes, regulations and practices of each of the local jurisdictions in which we operate, (2) the legal requirements of the agreements to which we are a party and (3) the policies and cooperation of the financial institutions we utilize to maintain and provide cash management services.

Our principal debt maturities are in line with historical and projected cash flows and are spread over the next five years as follows:

(in millions)	Amount
2018 Q3	\$ 5
2018 Q4	—
2019	961
2020	1,052
2021	1,064
2022	302
2023 and thereafter	1,902
<b>Total</b>	<b>\$ 5,286</b>

### Treasury Stock

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

In July 2018, the Board of Directors authorized a \$1.0 billion share repurchase program (exclusive of any commissions and other transaction fees and costs). This program replaces the \$245 million of authority remaining under the Company's previously authorized share repurchase program. The Company expects to opportunistically repurchase up to \$500 million of shares during the remainder of 2018.

## Financial Risk Management

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

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

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

The current market events have not required us to materially modify or change our financial risk management strategies with respect to our exposures to interest rate and foreign currency risk. Refer to Note 12 – Financial Instruments in the Condensed Consolidated Financial Statements for further discussion and information on our financial risk management strategies.

## Non-GAAP Financial Measures

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

A reconciliation of these non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are set forth below as well as in the second quarter 2018 presentation slides available at [www.xerox.com/investor](http://www.xerox.com/investor).

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

### Adjusted Earnings Measures

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

The above measures were adjusted for the following items:

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

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

**Non-service retirement-related costs:** Our defined benefit pension and retiree health costs include several elements impacted by changes in plan assets and obligations that are primarily driven by changes in the debt and equity markets as well as those that are predominantly legacy in nature and related to employees who are no longer providing current service to the Company (e.g. retirees and ex-employees). These elements include (i) interest cost, (ii) expected return on plan assets, (iii) amortization of prior plan amendments, (iv) amortized actuarial gains/losses and (v) the impacts of any plan settlements/curtailments. Accordingly, we consider these elements of our periodic retirement plan costs to be outside the operational performance of the business or legacy costs and not necessarily indicative of current or future cash flow requirements. This approach is consistent with the classification of these costs as non-operating in Other expenses, net as a result of our adoption of ASU 2017-07 - Reporting of Retirement Related Benefit Costs in 2018. Adjusted earnings will continue to include the service cost elements of our retirement costs, which is related to current employee service as well as the cost of our defined contribution plans.

**Transaction and related costs, net:** Transaction and related costs, net are expenses incurred in connection with Xerox's planned combination transaction with Fuji Xerox, which was terminated in May 2018, as well as, costs and expenses related to the previously disclosed settlement agreement reached with certain shareholders and litigation related to the terminated transaction and other shareholder actions. These costs are considered incremental to our normal operating charges and were incurred or are expected to be incurred solely as a result of the planned combination transaction and the related shareholder settlement agreement and litigation. Accordingly, we are excluding these expenses from our Adjusted Earnings Measures in order to evaluate our performance on a comparable basis.

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

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

- 2017 - Loss on early extinguishment of debt in the first quarter of 2017.
- 2017 - A benefit from the remeasurement of a tax matter in the first quarter of 2017 that related to a previously adjusted item.

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

### **Adjusted Operating Income and Margin**

We also calculate and utilize adjusted operating income and margin measures by adjusting our reported pre-tax income and margin amounts. In addition to the costs and expenses noted as adjustments for our Adjusted Earnings measures, adjusted operating income and margin also exclude the remaining amounts included in Other expenses, net, which are primarily non-financing interest expense and certain other non-operating costs and expenses. We exclude these amounts in order to evaluate our current and past operating performance and to better understand the expected future trends in our business. Adjusted Operating income and margin also include Equity in net income (loss) of unconsolidated affiliates. Equity in net income (loss) of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox's Net income (loss). We include this amount in our measure of operating income and margin as Fuji Xerox is our primary product supplier and intermediary to the Asia/Pacific market for distribution of Xerox branded products and services.

### **Constant Currency (CC)**

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

### **Summary**

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

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



**Net Income and EPS reconciliation:**

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

(1) Net income and EPS from continuing operations attributable to Xerox.

(2) Refer to Effective Tax Rate reconciliation.

(3) Other charges in 2018 represent costs associated with the terminated combination transaction.

(4) For those periods that exclude the preferred stock dividend, the average shares for the calculations of diluted EPS include 7 million shares associated with our Series B Convertible preferred stock, as applicable.

(5) Represents common shares outstanding at June 30, 2018 as well as shares associated with our Series B Convertible preferred stock plus potential dilutive common shares as used for the calculation of diluted earnings per share for the second quarter 2018.

**Effective Tax Rate reconciliation:**

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

  

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

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

(2) Refer to Net Income and EPS reconciliation for details.

(3) The tax impact on Adjusted Pre-tax income from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-tax income under ASC 740, which employs an annual effective tax rate method to the results.

## Operating Income and Margin reconciliation:

(in millions)	Three Months Ended June 30,					
	2018			2017		
	Profit	Revenue	Margin	Profit	Revenue	Margin
<b>Reported<sup>(1)</sup></b>	\$ 133	\$ 2,510	5.3%	\$ 193	\$ 2,567	7.5%
<b>Adjustments:</b>						
Restructuring and related costs	34			39		
Amortization of intangible assets	12			15		
Transaction and related costs, net	58			—		
Non-service retirement-related costs	25			34		
Equity in net income of unconsolidated affiliates	19			20		
Restructuring and other charges - Fuji Xerox <sup>(2)</sup>	4			3		
Other expenses, net	14			34		
<b>Adjusted</b>	<u>\$ 299</u>	<u>\$ 2,510</u>	11.9%	<u>\$ 338</u>	<u>\$ 2,567</u>	13.2%
	Six Months Ended June 30,					
	2018			2017		
(in millions)	Profit	Revenue	Margin	Profit	Revenue	Margin
<b>Reported<sup>(1)</sup></b>	\$ 267	\$ 4,945	5.4%	\$ 177	\$ 5,021	3.5%
<b>Adjustments:</b>						
Restructuring and related costs	62			157		
Amortization of intangible assets	24			29		
Transaction and related costs, net	96			—		
Non-service retirement-related costs	50			94		
Equity in net (loss) income of unconsolidated affiliates	(49)			60		
Restructuring and other charges - Fuji Xerox <sup>(2)</sup>	83			3		
Other expenses, net	19			88		
<b>Adjusted</b>	<u>\$ 552</u>	<u>\$ 4,945</u>	11.2%	<u>\$ 608</u>	<u>\$ 5,021</u>	12.1%

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

(2) Other charges in 2018 represent costs associated with the terminated combination transaction.

### ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

### ITEM 4 — CONTROLS AND PROCEDURES

#### (a) Evaluation of Disclosure Controls and Procedures

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

#### (b) Changes in Internal Controls

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

**PART II — OTHER INFORMATION**

**ITEM 1 — LEGAL PROCEEDINGS**

The information set forth under Note 18 – Contingencies and Litigation in the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

**ITEM 1A — RISK FACTORS**

Reference is made to the Risk Factors set forth in Part I, Item 1A of our 2017 Annual Report. The "Risk Factors Related to the Fujifilm Transactions" are no longer applicable as a result of the termination of the Transaction Agreements. The other Risk Factors remain applicable from our 2017 Annual Report. The information set forth under Note 18 - Contingencies and Litigation - Pending Litigation Relating to the Fuji Transaction, in the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q, is incorporated by reference in answer to this item.

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

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

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

**Dividend Equivalent:**

- a. Securities issued on April 30, 2018: Registrant issued 3,118 DSUs, representing the right to receive shares of common stock, par value \$1 per share, at a future date.
- b. No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Gregory Q. Brown, Jonathan Christodoro, Joseph J. Echevarria, Richard J. Harrington, William Curt Hunter, Robert J. Keegan, Cheryl Gordon Krongard, Charles Prince, Ann N. Reese, Stephen H. Rusckowski and Sara Martinez Tucker.
- c. The DSUs were issued at a deemed purchase price of \$28.86 per DSU (aggregate price \$89,985), based upon the market value on the date of record, in payment of the dividend equivalents due to DSU holders pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.
- d. Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

**(b) Issuer Purchases of Equity Securities during the Quarter ended June 30, 2018**

**Board Authorized Share Repurchases Program:**

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

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

**Repurchases Related to Stock Compensation Programs<sup>(1)</sup>:**

	Total Number of Shares Purchased	Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum That May Be Purchased under the Plans or Programs
April 1 through 30	7,764	\$ 28.78	n/a	n/a
May 1 through 31	—	—	n/a	n/a
June 1 through 30	—	—	n/a	n/a
<b>Total</b>	<b>7,764</b>			

(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**

<a href="#"><u>3.1(a)</u></a>	<a href="#"><u>Amendment to Registrant's Restated Certificate of Incorporation filed with the Department of State of New York on August 1, 2018.</u></a>
<a href="#"><u>3.1(b)</u></a>	<a href="#"><u>Restated Certificate of Incorporation filed with the Department of State of New York on August 2, 2018, as amended by Certificates of Amendment of Certificate of Incorporation filed with the Department of State of New York on December 23, 2016 and August 1, 2018.</u></a>
<a href="#"><u>3.2</u></a>	<a href="#"><u>By-Laws of the Registrant as amended through May 14, 2018.</u></a> <a href="#"><u>Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.</u></a>
<a href="#"><u>10.1</u></a>	<a href="#"><u>Director Appointment, Nomination and Settlement Agreement, dated as of May 13, 2018, by and among Registrant, Darwin Deason, the persons and entities listed on Schedule A thereto, William Curt Hunter, Jeffrey Jacobson, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Sara Martinez Tucker, Gregory Q. Brown, Joseph J. Echevarria and Cheryl Gordon Krongard.</u></a> <a href="#"><u>Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.</u></a>
<a href="#"><u>10.2</u></a>	<a href="#"><u>Memorandum of Understanding, dated May 13, 2018, by and among representatives acting on behalf of Deason, Registrant, the Existing Directors and the other parties thereto.</u></a> <a href="#"><u>Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.</u></a>
<a href="#"><u>10.3</u></a>	<a href="#"><u>Notice of termination, dated May 13, 2018.</u></a> <a href="#"><u>Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.</u></a>
<a href="#"><u>10.4</u></a>	<a href="#"><u>Letter Agreement dated May 14, 2018 between Registrant and John Visentin.</u></a> <a href="#"><u>Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471.</u></a>
<a href="#"><u>10.5</u></a>	<a href="#"><u>Registrant's Amendment No. 2 to the June 30, 2017 Amendment and Restatement of the 2004 Performance Incentive Plan, as amended to date.</u></a>
<a href="#"><u>10.6</u></a>	<a href="#"><u>Form of CEO Restricted Stock Award Agreement</u></a>
<a href="#"><u>10.7</u></a>	<a href="#"><u>Amendment to the CEO Option and Performance Share/Restricted Stock Unit Award Agreements.</u></a>
<a href="#"><u>10.8</u></a>	<a href="#"><u>Officer Severance Program, effective July 18, 2018</u></a>
<a href="#"><u>12</u></a>	<a href="#"><u>Computation of Ratio of Earnings to Fixed Charges.</u></a>
<a href="#"><u>31(a)</u></a>	<a href="#"><u>Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).</u></a>
<a href="#"><u>31(b)</u></a>	<a href="#"><u>Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).</u></a>
<a href="#"><u>32</u></a>	<a href="#"><u>Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u></a>
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

## SIGNATURES

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

### **XEROX CORPORATION** (Registrant)

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

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

Date: August 2, 2018

## EXHIBIT INDEX

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<a href="#"><u>101.SCH</u></a>	<a href="#"><u>XBRL Taxonomy Extension Schema Linkbase.</u></a>

This amendment was filed to: (a) eliminate the description of the Series A Convertible Perpetual Preferred stock (which is no longer outstanding); (b) change the location of the Company's office in the State of New York; and (c) change the address of the Company to which the Secretary of State of the State of New York shall mail a copy of any process against the Company which is served on the Secretary of State.

**Certificate of Amendment  
of the  
Certificate of Incorporation  
of  
Xerox Corporation**

(Under Section 805 of the Business Corporation Law)

The undersigned, Douglas H. Marshall, Assistant Secretary of Xerox Corporation (the "Corporation"), hereby **CERTIFIES** that:

**FIRST:** The name of the Corporation is "XEROX CORPORATION". The name under which the Corporation was formed is "THE HALOID COMPANY".

**SECOND:** The original certificate of incorporation of the Corporation was filed by the Department of State of the State of New York on April 18, 1906 under the name The Haloid Company (such certificate of incorporation, as amended and restated and in effect thereafter, the "Certificate of Incorporation").

**THIRD:** (a) The Certificate of Incorporation is hereby being amended pursuant to Sections 805 and 502(c) of the New York Business Corporation Law ("BCL") to eliminate the series of Cumulative Preferred Stock of the Corporation, par value \$1.00 per share, entitled "Series A Convertible Perpetual Preferred Stock", none of which stock of such series are outstanding and none of which stock of such series will be issued subject to the Certificate of Incorporation. This Certificate of Amendment constitutes a series elimination. It does not change the number of authorized Cumulative Preferred Stock under Article FOURTH of the Certificate of Incorporation

(b) When this Certificate of Amendment becomes accepted for filing by the New York Department of State, it shall have the effect of eliminating from the Certificate of Incorporation all matters set forth therein with respect to the Series A Convertible Perpetual Preferred Stock. In furtherance thereof, Article FOURTH of the Certificate of Incorporation is hereby amended by

deleting Subdivision 13 thereof in its entirety, and renumbering the remaining paragraphs and paragraph number references therein.

(c) Following the elimination of the Series A Convertible Perpetual Preferred Stock, the Board of Directors of the Corporation shall continue to be authorized to issue up to 22,043,067 shares of Cumulative Preferred Stock, par value of \$1.00 per share, under Article FOURTH of the Certificate of Incorporation.

**FOURTH:** (a) The Corporation further amends the Certificate of Incorporation to change the address to which the Secretary of State of the State of New York shall mail a copy of any process against the Corporation which is served on the Secretary of State.

(b) In order to give effect to the foregoing amendment to the Certificate of Incorporation, the second sentence of Article FIFTH of the Certificate of Incorporation is hereby replaced in its entirety with the following:

“The post office address to which the Secretary of State shall mail a copy of any process against it served upon the Secretary of State is:

Xerox Corporation  
201 Merritt 7  
Norwalk, CT 06851  
Attention: "General Counsel"

**FIFTH:** (a) The Corporation further amends the Certificate of Incorporation to change the city in which the Corporation's office in the State of New York is located.

(b) In order to give effect to the foregoing amendment to the Certificate of Incorporation, Article THIRD of the Certificate of Incorporation is hereby replaced in its entirety with the following:

“THIRD: The office of the Corporation is to be located in the City of Webster, Monroe County, New York.”

**SIXTH:** The foregoing amendments to the Certificate of Incorporation of the Corporation were authorized by resolutions of the Board of Directors at meetings duly held on May 23, 2017 and July 31, 2018.



**IN WITNESS WHEREOF**, Xerox Corporation has caused this Certificate of Amendment to be signed by its authorized corporate officer this 1st day of August, 2018.

By:     /s/ D.H. Marshall      
Name: Douglas H. Marshall  
Title: Assistant Secretary

**Certificate of Amendment  
of the  
Certificate of Incorporation  
of  
Xerox Corporation**  
(Under Section 805 of the Business Corporation Law)

Filer: Xerox Corporation  
201 Merritt 7  
P.O. Box 4505  
Norwalk, Connecticut 06851

This Restated Certificate of Incorporation reflects all previously-filed amendments.

**RESTATED CERTIFICATE OF INCORPORATION  
OF  
XEROX CORPORATION  
  
UNDER SECTION 807 OF THE  
BUSINESS CORPORATION LAW**

1. The name of the Corporation is “XEROX CORPORATION”. The name under which it was formed is “THE HALOID COMPANY”.

2. The Certificate of Incorporation was filed in the Office of the Secretary of State of the State of New York on April 18, 1906.

3. This restatement of the Certificate of Incorporation was authorized by a resolution adopted by the Board of Directors of the Corporation at a meeting thereof duly called and held on July 31, 2018. The text of the Certificate of Incorporation is hereby restated without amendment or change to read as herein set forth in full:

FIRST: The name of the Corporation is XEROX CORPORATION.

SECOND: The purposes for which it is formed are as follows:

To engage in the invention, development, production, operation, sale or lease of devices, papers and other items, processes, and services, relating to the communications, photographic, printing and image reproduction arts;

To engage in any commercial, mercantile, manufacturing, mining, industrial, importing, exporting or trading business, venture, activity or service or other business, venture, activity or service of a kind or type described in these purposes;

To engage in scientific and technological research and pursuits of every lawful kind and description and to utilize, employ and exploit any and all knowledge resulting therefrom;

To purchase, lease or otherwise acquire, own, hold, sell, mortgage, charge or otherwise dispose of, invest, trade and deal in and with real and personal property of every kind and description.

THIRD: The office of the Corporation is to be located in the City of Webster, Monroe County, New York.

FOURTH: The aggregate number of shares which the Corporation shall have the authority to issue is 437,500,000 shares of Common Stock, of the par value of \$1.00 each (hereinafter referred to as "Common Stock"), 600,000 shares of Class B Stock of the par value of \$1.00 each (hereinafter referred to as "Class B Stock"), and 22,043,067 shares of Cumulative Preferred Stock, of the par value of \$1.00 each (hereinafter referred to as "Cumulative Preferred Stock").

The designations, preferences, privileges and voting powers of each class of stock of the Corporation, and the restrictions and qualifications thereof, shall be as follows:

1. The Cumulative Preferred Stock may be issued from time to time as follows:

(a) The Cumulative Preferred Stock may be issued from time to time as shares of one or more series of Cumulative Preferred Stock and the Board of Directors is expressly authorized, prior to issuance, in the resolution or resolutions providing for the issue of shares in each particular series, to fix the following:

(i) the distinctive serial designation and number of shares which shall constitute such series, which number may be increased (except where otherwise provided by the Board of Directors in creating such series) or decreased (but not below the number of shares thereof then outstanding) from time to time by like action of the Board of Directors;

(ii) the annual dividend rate for such series, and the date from which dividends on shares of such series shall be cumulative;

(iii) the redemption provisions and price or prices, if any, for such series, which may consist of a redemption price or scale of redemption prices applicable only to redemption for a sinking fund and the same or a different redemption price or scale of redemption prices applicable to any other redemption;

(iv) the amount or amounts which shall be paid to the holders of the shares of such series in the event of voluntary or involuntary liquidation, dissolution or winding up of the Corporation (but not less than \$1.00 in the case of involuntary liquidation);

(v) the obligation, if any, of the Corporation to retire shares of such series pursuant to a sinking fund which shall be applied to the redemption of shares of such series;

(vi) the terms and conditions (with or without limitations), if any, on which shares of such series shall be convertible into, or exchangeable for, shares of stock of any other class or classes, including the price or prices or at the rate or rates of conversion or exchange and the terms and conditions of adjustment thereof, if any; and

(vii) the voting rights, if any, in addition to those specified herein, and any other preferences, privileges and restrictions or qualifications of such series.

(b) All shares of Cumulative Preferred Stock, regardless of series, shall be of equal rank with each other and shall be identical with each other in all respects except as provided in or permitted by paragraph (a) of this subdivision 1 and except as provided in paragraph (b) of subdivision 6; and the shares of the Cumulative Preferred Stock of any one series shall be identical with each other in all respects except as to the dates from and after which dividends thereon shall be cumulative.

(c) In case the stated dividends and the amounts payable on liquidation are not paid in full, the shares of all series of the Cumulative Preferred Stock shall share ratably in the payment of dividends (including accumulations, if any) in accordance with the sums which would be payable on said shares if all dividends were declared and paid in full, and in any distribution of assets other than by way of dividends in accordance with the sums which would be payable on such distributions if all sums payable were discharged in full.

2. The holders of the Cumulative Preferred Stock of each series shall be entitled to receive, when and as declared by the Board of Directors, but only out of funds legally available for the payment of dividends, cumulative cash dividends at the annual rate for such series (as fixed by the Board of Directors in accordance with subdivision 1 in respect of any series), and no more, payable quarter-yearly, on the first day of January, April, July and October in each year, to shareholders of record on the respective dates, not exceeding forty days preceding such dividend payment dates, fixed for the purpose by the Board of Directors in advance of payment of each particular dividend; provided that if dividends on any shares of the Cumulative Preferred Stock shall be cumulative from a date less than thirty days prior to the first quarter-yearly dividend payment date in respect of such shares, the dividends accrued on such shares to such date shall not be payable on such date but shall be payable on the next following quarter-yearly dividend payment date. The holders of shares of the Cumulative Preferred Stock shall not be entitled to receive any dividends thereon other than the dividends referred to in this subdivision 2.

As provided in paragraph (c) of subdivision 1, no dividend shall be paid upon, or declared or set apart for, any share of Cumulative Preferred Stock of any series for any quarter-yearly dividend period (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) unless at the same time a like proportionate dividend for the same quarter-yearly dividend period, ratably in proportion to the respective annual dividend rates fixed therefor, shall be paid upon, or declared and set apart for, all shares of Cumulative Preferred Stock of all series then issued and outstanding and entitled to receive the dividend.

3. So long as any shares of the Cumulative Preferred Stock are outstanding, no dividend whatever shall be paid or declared at any time, and no distribution made, on any junior stock (other than in junior stock) nor shall any shares of junior stock be purchased or otherwise acquired for value or redeemed at any time by the Corporation or any subsidiary:

(a) unless all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall have been paid or declared and a sum sufficient for the payment thereof set apart; and

(b) unless the Corporation shall have redeemed, retired or purchased all shares of each series of Cumulative Preferred Stock required to have been redeemed, retired or purchased at such time

pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1,

provided, however, that the foregoing restrictions in this subdivision 3 shall not apply to the acquisition of any junior stock solely in exchange for, or solely out of the proceeds of sale of, any other junior stock.

Subject to the foregoing provisions of this subdivision 3, and to any further limitations prescribed by the Board of Directors in accordance with subdivision 1, and not otherwise, such dividends (payable in cash, stock or otherwise) as may be determined by the Board of Directors may be declared and paid on any junior stock from time to time out of any funds of the Corporation legally available therefor, and the Cumulative Preferred Stock shall not be entitled to participate in any such dividends.

4. Subject to the provisions of subdivision 5, the Corporation at its option (expressed by resolution of the Board of Directors) or for the purpose of any sinking fund therefor may (except as otherwise provided by the Board of Directors in accordance with subdivision 1 in respect of any series) redeem the outstanding shares of Cumulative Preferred Stock, or of any one or more series thereof, at any time in whole, or from time to time in part, upon notice duly given as hereinafter specified, at the applicable redemption price or prices for such shares (as fixed in accordance with subdivision 1 in respect of any series), including, in each case, an amount equal to all accrued and unpaid dividends thereon to the date fixed for redemption.

Notice of every such redemption of Cumulative Preferred Stock of any series (a) if all the shares of such series are held of record by not more than ten holders, shall be given by mailing such notice not less than 30 nor more than 60 days prior to the date fixed for such redemption to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation, or (b) if all the shares of such series are held of record by more than ten holders, shall be given by publication at least once in each of two successive calendar weeks in a newspaper printed in the English language and customarily published on each business day and of general circulation in the Borough of Manhattan, The City of New York, the first publication to be not less than 30 nor more than 60 days prior to the date fixed for such redemption, and notice of such redemption shall also be mailed not less than 30 nor more than 60 days prior to the date fixed for such redemption, to each holder of record of shares of such series so to be redeemed at his address as the same shall appear on the books of the Corporation; but, if publication is required, no failure to mail any such notice nor any defect therein or in the mailing thereof shall affect the validity of the proceeding for the redemption of any shares to be redeemed.

In case of redemption of a part only of the Cumulative Preferred Stock of any series at the time outstanding, whether for the sinking fund therefor or otherwise, the redemption may (subject to any provision made by the Board of Directors in accordance with subdivision 1 in respect of any series) be either pro rata or by lot, as determined by the Board of Directors. Subject to the foregoing, the Board of Directors shall have full power and authority to prescribe the manner in which the drawings by lot or the pro rata redemption shall be conducted and, subject to the provisions contained in the Certificate of Incorporation or provided by the Board of Directors in accordance with subdivision 1, the terms and conditions upon which the Cumulative Preferred Stock shall be redeemed from time to time.

If any such notice of redemption shall have been duly given and if, on or before the redemption date specified therein, all funds necessary for such redemption shall have been set aside by the Corporation, separate and apart from its other funds, in trust for the pro rata benefit of the holders of the shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, all shares so called for redemption shall no longer be deemed outstanding on and after such redemption date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such redemption date cease and terminate, except only the right of the holders thereof to receive the amount payable on redemption thereof without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired.

If any such notice of redemption shall have been duly given or if the Corporation shall have given to the bank or trust company hereinafter referred to irrevocable written authorization promptly to give or complete such notice, and if on or before the redemption date specified therein the funds necessary for such redemption shall have been deposited by the Corporation with a bank or trust company in good standing, designated in such notice, organized under the laws of the United States of America or of the State of New York, doing

business in the Borough of Manhattan, The City of New York, having a capital, surplus, and undivided profits aggregating at least \$5,000,000 according to its last published statement of condition, in trust for the pro rata benefit of the holders of the shares so called for redemption, then, notwithstanding that any certificate for shares so called for redemption shall not have been surrendered for cancellation, from and after the time of such deposit all shares so called for redemption shall no longer be deemed to be outstanding and all rights with respect to such shares shall forthwith cease and terminate, except only the right of the holders thereof to receive from such bank or trust company at any time after the time of such deposit the funds so deposited, without interest, and the right to exercise, on or before the date fixed for redemption, all privileges of conversion or exchange, if any, not theretofore expired. Any interest accrued on such funds shall be paid to the Corporation from time to time.

Any funds so set aside or deposited, as the case may be, and unclaimed at the end of six years from such redemption date shall be released or repaid to the Corporation, after which the holders of the shares so called for redemption shall look only to the Corporation for payment thereof; provided that any funds so deposited which shall not be required for redemption because of the exercise of any privilege of conversion or exchange subsequent to the date of deposit shall be repaid to the Corporation forthwith.

None of the shares of Cumulative Preferred Stock of any series redeemed or retired pursuant to the sinking fund fixed for such series by the Board of Directors in accordance with subdivision 1, shall be reissued and all such shares shall, in the manner provided by law, be eliminated from the authorized capital stock of the Corporation. The Corporation shall not be prohibited from reissuing any shares of Cumulative Preferred Stock redeemed or retired (other than for the sinking fund therefor) or converted into or exchanged for stock pursuant to the provisions fixed by the Board of Directors in accordance with subdivision 1, and after such redemption, retirement or conversion of the Corporation may, in the manner provided by law, restore such shares to the status of authorized but unissued shares of Cumulative Preferred Stock undesignated as to series.

5. If and so long as all dividends on the Cumulative Preferred Stock of all series for all past quarter-yearly dividend periods (other than the first quarter-yearly dividend period for any shares if the dividend on such shares for such period shall not then be payable pursuant to the provisions of subdivision 2) shall not have been paid and the full dividends thereon for the then current quarter-yearly dividend period shall not have been paid or declared and a sum sufficient for the payment thereof set apart, the Corporation shall not redeem (for sinking fund or otherwise) less than all of the Cumulative Preferred Stock at the time outstanding, and neither the Corporation nor any subsidiary shall purchase or otherwise acquire for value (for sinking fund or otherwise) any of the Cumulative Preferred Stock at the time outstanding.

6. Unless the consent of the holders of a greater number of shares shall then be required by law, the consent of the holders of at least two-thirds of the shares of Cumulative Preferred Stock at the time outstanding, given in person or by proxy, either in writing or at any special or annual meeting called for the purpose, at which the Cumulative Preferred Stock shall vote separately as a class, shall be necessary to permit, effect or validate any one or more of the following:

(a) The authorization of, or any increase in the authorized amount of, any class of stock ranking prior to the Cumulative Preferred Stock;

(b) The amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-Laws of the Corporation which would affect adversely any right, preference, privilege or voting power of the Cumulative Preferred Stock or of the holders thereof; provided, however, that if any such amendment, alteration or repeal would affect adversely any right, preference, privilege or voting power of one or more, but not all, of the series of Cumulative Preferred Stock at the time outstanding, the consent of the holders of at least two-thirds of the outstanding shares of each such series so affected, similarly given, shall be required in lieu of (or if such consent is required by law, in addition to) the consent of the holders of two-thirds of the shares of the Cumulative Preferred Stock as a class; and

(c) The voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease or conveyance (other than by mortgage) of all or substantially all the property or business of the Corporation, or the consolidation or merger of the Corporation with or into any other corporation, except any such consolidation or merger wherein none of the rights, preferences, privileges or voting powers of any series of the Cumulative Preferred Stock or the holders thereof are adversely affected.

No consent of the holders of the Cumulative Preferred Stock or of any series thereof which would otherwise be required to permit, effect or validate any action of the Corporation or a subsidiary pursuant to the provisions of this subdivision 6 or pursuant to any provision fixed by the Board of Directors in accordance with subdivision 1 shall be required if, prior to or concurrently with such action, provision shall be made in accordance with the provisions of the fourth paragraph of subdivision 4 for the redemption of all outstanding shares of Cumulative Preferred Stock or all outstanding shares of such series, as the case may be, and all funds necessary for such redemption shall be deposited in trust in accordance with the provisions of such paragraph.

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

In any case in which the holders of Cumulative Preferred Stock or any series thereof shall be entitled to vote pursuant to the provisions of the Certificate of Incorporation or pursuant to law, each holder of Cumulative Preferred Stock or of such series, as the case may be, shall be entitled to one vote for each share thereof held.

8. In the event of any liquidation, dissolution or winding up of the Corporation, the holders of the Cumulative Preferred Stock of each series shall be entitled to receive out of the assets of the Corporation, before any distribution or payment shall be made to the holders of any junior stock, (i) if such liquidation, dissolution or winding up shall be involuntary, the amount fixed by the Board of Directors in accordance with subdivision 1 but not less than \$1.00, and (ii) if such liquidation, dissolution or winding up shall be voluntary, the amount per share fixed by the Board of Directors in accordance with the provisions of subdivision 1 in the case of any series of Cumulative Preferred Stock, in effect at the time thereof, together with, in each case, all accrued and unpaid dividends thereon to the date fixed for the payment of such distributive amounts; and the holders of the junior stock shall be entitled, to the exclusion of the holders of the Cumulative Preferred Stock of any and all series, to share ratably in all the remaining assets of the Corporation in accordance with their respective rights. As provided in paragraph (c) of subdivision 1, if upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the assets available for distribution shall be insufficient to pay the holders of all outstanding shares of Cumulative Preferred Stock the full amounts to which they respectively shall be entitled, the holders of shares of Cumulative Preferred Stock of all series shall share ratably in any distribution of assets in accordance with the sums which would be payable on such distribution if



all sums payable were discharged in full. Neither the consolidation or merger of the Corporation with or into any other corporation, nor any sale, lease or conveyance of all or any part of the property or business of the Corporation, shall be deemed to be a liquidation, dissolution or winding up of the Corporation within the meaning of this subdivision 8.

9. Except as otherwise expressly provided in the Certificate of Incorporation and except as otherwise provided by law, voting rights upon any and all matters shall be vested exclusively in the holders of the Common Stock and the Class B Stock (each share of Common Stock and of Class B Stock having one vote).

10. No holder of Common Stock, Cumulative Preferred Stock or Class B Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class whatsoever, or of any obligations or other securities convertible into, or exchangeable for, any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

11. The holders of Common Stock and of Class B Stock shall possess equal voting rights and rights as to dividends or distributions, and in the event of any liquidation, dissolution or winding up of the Corporation. No dividend, distribution, split-up, combination, reclassification, or other change in the shares of Common Stock shall be made without the same being made with respect to the Class B Stock.

12. For all purposes of the Certificate of Incorporation:

The term "accrued and unpaid dividends" when used with reference to any share of any series of the Cumulative Preferred Stock shall mean an amount computed at the annual dividend rate for the shares of such series from the date on which dividends on such share became cumulative to and including the date to which such dividends are to be accrued, less the aggregate amount of all dividends theretofore paid on such share; but no interest shall be payable upon any arrearages.

The term "Certificate of Incorporation" shall mean the certificate of incorporation of the Corporation as amended and supplemented by any certificate heretofore or hereafter filed pursuant to law, including any certificate filed pursuant to law with respect to, and providing for the issue of, any series of Cumulative Preferred Stock.

The term "junior stock", when used with reference to the Cumulative Preferred Stock, shall mean the Common Stock, the Class B Stock and any other stock of the Corporation, now or hereafter authorized, over which the Cumulative Preferred Stock has preference or priority either in the payment of dividends or in the distribution of assets upon any liquidation, dissolution or winding up of the Corporation.

The term "sinking fund", as applied to any series of preferred stock, shall mean any fund or requirement for the periodic redemption, retirement or purchase of shares of such series.

The term "stock ranking prior to the Cumulative Preferred Stock" shall mean any stock of the Corporation, now or hereafter authorized, which has preference over the Cumulative Preferred Stock either in the payment of dividends or in any liquidation, dissolution or winding up of the Corporation.

#### **SERIES B CONVERTIBLE PERPETUAL PREFERRED STOCK**

13. (a) **Designation.** There is hereby created out of the authorized and unissued shares of Cumulative Preferred Stock of the Corporation a series of preferred stock designated as the "Series B Convertible Perpetual Preferred Stock" (the "Series B Preferred Stock"). The number of shares constituting such series shall be 180,000.

(b) **Definitions.** As used herein with respect to the Series B Preferred Stock, the following terms shall have the following meanings, whether used in the singular or the plural:

"Additional Shares" has the meaning set forth in Subdivision 13(l)(i).

“Affiliate” of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, “control” when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Applicable Conversion Price” at any given time means the price equal to \$1,000 divided by the Applicable Conversion Rate in effect at such time.

“Applicable Conversion Rate” means the Conversion Rate in effect at any given time.

“Board of Directors” means the board of directors of the Corporation or any committee thereof duly authorized to act in the relevant matter on behalf of such board of directors.

“Business Day” means any day other than a Saturday, Sunday or any other day on which banks in New York City, New York are generally required or authorized by law to be closed.

“Certificate of Incorporation” means the Restated Certificate of Incorporation of Xerox Corporation, as amended.

“Close of Business” means 5:00 pm, New York City time, on the date in question.

“Closing Price” of the Common Stock or any securities distributed in a Spin-Off, as the case may be, on any date of determination means:

(i) the closing sale price of the Common Stock or such other securities (or, if no closing sale price is reported, the last reported sale price of the Common Stock or such other securities) on the New York Stock Exchange on such date;

(ii) if the Common Stock or such other securities are not traded on the New York Stock Exchange on such date, the closing sale price of the Common Stock or such other securities (or, if no closing sale price is reported, the last reported sale price of the Common Stock or such other securities) as reported in the composite transactions for the principal U.S. national or regional securities exchange on which the Common Stock or such other securities are traded on such date;

(iii) if the Common Stock or such other securities are not traded on a U.S. national or regional securities exchange on such date, the last quoted bid price for the Common Stock or such other securities on such date in the over-the-counter market as reported by Pink OTC Markets Inc. or similar organization; or

(iv) if the Common Stock or such other securities are not quoted by Pink OTC Markets Inc. or a similar organization on such date, as determined by a nationally recognized independent investment banking firm retained by the Corporation for this purpose.

For purposes of this Subdivision 13, all references herein to the “Closing Price” and “last reported sale price” of the Common Stock on the New York Stock Exchange shall be such closing sale price and last reported sale price as reflected on the website of the New York Stock Exchange (<http://www.nyse.com>).

“Common Stock Outstanding” means, at any given time, the number of shares of Common Stock issued and outstanding at such time.

“Conversion Date” has the meaning set forth in Subdivision 13(i)(v)(B).

“Conversion Rate” means, with respect to each share of Series B Preferred Stock, 149.8127 shares of Common Stock, subject to adjustment in accordance with the provisions of this Subdivision 13.

“Cumulative Preferred Stock” means the Cumulative Preferred Stock, par value of \$1.00 each, of the Corporation.

“Current Market Price” means, in the case of any distribution giving rise to an adjustment to the Conversion Rate pursuant to Subdivision 13(j)(iv), Subdivision 13(j)(v) or Subdivision 13(j)(vi) or a distribution upon conversion pursuant to Subdivision 13(j)(viii), the average Closing Price of the Common Stock during the ten consecutive Trading Day period ending on and including the Trading Day immediately preceding the Ex-Dividend Date for such distribution. Notwithstanding the foregoing, whenever successive adjustments to the Conversion Rate are called for pursuant to Subdivision 13(j), such adjustments shall be made to the Current Market Price as may be necessary or appropriate to effectuate the intent of Subdivision 13(j) and to avoid unjust or inequitable results as determined in good faith by the Board of Directors.

“Distributed Property” has the meaning set forth in Subdivision 13(j)(v).

“Dividend Payment Date” has the meaning set forth in Subdivision 13(d)(ii).

“Dividend Period” means each period from, and including, a Dividend Payment Date (or with respect to the initial Dividend Period, the Issue Date) to, but excluding, the following Dividend Payment Date.

“Dividend Rate” has the meaning set forth in Subdivision 13(d)(i).

“Dividend Record Date” has the meaning set forth in Subdivision 13(d)(iv).

“Dividend Threshold Amount” has the meaning set forth in Subdivision 13(j)(vi)(B).

“Exchange Act” means the Securities Exchange Act of 1934, as amended.

“Exchange Property” has the meaning set forth in Subdivision 13(k)(i).

“Ex-Dividend Date” means the first date on which the shares of Common Stock trade on the applicable exchange or in the applicable market, regular way, without the right to receive the relevant dividend, distribution or issuance.

“Expiration Date” has the meaning set forth in Subdivision 13(j)(vii).

“Expiration Time” has the meaning set forth in Subdivision 13(j)(vii).

“Fair Market Value” means the amount which a willing buyer would pay a willing seller in an arm’s-length transaction as reasonably determined by the Board of Directors in good faith; *provided, however*, that with respect to Subdivision 13(o)(ii), Fair Market Value shall mean the value of the Optional Redemption Transferred Shares determined by a nationally recognized independent investment banking firm retained by the Corporation for this purpose.

“Fiscal Quarter” means, with respect to the Corporation, the fiscal quarter publicly disclosed by the Corporation.

“Fundamental Change” means the occurrence of any of the following:

(i) a “person” or “group” within the meaning of Section 13(d) of the Exchange Act files a Schedule TO or any schedule, form or report under the Exchange Act disclosing that such person or group has become the direct or indirect ultimate “beneficial owner”, as defined in Rule 13d-3 under the

Exchange Act, of common equity of the Corporation representing more than 50% of the voting power of the Common Stock;

(ii) consummation of any consolidation, merger or other business combination of the Corporation with or into another Person or any sale, lease or conveyance in one transaction or a series of transactions of all or substantially all of the consolidated assets of the Corporation and its subsidiaries, taken as a whole, to any Person other than one of the Corporation's subsidiaries, in each case pursuant to which the Common Stock will be converted into cash, securities or other property, other than:

(A) pursuant to a transaction in which the Persons that "beneficially owned" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, Voting Shares of the Corporation immediately prior to such transaction beneficially own, directly or indirectly, Voting Shares representing a majority of the total voting power of all outstanding classes of Voting Shares of the continuing or surviving Person immediately after the transaction; or

(B) any merger or consolidation primarily for the purpose of changing the jurisdiction of incorporation of the Corporation and resulting in a reclassification, conversion or exchange of outstanding shares of common stock solely into shares of common stock of the surviving entity; or

(iii) the Common Stock ceases to be listed on a U.S. national securities exchange or association (other than as a result of a transaction described in clause (ii) above);

*provided, however*, that a Fundamental Change with respect to clauses (i) or (ii) above shall not be deemed to have occurred if at least 90% of the consideration received by holders of the Common Stock in the transaction or transactions consists of common stock that is traded on a U.S. national securities exchange or that will be traded on a U.S. national securities exchange when issued or exchanged in connection with such transaction.

"Fundamental Change Notice" has the meaning set forth in Subdivision 13(m)(ii).

"Fundamental Change Redemption Date" has the meaning set forth in Subdivision 13(m)(i).

"Fundamental Change Redemption Price" has the meaning set forth in Subdivision 13(m)(i).

"Holder(s)" means the Person(s) in whose name the shares of the Series B Preferred Stock are registered, which may be treated by the Corporation, as the absolute owner of the shares of Series B Preferred Stock for the purpose of making payment and settling the related conversions and for all other purposes. The initial Holder shall be Darwin Deason.

"Issue Date" means the date upon which any shares of Series B Preferred Stock are first issued.

"Junior Securities" has the meaning set forth in Subdivision 13(c)(i).

"Liquidation Preference" means, with respect to each share of Series B Preferred Stock, at any time, \$1,000.

"Make-Whole Acquisition" means the occurrence of a transaction described under clauses (i) or (ii) of the definition of "Fundamental Change".

"Make-Whole Acquisition Conversion Period" has the meaning set forth in Subdivision 13(l)(i).

"Make-Whole Acquisition Effective Date" has the meaning set forth in Subdivision 13(l)(i).

“Make-Whole Acquisition Stock Price” means the price paid per share of Common Stock in the event of a Make-Whole Acquisition. If the holders of shares of Common Stock receive only cash in the Make-Whole Acquisition, the Make-Whole Acquisition Stock Price shall be the cash amount paid per share of Common Stock. Otherwise, the Make-Whole Acquisition Stock Price shall be the average of the Closing Price per share of Common Stock on the 10 Trading Days up to, but not including, the Make-Whole Acquisition Effective Date.

“Mandatory Conversion Date” has the meaning set forth in Subdivision 13(h)(iii).

“Notice of Mandatory Conversion” has the meaning set forth in Subdivision 13(h)(iii).

“Optional Redemption Date” has the meaning set forth in Subdivision 13(o)(ii)(B).

“Optional Redemption Notice” has the meaning set forth in Subdivision 13(o)(ii)(A).

“Optional Redemption Transferred Shares” has the meaning set forth in Subdivision 13(o)(ii).

“Parity Securities” has the meaning set forth in Subdivision 13(c)(ii).

“Permitted Transferee(s)” means any of (w) the spouse of Darwin Deason, (x) any lineal descendant of Darwin Deason or any brother or sister of Darwin Deason, (y) any brother or sister of Darwin Deason, or (z) any trust for the direct or indirect benefit of exclusively Darwin Deason and/or the spouse of Darwin Deason; any lineal descendant of Darwin Deason or any brother or sister of Darwin Deason; or any brother or sister of Darwin Deason.

“Person” means a legal person, including any individual, corporation, estate, partnership, joint venture, association, joint-stock corporation, limited liability company or trust.

“Record Date” means, with respect to any issuance, dividend or distribution declared, paid or made on or with respect to any capital stock of the Corporation, the date fixed for the determination of the holders of such capital stock entitled to receive such issuance, dividend or distribution.

“Registrar” means the Corporation or any other registrar appointed by the Corporation.

“Reorganization Event” has the meaning set forth in Subdivision 13(k)(i).

“Senior Securities” has the meaning set forth in Subdivision 13(c)(iii).

“Series B Preferred Stock” has the meaning set forth in Subdivision 13(a).

“Spin-Off” has the meaning set forth in Subdivision 13(j)(v).

“Spin-Off Valuation Period” has the meaning set forth in Subdivision 13(j)(v).

“Trading Day” means a day on which the shares of Common Stock or any securities distributed in a Spin-Off, as the case may be:

- (i) are not suspended from trading on any national or regional securities exchange or association or over-the-counter market at the Close of Business; and
- (ii) have traded at least once on the national or regional securities exchange or association or over-the-counter market that is the primary market for the trading of the Common Stock.

“Transfer” means, with respect to each share of Series B Preferred Stock, the sale, transfer, pledge, assignment, loan or other disposition or encumbrance of such share of Series B Preferred Stock.

“Trigger Event” has the meaning set forth in Subdivision 13(j)(xv).

“Voting Shares” of a Person means shares of all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of the board of directors of such Person.

(c) **Ranking.** The Series B Preferred Stock shall, with respect to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation, rank:

(i) senior to the Corporation’s Common Stock and Class B Stock and each other class or series of capital stock that the Corporation may issue in the future the terms of which do not expressly provide that it ranks on a parity with or senior to the Series B Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation (collectively, the “Junior Securities”);

(ii) on a parity with each class or series of Cumulative Preferred Stock established after the Issue Date by the Corporation the terms of which expressly provide that such class or series will rank on a parity with the Series B Preferred Stock as to dividend rights and rights on liquidation, winding-up and dissolution of the Corporation (collectively, the “Parity Securities”); and

(iii) subject to the approval of the holders of the Series B Preferred Stock to the extent required by subdivision 6 of Article FOURTH of the Certificate of Incorporation, junior to any class or series of the Corporation’s capital stock that the Corporation may issue in the future the terms of which expressly provide that such class or series shall rank senior to the Series B Preferred Stock (collectively, the “Senior Securities”).

For the avoidance of doubt, the Corporation has the right to authorize and/or issue additional shares or classes or series of Junior Securities or Parity Securities without notice to or consent of the Holder(s).

(d) **Dividends.**

(i) The Holder(s) shall be entitled to receive, on each share of Series B Preferred Stock, when, as and if declared by the Board of Directors, out of any funds legally available for the payment of dividends, cumulative cash dividends at a rate per annum equal to 8.0% of the Liquidation Preference (the “Dividend Rate”) in accordance with subdivisions 1, 2 and 3 of Article FOURTH of the Certificate of Incorporation; *provided, however*, that in the event that on any Dividend Payment Date there shall be accrued and unpaid dividends for any prior Dividend Period, the Dividend Rate shall equal 8.0% per annum of the sum of (x) the Liquidation Preference and (y) the amount of all such accrued and unpaid dividends for any prior Dividend Periods.

(ii) Dividends will accrue and cumulate from the Issue Date and are payable quarterly in arrears on the first day of January, April, July and October (each, a “Dividend Payment Date”), commencing on the first Dividend Payment Date following the Issue Date. If a Dividend Payment Date falls on a day that is not a Business Day, the dividends will be paid on the next Business Day as if it were paid on the Dividend Payment Date and no interest will accrue in connection therewith.

(iii) The amount of dividends payable for each full quarterly Dividend Period will be computed by dividing the Dividend Rate by four. The amount of dividends payable for the initial Dividend Period, or any other Dividend Period shorter or longer than a full quarterly Dividend

Period, will be computed on the basis of the actual number of days elapsed during such Dividend Period over a 360-day year.

(iv) Dividends will be paid to the Holder(s) as such Holder(s) appear in the records of the Corporation at the Close of Business on the 15<sup>th</sup> day of the immediately preceding calendar month in which the applicable Dividend Payment Date falls (the “Dividend Record Date”). The Dividend Record Date shall apply regardless of whether any particular Dividend Record Date is a Business Day.

(v) Dividends on any share of Series B Preferred Stock converted to Common Stock shall cease to accumulate on the Mandatory Conversion Date or any applicable Conversion Date, as applicable.

(e) *Liquidation.*

(i) In the event of any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Corporation, the Holder(s) shall be entitled to receive for each share of Series B Preferred Stock out of the assets of the Corporation or proceeds thereof legally available for distribution to stockholders of the Corporation, after satisfaction of all liabilities, if any, to creditors of the Corporation and subject to the rights of holders of any Senior Securities, and before any distribution of such assets or proceeds is made to or set aside for the holders of Junior Securities, a liquidating distribution in an amount equal to (x) the Liquidation Preference and (y) an amount equal to any accrued and unpaid dividends on such share of Series B Preferred Stock through the date of such liquidating distribution. After payment of the full amount of such liquidating distribution, the Holder(s) will not be entitled to any further participation in any distribution of assets by, and shall have no right or claim to any remaining assets, of the Corporation.

(ii) In the event the assets of the Corporation available for distribution to stockholders upon any liquidation, dissolution or winding-up of the affairs of the Corporation, whether voluntary or involuntary, shall be insufficient to pay in full the amounts payable with respect to all outstanding shares of the Series B Preferred Stock and the corresponding amounts payable on any Parity Securities, the Holder(s) and the holders of such Parity Securities shall share ratably in any distribution of assets of the Corporation in proportion to the full respective liquidating distributions which would be payable on such shares if all amounts payable thereon were paid in full.

(iii) Neither the consolidation or merger of the Corporation with or into any other entity, nor the consolidation or merger of any other entity with or into the Corporation, nor the sale, lease or other transfer or disposition of all or substantially all of the Corporation’s property or business or other assets shall, in and of itself, constitute a liquidation, dissolution or winding up of the Corporation.

(f) *Maturity.* The Series B Preferred Stock shall be perpetual, unless converted in accordance with this Certificate of Incorporation or redeemed either at the option of the Holder pursuant to Subdivision 13(m) or at the option of the Corporation pursuant to Subdivision 13(o)(ii).

(g) *Conversion at the Holder’s Option.* Each Holder shall have the right, at such Holder’s option, at any time and from time to time, to convert all or any portion of such Holder’s Series B Preferred Stock into shares of Common Stock at the Applicable Conversion Rate, plus cash in lieu of fractional shares, plus an amount equal to any accrued and unpaid dividends on the shares of Series B Preferred Stock so converted through the date of such conversion, subject to compliance with the conversion procedures set forth in Subdivision 13(i).

(h) *Mandatory Conversion at the Corporation’s Option.*

(i) The Corporation shall have the right, at its option, at any time or from time to time to cause some or all of the Series B Preferred Stock to be converted into shares of Common Stock at the then Applicable Conversion Rate, plus cash in lieu of fractional shares, plus an amount equal to any accrued and unpaid dividends on the shares of Series B Preferred Stock so converted through the Mandatory Conversion Date, if, for 20 Trading Days during any period of 30 consecutive Trading Days (including the last Trading Day of such period), ending on the Trading Day preceding the date the Corporation delivers a Notice of Mandatory Conversion, the Closing Price of the Common Stock exceeds 146.07% of the then Applicable Conversion Price.

(ii) If the Corporation elects to cause fewer than all of the shares of Series B Preferred Stock to be converted pursuant to this Subdivision 13(h), the Corporation shall select the Series B Preferred Stock to be converted on a pro rata basis or by another method the Board of Directors, in its sole discretion, considers fair to the Holders. If the Corporation selects a portion of a Holder's Series B Preferred Stock for partial mandatory conversion and such Holder converts a portion of its shares of Series B Preferred Stock, the converted portion will be deemed to be from the portion selected for mandatory conversion under this Subdivision 13(h).

(iii) If the Corporation elects to exercise the mandatory conversion right pursuant to this Subdivision 13(h), the Corporation shall provide notice of such conversion to each Holder (such notice, a "Notice of Mandatory Conversion"). The conversion date shall be a date selected by the Corporation (the "Mandatory Conversion Date") and shall be no more than 7 days after the date on which the Corporation provides such Notice of Mandatory Conversion. In addition to any information required by applicable law or regulation, the Notice of Mandatory Conversion shall state, as appropriate:

(A) the Mandatory Conversion Date;

(B) the number of shares of Common Stock to be issued upon conversion of each share of Series B Preferred Stock; and

(C) the number of shares of Series B Preferred Stock to be converted.

(i) *Conversion Procedures.*

(i) As provided in Subdivision 13(d)(v), dividends on any share of Series B Preferred Stock converted to Common Stock shall cease to accumulate on the Mandatory Conversion Date or any applicable Conversion Date, as applicable, and such shares of Series B Preferred Stock shall cease to be outstanding upon conversion.

(ii) Prior to the Close of Business on the Mandatory Conversion Date or any applicable Conversion Date, shares of Common Stock (and/or other securities, if applicable) issuable upon conversion of any shares of Series B Preferred Stock shall not be deemed outstanding for any purpose, and the Holder(s) shall have no rights with respect to the Common Stock (and/or other securities, if applicable) issuable upon conversion (including voting rights, rights to respond to tender offers for the Common Stock (and/or other securities, if applicable) issuable upon conversion and rights to receive any dividends or other distributions on the Common Stock (and/or other securities, if applicable) issuable upon conversion) by virtue of holding shares of Series B Preferred Stock.

(iii) The Person(s) entitled to receive the Common Stock (and/or cash, securities or other property, if applicable) issuable upon conversion of Series B Preferred Stock shall be treated for all purposes as the record holder(s) of such shares of Common Stock (and/or other securities, if applicable) as of the Close of Business on the Mandatory Conversion Date or any applicable Conversion Date. In the event that a Holder shall not by written notice designate the name in which shares of Common Stock (and/or cash, securities or other property, if applicable) and payments of cash in lieu of fractional shares, if any, and accrued and unpaid dividends, if any, to



be issued or paid upon conversion of shares of Series B Preferred Stock should be registered or paid in the manner in which such shares should be delivered, the Corporation shall be entitled to register and deliver such shares, and make such payments, in the name of the Holder and in the manner shown on the records of the Corporation.

(iv) Shares of Series B Preferred Stock duly converted in accordance with this Certificate of Incorporation, or otherwise reacquired by the Corporation, will resume the status of authorized and unissued Cumulative Preferred Stock, undesignated as to series and available for future issuance. The Corporation may from time-to-time take such appropriate action as may be necessary to reduce the authorized number of shares of Series B Preferred Stock; *provided* that no decrease shall reduce the authorized number of Series B Preferred Stock to a number less than the number of shares then outstanding.

(v) Conversion into shares of Common Stock will occur on the Mandatory Conversion Date or any applicable Conversion Date as follows:

(A) On the Mandatory Conversion Date, certificates representing shares of Common Stock shall be issued and delivered to the Holder(s) or their designee upon presentation and surrender of the certificate evidencing the Series B Preferred Stock to the Corporation and, if required, the furnishing of appropriate endorsements and transfer documents and the payment of all transfer and similar taxes.

(B) On the date of any conversion at the option of the Holder(s) pursuant to Subdivision 13(g), a Holder must do each of the following in order to convert:

- (1) surrender the shares of Series B Preferred Stock to the Corporation;
- (2) if required, furnish appropriate endorsements and transfer documents; and
- (3) if required, pay all transfer or similar taxes.

The date on which a Holder complies with the procedures in this Subdivision 13(i)(v) is the "Conversion Date".

(vi) **Fractional Shares.**

(A) No fractional shares of Common Stock will be issued as a result of any conversion of shares of Series B Preferred Stock.

(B) In lieu of any fractional share of Common Stock otherwise issuable in respect of any conversion pursuant to Subdivision 13(g) or Subdivision 13(h), the Corporation shall pay an amount in cash (computed to the nearest cent) equal to the same fraction of the Closing Price of the Common Stock determined as of the second Trading Day immediately preceding the Conversion Date.

(C) If more than one share of the Series B Preferred Stock is surrendered for conversion at one time by or for the same Holder, the number of full shares of Common Stock issuable upon conversion thereof shall be computed on the basis of the aggregate number of shares of the Series B Preferred Stock so surrendered.

(i) ***Anti-Dilution Adjustments.***

(i) The Conversion Rate shall be adjusted from time to time by the Corporation in accordance with this Subdivision 13(j).

**(ii) If the Corporation shall, at any time or from time to time while any of the Series B Preferred Stock is outstanding, pay a dividend or make a distribution on its Common Stock in shares of its Common Stock to all or substantially all holders of its Common Stock, then the Conversion Rate shall be adjusted based on the following formula:**

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect at the Close of Business on the Record Date for such dividend or distribution;
- CR<sub>1</sub> = the Conversion Rate in effect immediately after the Record Date for such dividend or distribution;
- OS<sub>0</sub> = the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such dividend or distribution; and
- OS<sub>1</sub> = the number of shares of Common Stock that would be outstanding immediately after, and solely as a result of, such dividend or distribution.

Any adjustment made pursuant to this Subdivision 13(j)(ii) shall become effective immediately after the Record Date for such dividend or distribution. If any dividend or distribution that is the subject of this Subdivision 13(j)(ii) is declared but not so paid or made, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay or make such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. For the avoidance of doubt, for purposes of this Subdivision 13(j)(ii), the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such dividend or distribution shall not include shares of Common Stock held in treasury, if any.

**(iii) If the Corporation shall, at any time or from time to time while any of the Series B Preferred Stock is outstanding, (x) subdivide the then Common Stock Outstanding into a greater number of shares of Common Stock or (y) combine the then Common Stock Outstanding into a smaller number of shares of Common Stock, then the Conversion Rate shall be adjusted based on the following formula:**

$$CR_1 = CR_0 \times \frac{OS_1}{OS_0}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect at the Close of Business on the effective date of such subdivision or combination;
- CR<sub>1</sub> = the Conversion Rate in effect immediately after the effective date of such subdivision or combination;
- OS<sub>0</sub> = the number of shares of Common Stock Outstanding at the Close of Business on the effective date of such subdivision or combination; and
- OS<sub>1</sub> = the number of shares of Common Stock that would be outstanding immediately after, and solely as a result of, such subdivision or combination.

Any adjustment made pursuant to this Subdivision 13(j)(iii) shall become effective immediately after the effective date of such subdivision or combination.

(iv) If the Corporation shall, at any time or from time to time while any of the Series B Preferred Stock is outstanding, distribute to holders of all or substantially all of the Common Stock any rights or warrants (other than a distribution of rights issued pursuant to a stockholder's rights plan, to the extent such rights are attached to shares of Common Stock (in which event the provisions of Subdivision 13(j)(xv) shall apply), a dividend reinvestment plan or an issuance in connection with a transaction in which Subdivision 13(k) applies) entitling them to subscribe for or purchase, for a period of not more than 60 calendar days from the issuance date of such distribution, shares of Common Stock at a price per share less than the Current Market Price of the Common Stock, the Conversion Rate shall be adjusted based on

$$CR' = CR_0 \times \frac{OS_0 + X}{OS_0 + Y}$$

the following formula:

where,

- CR<sub>0</sub> = the Conversion Rate in effect at the Close of Business on the Record Date for such distribution;  
CR' = the Conversion Rate in effect immediately after the Record Date for such distribution;  
OS<sub>0</sub> = the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such distribution;  
X = the total number of shares of Common Stock issuable pursuant to such rights or warrants; and  
Y = the number of shares of Common Stock equal to (x) the aggregate price payable to exercise such rights or warrants divided by (y) the Current Market Price of the Common Stock.

Any adjustment made pursuant to this Subdivision 13(j)(iv) shall become effective immediately after the Record Date for such distribution. If such rights or warrants described in this Subdivision 13(j)(iv) are not so distributed, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to distribute such rights or warrants, to the Conversion Rate that would then be in effect if such distribution had not been declared. To the extent that such rights or warrants are not exercised prior to their expiration or shares of Common Stock are otherwise not delivered pursuant to such rights or warrants upon the exercise of such rights or warrants, the Conversion Rate shall be readjusted to the Conversion Rate which would then be in effect had the adjustments made upon the distribution of such rights or warrants been made on the basis of the delivery of only the number of shares of Common Stock actually delivered. In determining the aggregate price payable to exercise such rights or warrants, there shall be taken into account any consideration received by the Corporation upon exercise of such rights and warrants and the value of such consideration (if other than cash, to be determined in good faith by the Board of Directors). For the avoidance of doubt, for purposes of this Subdivision 13(j)(iv), the number of shares of Common Stock Outstanding at the Close of Business on the Record Date for such distribution shall not include shares of Common Stock held in treasury, if any.

(v) If the Corporation shall, at any time or from time to time while any of the Series B Preferred Stock is outstanding, by dividend or otherwise, distribute to all or substantially all holders of the Common Stock shares of any class of capital stock of the Corporation, evidences of its indebtedness, assets, property or rights or warrants to acquire the Corporation's capital stock or other securities, but excluding:

- (A) any dividends or distributions referred to in Subdivision 13(j)(ii);

- (B) any rights or warrants referred to in Subdivision 13(j)(iv);
- (C) any dividends or distributions referred to in Subdivision 13(j)(vi);
- (D) any dividends and distributions in connection with a transaction to which Subdivision 13(k) shall apply; and
- (E) any Spin-Offs to which the provision set forth below in this Subdivision 13(j)(v) shall apply,

(any such shares of capital stock, indebtedness, assets, property or rights or warrants to acquire Common Stock or other securities, hereinafter in this Subdivision 13(j)(v) called the "Distributed Property"), then, in each such case, the Conversion Rate shall be adjusted based on the following formula:

$$CR' = CR_0 \times \frac{SP_0}{SP_0 - FMV}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect at the Close of Business on the Record Date for such distribution;
- CR' = the Conversion Rate in effect immediately after the Record Date for such distribution;
- SP<sub>0</sub> = the Current Market Price of the Common Stock; and
- FMV = the Fair Market Value on the Record Date for such distribution of the Distributed Property, expressed as amount per share of Common Stock.

If the transaction that gives rise to an adjustment pursuant to this Subdivision 13(j)(v) is one pursuant to which the payment of a dividend or other distribution on the Common Stock consists of shares of capital stock of, or similar equity interests in, a Subsidiary or other business unit of the Corporation (a "Spin-Off") that are, or when issued will be, traded or listed on the New York Stock Exchange, The NASDAQ Global Select Market, The NASDAQ Global Market or any other U.S. national securities exchange or association, the Conversion Rate shall be adjusted based on the following formula:

$$CR' = CR_0 \times \frac{(FMV + MP_0)}{MP_0}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect at the Close of Business on the Record Date for such distribution;
- CR' = the Conversion Rate in effect immediately after the Record Date for such distribution;
- FMV = the average of the Closing Prices of the capital stock or similar equity interest distributed to holders of Common Stock applicable to one share of Common Stock over the 10 consecutive Trading Day period beginning on, and including, the effective date of the Spin-Off (the "Spin-Off Valuation Period"); and
- MP<sub>0</sub> = the average of the Closing Prices of the Common Stock over the Spin-Off Valuation Period.

Any adjustment made pursuant to this Subdivision 13(j)(v) shall become effective immediately after the Record Date for such distribution. If any dividend or distribution of the type described in this Subdivision 13(j)(v) is declared but not so paid or made, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared. If an adjustment to the Conversion Rate is required under this Subdivision 13(j)(v), delivery of any additional shares of Common Stock that may be deliverable upon conversion as a result of an adjustment required under this Subdivision 13(j)(v) shall be delayed to the extent necessary in order to complete the calculations provided for in this Subdivision 13(j)(v).

**(vi) If the Corporation shall, at any time or from time to time while any of the Series B Preferred Stock is outstanding, by dividend or otherwise make a distribution to all or substantially all holders of its outstanding shares of Common Stock consisting exclusively of cash, but excluding:**

**(A) any dividend or distribution in connection with the liquidation, dissolution or winding up of the Corporation (whether voluntary or involuntary), or upon a transaction to which Subdivision 13(k) applies, or**

**(B) regular cash dividends to the extent that such dividends do not exceed \$0.25 per share in any Fiscal Quarter (the “Dividend Threshold Amount”), then the Conversion Rate shall be adjusted based on the following formula:**

$$CR_1 = CR_0 \times \frac{SP_0}{SP_0 - DIV}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect at the Close of Business on the Record Date for such dividend or distribution;
- CR<sub>1</sub> = the Conversion Rate in effect immediately after the Record Date for such dividend or distribution;
- SP<sub>0</sub> = the Current Market Price of the Common Stock; and
- DIV = the amount in cash per share of Common Stock of the dividend or distribution, as determined pursuant to the following sentences. If any adjustment is required to be made as set forth in this Subdivision 13(j)(vi) as a result of a distribution (1) that is a regularly scheduled quarterly dividend, such adjustment would be based on the amount by which such dividend exceeds the Dividend Threshold Amount or (2) that is not a regularly scheduled quarterly dividend, such adjustment would be based on the full amount of such distribution. The Dividend Threshold Amount is subject to adjustment on an inversely proportional basis whenever the Conversion Rate is adjusted; *provided* that no adjustment shall be made to the Dividend Threshold Amount for any adjustment made to the Conversion Rate as described under this Subdivision 13(j)(vi).

Any adjustment made pursuant to this Subdivision 13(j)(vi) shall become effective immediately after the Record Date for such dividend or distribution. If any dividend or distribution of the type described in this Subdivision 13(j)(vi) is not so paid or made, the Conversion Rate shall be readjusted, effective as of the date the Board of Directors publicly announces its decision not to pay such dividend or distribution, to the Conversion Rate that would then be in effect if such dividend or distribution had not been declared.

**(vii) If the Corporation shall, at any time or from time to time while any of the Series B Preferred Stock is outstanding, make a payment in respect of a tender offer or exchange offer for all or any portion of the Common Stock subject to the tender offer rules, to the extent that the**

cash and value of any other consideration included in the payment per share of Common Stock exceeds the Closing Price of the Common Stock on the trading day immediately succeeding the last date on which tenders or exchanges may be made pursuant to such tender offer or exchange offer (the “Expiration Date”), then the Conversion Rate shall be adjusted based on the following formula:

$$CR_1 = CR_0 \times \frac{FMV + (SP_1 \times OS_1)}{SP_1 \times OS_0}$$

where,

- CR<sub>0</sub> = the Conversion Rate in effect at the Close of Business on the Expiration Date;
- CR<sub>1</sub> = the Conversion Rate in effect immediately after the Expiration Date;
- FMV = the Fair Market Value, on the Expiration Date, of the aggregate value of all cash and any other consideration paid or payable for shares of Common Stock validly tendered or exchanged and not withdrawn as of the Expiration Date;
- OS<sub>1</sub> = the number of shares of Common Stock outstanding immediately after the last time tenders or exchanges may be made pursuant to such tender offer or exchange offer (the “Expiration Time”);
- OS<sub>0</sub> = the number of shares of Common Stock outstanding immediately prior to the Expiration Time; and
- SP<sub>1</sub> = the average of the Closing Price of Common Stock during the ten consecutive Trading Day period commencing on the Trading Day immediately after the Expiration Date.

Any adjustment made pursuant to this Subdivision 13(j)(vii) shall become effective immediately prior to 9:00 a.m., New York City time, on the Trading Day immediately following the Expiration Date. If the Corporation, or one of its subsidiaries, is obligated to purchase shares of Common Stock pursuant to any such tender offer or exchange offer, but the Corporation or such subsidiary is permanently prevented by applicable law from effecting any such purchases, or all such purchases are rescinded, then the Conversion Rate shall be readjusted to be the Conversion Rate that would then be in effect if such tender offer or exchange offer had not been made. Except as set forth in the preceding sentence, if the application of this Subdivision 13(j)(vii) to any tender offer or exchange offer would result in a decrease in the Conversion Rate, no adjustment shall be made for such tender offer or exchange offer under this Subdivision 13(j)(vii). If an adjustment to the Conversion Rate is required under this Subdivision 13(j)(vii), delivery of any additional shares of Common Stock upon conversion of the Series B Preferred Stock shall be delayed to the extent necessary in order to complete the calculations provided for in this Subdivision 13(j)(vii).

**(viii) In cases where the Fair Market Value of shares of capital stock, evidences of indebtedness, assets (including cash), or securities or certain rights, warrants or options to purchase securities of the Corporation, or the amount of the cash dividend or distribution applicable to one share of Common Stock, distributed to all or substantially all holders of the Common Stock:**

- (A) equals or exceeds the Current Market Price of the Common Stock; or**
- (B) the Current Market Price of the Common Stock exceeds the Fair Market Value of such assets, debt securities or rights, warrants or options or the amount of cash so distributed by less than \$1.00, rather than being entitled to an adjustment in the Conversion Rate, the Holder(s) will be entitled to receive upon conversion, in addition to shares of Common Stock, the kind and**

amount of shares of capital stock, evidences of indebtedness, assets, or securities or rights, warrants or options comprising the distribution, if any, that such Holder(s) would have received if such Holder(s) had held a number of shares of Common Stock equal to the number of shares of Series B Preferred Stock held multiplied by the Conversion Rate in effect immediately prior to the record date for determining the holders of Common Stock entitled to receive the distribution.

(ix) All calculations under this Subdivision 13(j) shall be made to the nearest 1/100,000 of a share of Common Stock per share of Series B Preferred Stock. No adjustment in the Conversion Rate is required if the amount of such adjustment would be less than 1%; *provided, however*, that any such adjustment not required to be made pursuant to this Subdivision 13(j)(ix) will be carried forward and taken into account in any subsequent adjustment.

(x) No adjustment to the Conversion Rate shall be made if the Holder(s) may participate in the transaction that would otherwise give rise to an adjustment, as a result of holding the Series B Preferred Stock, without having to convert the Series B Preferred Stock, as if they held the full number of shares of Common Stock into which a share of the Series B Preferred Stock may then be converted.

(xi) The Corporation may, but is not required to, make such increases in the Conversion Rate, in addition to those required by Subdivision 13(j)(ii) through (vii), as the Board of Directors deems advisable to avoid or diminish any income tax to holders of Common Stock resulting from any dividend or distribution of Common Stock (or rights to acquire Common Stock) or from any event treated as such for income tax purposes.

(xii) In addition to the foregoing, to the extent permitted by applicable law and subject to the applicable rules of the New York Stock Exchange, the Corporation from time to time may increase the Conversion Rate by any amount for any period of time if the period is at least 20 Business Days, the increase is irrevocable during the period and the Board of Directors shall have made a determination that such increase would be in the best interests of the Corporation, which determination shall be conclusive. Whenever the Conversion Rate is increased pursuant to the preceding sentence, the Corporation shall mail to Holder(s) a notice of the increase, which notice will be given at least 15 calendar days prior to the effectiveness of any such increase, and such notice shall state the increased Conversion Rate and the period during which it will be in effect.

(xiii) If during a period applicable for calculating the Closing Price of Common Stock or any other security, an event occurs that requires an adjustment to the Conversion Rate, the Closing Price of such security shall be calculated for such period in a manner reasonably determined by the Corporation to appropriately reflect the impact of such event on the price of such security during such period. Whenever any provision of this Subdivision 13 requires a calculation of an average of Closing Prices of Common Stock or any other security over multiple days, appropriate adjustments shall be made to account for any adjustment to the Conversion Rate that becomes effective, or any event requiring an adjustment to the Conversion Rate where the Record Date of the event occurs, at any time during the period during which the average is to be calculated.

(xiv) Whenever the Conversion Rate is to be adjusted in accordance with Subdivision 13(j), the Corporation shall compute the Conversion Rate in accordance with Subdivision 13(j), taking into account Subdivision 13(j)(ix), and provide, or cause to be provided, a written notice to the Holder(s) of the occurrence of such event and setting forth the adjusted Conversion Rate.

(xv) **Rights Plans.** If the Corporation has a rights plan in effect with respect to the Common Stock on the Mandatory Conversion Date or any Conversion Date, upon conversion of any shares of the Series B Preferred Stock, the Holder of such shares will receive, in addition to the shares of Common Stock, the rights under the rights plan relating to such Common Stock, unless, prior to the Mandatory Conversion Date or such Conversion Date, the rights have (x)

become exercisable or (y) separated from the shares of Common Stock in accordance with the provisions of such rights plan (the first of events to occur being the “Trigger Event”), in either of which cases the Conversion Rate will be adjusted, effective automatically at the time of such Trigger Event, as if the Corporation had made a distribution of such rights to all holders of the Common Stock as described in Subdivision 13(j)(iv) (without giving effect to the 60-day limit on the exercisability of rights and warrants ordinarily subject to such Subdivision 13(j)(iv)), subject to appropriate readjustment in the event of the expiration, termination or redemption of such rights prior to the exercise, deemed exercise or exchange thereof. Notwithstanding the foregoing, to the extent any such stockholder rights are exchanged by the Corporation for shares of Common Stock, the Conversion Rate shall be appropriately readjusted as if such stockholder rights had not been issued, but the Corporation had instead issued the shares of Common Stock issued upon such exchange as a dividend or distribution of shares of Common Stock subject to Subdivision 13(j)(ii).

(j) *Reorganization Events.*

(i) In the event that there occurs:

(A) any consolidation, merger or other business combination of the Corporation with or into another Person;

(B) any sale, transfer, lease or conveyance to another Person of all or substantially all of the property and assets of the Corporation;

(C) any reclassification, recapitalization or reorganization of the Corporation; or

(D) any statutory exchange of the outstanding shares of Common Stock for securities of another Person (other than in connection with a consolidation, merger or other business combination);

and in each case, the holders of the Common Stock receive stock, other securities or other property or assets (including cash or any combination thereof) with respect to or in exchange for the Common Stock (any such event or transaction, a “Reorganization Event”) each share of Series B Preferred Stock outstanding immediately prior to such Reorganization Event shall, without notice to or consent of the Holder(s) and subject to Subdivision 13(k)(v), become convertible (but, for the avoidance of doubt, shall not be automatically converted in connection with such Reorganization Event) into the kind of securities, cash and other property received in such Reorganization Event by the holders of the Common Stock (other than the counterparty to the Reorganization Event or an Affiliate of such counterparty) (such securities, cash and other property, the “Exchange Property”).

(ii) In the event that holders of the shares of Common Stock have the opportunity to elect the form of consideration to be received in such transaction, the consideration that the Holder(s) are entitled to receive upon conversion shall be deemed to be the types and amounts of consideration received by a majority of the holders of the shares of Common Stock that did make an affirmative election.

(iii) The above provisions of this Subdivision 13(k) shall similarly apply to successive Reorganization Events and the provisions of Subdivision 13(j) shall apply to any shares of capital stock received by the holders of Common Stock in any such Reorganization Event.

(iv) The Corporation (or any successor) shall, within 20 days of the consummation of any Reorganization Event, provide written notice to the Holder(s) of such consummation of such event and of the kind and amount of the cash, securities or other property that constitutes the Exchange Property. Failure to deliver such notice shall not affect the operation of this Subdivision 13(k).



(v) The Corporation shall not enter into any agreement for a transaction constituting a Reorganization Event unless:

(A) such agreement provides for, or does not interfere with or prevent (as applicable), conversion of the Series B Preferred Stock into the Exchange Property in a manner that is consistent with and gives effect to this Subdivision 13(k); and

(B) to the extent that the Corporation is not the surviving corporation in such Reorganization Event or will be dissolved in connection with such Reorganization Event, proper provision shall be made in the agreements governing such Reorganization Event for the conversion of the Series B Preferred Stock into stock of the Person surviving such Reorganization Event or, in the case of a Reorganization Event described in Subdivision 13(k)(i)(B), an exchange of Series B Preferred Stock for the stock of the Person to whom the Corporation's assets are conveyed or transferred, and such stock of the Person surviving such Reorganization Event or to whom the Corporation's assets are conveyed or transferred shall have voting powers, preferences and relative, participating, optional or other special rights as nearly equal as possible to those provided in this Certificate of Incorporation.

(k) *Holder's Right to Convert Upon a Make-Whole Acquisition.*

(i) In addition to any other rights of conversion set forth herein, in the event a Make-Whole Acquisition occurs, each Holder shall have the right, at such Holder's option, to convert all or any portion of such Holder's shares of Series B Preferred Stock into shares of Common Stock during the period (the "Make-Whole Acquisition Conversion Period") beginning on the effective date of the Make-Whole Acquisition (the "Make-Whole Acquisition Effective Date") and ending on the date that is 30 calendar days after the Make-Whole Acquisition Effective Date at the Applicable Conversion Rate, plus a number of additional shares of Common Stock (the "Additional Shares") determined pursuant to Subdivision 13(l)(ii), plus cash in lieu of fractional shares, plus an amount equal to any accrued and unpaid dividends on the shares of Series B Preferred Stock so converted through the date of such conversion, subject to compliance with the conversion procedures set forth in Subdivision 13(i).

(ii) The number of Additional Shares per share of Series B Preferred Stock shall be determined by reference to the table below for the applicable Make-Whole Acquisition Effective Date and the applicable Make-Whole Acquisition Stock Price:

Make-Whole Acquisition Effective Date	Make-Whole Acquisition Stock Price				
	\$6.00	\$6.68	\$8.00	\$9.00	\$9.75
February 1, 2015 and thereafter	16.8550	12.6052	6.5538	3.2978	0.0000

The exact Make-Whole Acquisition Stock Price and Make-Whole Acquisition Effective Date may not be set forth in the table, in which case:

(A) if the Make-Whole Acquisition Stock Price is between two Make-Whole Acquisition Stock Price amounts in the table or the Make-Whole Acquisition Effective Date is between two Make-Whole Acquisition Effective Dates in the table, the number of Additional Shares will be determined by straight-line interpolation between the number of Additional Shares set forth for the higher and lower Make-Whole Acquisition Stock Price amounts and the two Make-Whole Acquisition Effective Dates, as applicable, based on a 365-day year;

**(B) if the Make-Whole Acquisition Stock Price is in excess of \$9.75 per share (subject to adjustment pursuant to Subdivision 13(j)), no Additional Shares will be issued upon conversion of the Series B Preferred Stock;**

**(C) if the Make-Whole Acquisition Stock Price is less than \$6.00 per share (subject to adjustment pursuant to Subdivision 13(j)), no Additional Shares will be issued upon conversion of the Series B Preferred Stock; and**

**(D) if the Make-Whole Acquisition Effective Date is after the fifth anniversary of the Issue Date, then the number of Additional Shares will be determined by reference to the last row in the table.**

The Make-Whole Acquisition Stock Prices set forth in the table above shall be adjusted pursuant to Subdivision 13(j) as of any date the Conversion Rate is adjusted. The adjusted Make-Whole Acquisition Stock Prices will equal the Make-Whole Acquisition Stock Prices applicable immediately prior to such adjustment multiplied by a fraction, the numerator of which is the Conversion Rate immediately prior to the adjustment and the denominator of which is the Conversion Rate as so adjusted. Each of the number of Additional Shares in the table shall also be subject to adjustment in the same manner as the Conversion Rate pursuant to Subdivision 13(j).

**(iii) On or before the 20th calendar day prior to the date the Corporation anticipates the Make-Whole Acquisition being consummated or within two Business Days of becoming aware of a Make-Whole Acquisition of the type set forth in clause (i) of the definition of Make-Whole Acquisition, a written notice shall be sent by or on behalf of the Corporation, by first-class mail, postage prepaid, to the Holder(s) as they appear in the records of the Corporation. Such notice shall contain:**

**(A) the date as of which the Make-Whole Acquisition is anticipated to be effective or the Make-Whole Acquisition Effective Date, as applicable; and**

**(B) the date by which a Make-Whole Acquisition conversion pursuant to this Subdivision 13(l) must be exercised.**

**(iv) On the Make-Whole Acquisition Effective Date or as soon as practicable thereafter, another written notice shall be sent by or on behalf of the Corporation, by first-class mail, postage prepaid, to the Holder(s) as they appear in the records of the Corporation. Such notice shall contain:**

**(A) the date that shall be 30 calendar days after the Make-Whole Acquisition Effective Date;**

**(B) the number of Additional Shares;**

**(C) the amount of cash, securities and other consideration receivable by a Holder upon conversion; and**

**(D) the instructions a Holder must follow to exercise its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l).**

**(v) To exercise its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l), a Holder must, no later than 5:00 p.m., New York City time, on or before the date specified in the notice sent pursuant to Subdivision 13(l)(iv), comply with the procedures set forth in Subdivision 13(i), and indicate that it is exercising its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l).**

(vi) If a Holder does not elect to exercise its Make-Whole Acquisition conversion right pursuant to this Subdivision 13(l), the shares of Series B Preferred Stock or successor security held by it shall remain outstanding (unless otherwise converted as provided herein), but the Holder will not be eligible to receive Additional Shares.

(vii) Upon a Make-Whole Acquisition conversion, the Conversion Agent shall, except as otherwise provided in the instructions provided by the Holder thereof in the written notice provided to the Corporation or its successor as set forth in Subdivision 13(l)(v), deliver to the Holder such cash, securities or other property as are issuable with respect to the shares of Series B Preferred Stock converted.

(viii) In the event that a Make-Whole Acquisition conversion is effected with respect to shares of Series B Preferred Stock or a successor security representing less than all the shares of Series B Preferred Stock or a successor security held by a Holder, upon such Make-Whole Acquisition conversion, the Corporation or its successor shall execute and the Registrar shall, unless otherwise instructed in writing, countersign and deliver to the Holder thereof, at the expense of the Corporation or its successors, a certificate evidencing the shares of Series B Preferred Stock or such successor security held by the Holder as to which a Make-Whole Acquisition conversion was not effected.

(m) *Holder's Redemption Right Upon a Fundamental Change.*

(i) Upon the occurrence of a Fundamental Change, each Holder shall have the option, during the period commencing on the date the applicable Fundamental Change Notice (as defined below) is mailed to Holders of the Series B Preferred Stock and ending at the Close of Business on the 45<sup>th</sup> Business Day thereafter (the "Fundamental Change Redemption Date"), to require the Corporation to redeem all, or any portion, of such Holder's shares of Series B Preferred Stock at the redemption price per share equal to the Liquidation Preference per share of Series B Preferred Stock plus an amount equal to any accrued and unpaid dividends on the shares of Series B Preferred Stock so redeemed to, but not including, the Fundamental Change Redemption Date (the "Fundamental Change Redemption Price").

(ii) Within 30 days following a Fundamental Change, the Corporation shall mail to each Holder of shares of the Series B Preferred Stock a notice (the "Fundamental Change Notice") setting forth the details of the Fundamental Change and the special redemption rights occasioned thereby. In addition to any information required by law or by the applicable rules of any exchange upon which the Series B Preferred Stock may be listed or admitted to trading, such notice shall state: (a) the Fundamental Change Redemption Date; (b) the Fundamental Change Redemption Price; (c) the place or places where certificates for shares may be surrendered for payment of the Fundamental Change Redemption Price, including any procedures applicable to redemption to be accomplished through book-entry transfers; (d) the procedures that the Holder of Series B Preferred Stock must follow to exercise such Holder's rights under this Subdivision 13(m); and (e) that dividends on the shares tendered for redemption will cease to accumulate on the Fundamental Change Redemption Date.

(iii) To exercise such Holder's special redemption right under this Subdivision 13(m), a Holder must (a) surrender the certificate or certificates evidencing the shares of Series B Preferred Stock to be redeemed, duly endorsed in a form satisfactory to the Corporation, at the office of the Corporation and (b) notify the Corporation at such office that such Holder elects to exercise such Holder's fundamental change redemption rights and the number of shares such Holder wishes to have redeemed. In the event that a Holder fails to notify the Corporation of the number of shares of Series B Preferred Stock which such Holder wishes to have redeemed, such Holder shall be deemed to have elected to have redeemed all shares represented by the certificate or certificates surrendered for redemption.

(iv) Exercise by a Holder of such Holder's special redemption right following a Fundamental Change is irrevocable, except that a Holder may withdraw its election to exercise such Holder's special redemption right at any time on or before the Fundamental Change Redemption Date by delivering a written or facsimile transmission notice to the Corporation at the address or facsimile number specified in the Fundamental Change Notice. Such notice, to be effective, must be received by the Corporation prior to the close of business on the Fundamental Change Redemption Date. All shares of Series B Preferred Stock tendered for redemption pursuant to the Holder's fundamental change redemption rights as described herein and not withdrawn shall be redeemed at or prior to the Close of Business on the Fundamental Change Redemption Date. From and after the Fundamental Change Redemption Date, unless the Corporation defaults in payment of the Fundamental Change Redemption Price, dividends on the shares of Series B Preferred Stock tendered for redemption shall cease to accumulate, and said shares shall no longer be deemed to be outstanding and shall not have the status of shares of Series B Preferred Stock, and all rights of Holders thereof as shareholders of the Corporation (except the right to receive from the Company the Fundamental Change Redemption Price) shall cease. As soon as practical after the Fundamental Change Redemption Date, the Corporation shall deliver a new certificate representing the unredeemed portion, if any, of the shares of Series B Preferred Stock represented by the certificate or certificates surrendered for redemption.

(n) *Voting Rights.*

(i) Unless the consent of the Holder(s) of a greater number of shares shall then be required by law and except as provided in Subdivisions 13(n)(ii), 13(n)(iii) and 13(n)(iv), the consent of the Holder(s) of at least two-thirds of the shares of Series B Preferred Stock at the time outstanding, given in person or by proxy, either in writing or at any special or annual meeting called for the purpose, at which the Series B Preferred Stock shall vote separately as a class, shall be necessary to permit, effect or validate any one or more of the following:

(A) The authorization of, or any increase in the authorized amount of, any class of stock ranking prior to the Series B Preferred Stock;

(B) The amendment, alteration or repeal of any of the provisions of the Certificate of Incorporation, or of the By-Laws of the Corporation (whether, directly or indirectly, by merger, consolidation or otherwise) which would affect adversely any right, preference, privilege or voting power of the Series B Preferred Stock or of the Holder(s) thereof; and

(C) The voluntary liquidation, dissolution or winding up of the Corporation, or the sale, lease or conveyance (other than by mortgage) of all or substantially all of the property or business of the Corporation, or the consolidation, merger or other business combination of the Corporation with or into any other Person, except any such sale, lease or conveyance (other than by mortgage) of all or substantially all of the property or business of the Corporation or consolidation or merger or other business combination wherein none of the rights, preferences, privileges or voting powers of the Series B Preferred Stock or the Holder(s) thereof are adversely affected.

(ii) The Holder(s) shall have no voting rights with respect to any consolidation, merger or other business combination of the Corporation with or into any other Person if:

(A) to the extent the Corporation is not the surviving Person in such transaction, the Holder(s) will receive the stock of the Person surviving such transaction and such stock shall have voting powers, preferences and relative, participating, optional or other special rights as nearly equal as possible to those provided in this Certificate of Incorporation; and

(B) upon conversion of the Series B Preferred Stock or the stock of the Person surviving such transaction issued in accordance with Subdivision 13(k)(v), the Holder(s) will receive Exchange Property in accordance with Subdivision 13(k).

(iii) The Holder(s) shall have no voting rights with respect to any sale, lease or conveyance (other than by mortgage) of all or substantially all of the property or business of the Corporation if:

(A) to the extent the Corporation is not the surviving Person in such transaction, the Holder(s) will receive the stock of the Person to whom all or substantially all of the property or business of the Corporation is sold, leased or conveyed and such stock shall have voting powers, preferences and relative, participating, optional or other special rights as nearly equal as possible to those provided in this Certificate of Incorporation; and

(B) upon conversion of the Series B Preferred Stock or the stock of the Person to whom all or substantially all of the property or business of the Corporation is sold, leased or conveyed issued in accordance with Subdivision 13(k)(v), the Holder(s) will receive Exchange Property in accordance with Subdivision 13(k).

(iv) The Holder(s) shall not have any voting rights if, at or prior to the effective time of the act with respect to which such vote would otherwise be required, all outstanding shares of Series B Preferred Stock shall have been converted into shares of Common Stock.

(v) The last paragraph of Subdivision 6 of Article FOURTH of the Certificate of Incorporation shall not be applicable to the Series B Preferred Stock.

(vi) The Holder(s) will have the right to appoint two members of the Board of Directors in accordance with Subdivision 7 of Article FOURTH of the Certificate of Incorporation.

(n) *Transfer; Optional Redemption by the Corporation Upon Transfer.*

(i) The Transfer of the Series B Preferred Stock by the Holder(s) thereof shall not be restricted other than pursuant to the requirements of applicable law; *provided, however*, that, with respect to any such Transfer of shares of Series B Preferred Stock, the shares so Transferred must have an aggregate Liquidation Preference of at least \$1 million and, if applicable, any shares owned by the Holder effecting such Transfer following such Transfer must have an aggregate Liquidation Preference of at least \$1 million.

(ii) Upon a Transfer of the Series B Preferred Stock pursuant to Subdivision 13(o)(i) to a Person other than a Permitted Transferee, the Corporation shall have the right, at its option, to redeem, in part or in whole, such Transferred shares of Series B Preferred Stock (the "Optional Redemption Transferred Shares") at any time on or following the fifth anniversary of the date of such Transfer at a redemption price per share of Series B Preferred Stock equal to the then Fair Market Value of such Optional Redemption Transferred Shares and an amount equal to any accrued and unpaid dividends on such Optional Redemption Transferred Shares to, but not including, the Optional Redemption Date.

(A) If the Corporation exercises its optional redemption right to redeem the Optional Redemption Transferred Shares pursuant to Subdivision 13(o)(ii), a written notice (the "Optional Redemption Notice") shall be sent by or on behalf of the Corporation, by first-class mail, postage prepaid, to the Holder(s) of such Optional Redemption Transferred Shares, which shall contain the number of Optional Redemption Transferred Shares, the name of the nationally recognized independent investment banking firm selected by the Corporation to determine the Fair Market Value of the Optional Redemption Transferred Shares to be redeemed, the Fair Market Value of the Optional Redemption Transferred Shares (on a per share and aggregate basis) and such other information required by applicable law.

(B) The date of the redemption of the Optional Redemption Transferred Shares shall be a date selected by the Corporation that is not less than 30 calendar days and not more than 60

calendar days after the date on which the Corporation provides Optional Redemption Notice (the “Optional Redemption Date”).

(C) If, on or before the Optional Redemption Date specified in the Optional Redemption Notice, the Corporation has set aside all funds necessary for such redemption, separate and apart from its other funds, in trust for the pro rata benefit of the Holder(s) of the Optional Redemption Transferred Shares so called for redemption, so as to be and continue to be available therefor, then, notwithstanding that any certificate for the Optional Redemption Transferred Shares so called for redemption shall not have been surrendered for cancellation, all the Optional Redemption Transferred Shares so called for redemption shall no longer be deemed outstanding on and after such Optional Redemption Date, and the right to receive dividends thereon and all other rights with respect to such shares shall forthwith on such Optional Redemption Date cease and terminate, except only the right of the Holder(s) thereof to receive the amount payable on redemption thereof without interest.

(iii) A Holder effecting a Transfer pursuant to this Subdivision 13(o) must notify the Registrar of the Transfer on the date of the Transfer. Any purported Transfer of shares of Series B Preferred Stock not in accordance with this Subdivision 13(o) shall be void and have no effect; *provided, however*, that the failure to notify the Registrar of any Transfer shall not cause such Transfer to be void and of no effect.

(p) *Reservation of Common Stock.*

(i) The Corporation has reserved and shall continue at all times to reserve and keep available out of its authorized and unissued Common Stock or shares acquired by the Corporation, solely for issuance upon the conversion of shares of Series B Preferred Stock as provided in this Subdivision 13, free from any preemptive or other similar rights, such number of shares of Common Stock as shall from time to time be issuable upon the conversion of all the shares of Series B Preferred Stock then outstanding. The Corporation shall take all such corporate and other actions as from time to time may be necessary to ensure that all shares of Common Stock issuable upon conversion of shares of Series B Preferred Stock at the Conversion Rate in effect from time to time will, upon issue, be duly and validly authorized and issued, fully paid and nonassessable and free of any preemptive or similar rights. For purposes of this Subdivision 13(p), the number of shares of Common Stock that shall be deliverable upon the conversion of all outstanding shares of Series B Preferred Stock shall be computed as if at the time of computation all such outstanding shares were held by a single Holder.

(ii) Notwithstanding the foregoing, the Corporation shall be entitled to deliver upon conversion of shares of Series B Preferred Stock, as herein provided, shares of Common Stock acquired by the Corporation (in lieu of the issuance of authorized and unissued shares of Common Stock), so long as (x) any such acquired shares are free and clear of all liens, charges, security interests or encumbrances (other than liens, charges, security interests and other encumbrances created by the Holders) and (y) all such acquired shares have all the same attributes as any other share of Common Stock then outstanding, including without limitation any rights that may then be attached to all or substantially all of the Common Stock then outstanding pursuant to any stockholders’ rights plan or similar arrangement.

(iii) All shares of Common Stock delivered upon conversion of the Series B Preferred Stock shall be duly authorized, validly issued, fully paid and non-assessable, free and clear of all liens, claims, security interests and other encumbrances (other than liens, charges, security interests and other encumbrances created by the Holder(s)).

(iv) Prior to the delivery of any securities that the Corporation shall be obligated to deliver upon conversion of the Series B Preferred Stock, the Corporation shall use its reasonable best efforts to comply with all federal and state laws and regulations thereunder requiring the

registration of such securities with, or any approval of or consent to the delivery thereof by, any governmental authority.

(v) The Corporation hereby covenants and agrees that, if at any time the Common Stock shall be listed on the New York Stock Exchange or any other national securities exchange or automated quotation system, the Corporation will, if permitted by the rules of such exchange or automated quotation system, list and keep listed, so long as the Common Stock shall be so listed on such exchange or automated quotation system, all the Common Stock issuable upon conversion of the Series B Preferred Stock.

(q) *Replacement Certificates.* The Corporation shall replace any mutilated Series B Preferred Stock certificate at the Holder's expense upon surrender of that certificate to the Corporation. The Corporation shall replace certificates that become destroyed, stolen or lost at the Holder's expense upon delivery to the Corporation of satisfactory evidence that the certificate has been destroyed, stolen or lost, together with any indemnity that may reasonably be required by the Corporation.

(r) *Miscellaneous.*

(i) All notices referred to herein shall be in writing, and, unless otherwise specified herein, all notices hereunder shall be deemed to have been given upon the earlier of receipt thereof or three Business Days after the mailing thereof if sent by registered or certified mail with postage prepaid, addressed: (x) if to the Corporation, to its office at P.O. Box 4505, 45 Glover Avenue, Norwalk, CT 06856, Attention: General Counsel, or (y) if to any Holder, to such Holder at the address of such Holder as listed in the stock record books of the Corporation or (z) to such other address as the Corporation or any such Holder, as the case may be, shall have designated by notice similarly given.

(ii) No Holder of Series B Preferred Stock shall be entitled as such, as a matter of right, to subscribe for or purchase any part of any new or additional issue of stock of any class whatsoever, or of any obligations or other securities convertible into, or exchangeable for, any stock of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

(iii) The shares of Series B Preferred Stock shall not have any voting powers, preferences or relative, participating, optional or other special rights, or qualifications, limitations or restrictions thereof, other than as set forth herein or in the Certificate of Incorporation or as provided by applicable law."

FIFTH: The Secretary of State of the State of New York is hereby designated as the agent of the Corporation upon whom process in any action or proceeding against it may be served. The post office address to which the Secretary of State shall mail a copy of any process against it served on him is:

XEROX CORPORATION  
201 Merritt 7  
Norwalk, CT 06851  
Attention: General Counsel

SIXTH: Its duration is to be perpetual.

SEVENTH: The number of directors shall be not less than five (5) nor more than twenty-one (21) as determined in the manner prescribed by the By-Laws.

Unless the election is contested, each director shall be elected by the affirmative vote of a majority of the votes cast for or against the director at any meeting for the election of directors at which a quorum is present. In a contested election, directors shall be elected by a plurality of the votes cast at a meeting of shareholders by the holders of shares entitled to vote in the election. An election shall be considered contested if as of the record date there are more nominees for election than positions on the board of directors to be filled by election at the meeting.

EIGHTH: The Corporation may purchase, acquire, hold and dispose of the stocks, bonds and other evidences of indebtedness of any corporation, domestic or foreign, and may issue in exchange therefor, its stock, bonds or other obligations.

NINTH: A person who is or was a director of the Corporation shall not be personally liable to the Corporation or its shareholders for damages for any breach of duty in such capacity, except to the extent that the Business Corporation Law of the State of New York as in effect from time to time expressly provides that the foregoing provisions shall not eliminate or limit such personal liability. Nothing in this Article shall directly or indirectly increase the liability of any such person based upon acts or omissions occurring before the adoption hereof. No amendment, modification or repeal of this Article shall adversely affect any right or protection of any director that exists at the time of such change.

Signed on August 1, 2018

/s/ D.H. Marshall

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Douglas H. Marshall

Assistant Secretary



**RESTATED CERTIFICATE OF INCORPORATION**  
**OF**  
**XEROX CORPORATION**  
(Under Section 807 of the Business Corporation Law)

Filer: Xerox Corporation  
201 Merritt 7  
Norwalk, CT 06851

AMENDMENT NO. 2  
TO THE  
XEROX CORPORATION  
2004 PERFORMANCE INCENTIVE PLAN  
JUNE 30, 2017 AMENDMENT AND RESTATEMENT

WITNESSETH:

WHEREAS, Xerox Corporation (the “Company”) has established the Xerox Corporation 2004 Performance Incentive Plan, which is presently set forth in the June 30, 2017 Amendment and Restatement (hereinafter referred to as the “Plan”), and

WHEREAS the Company desires to amend the Plan,

NOW, THEREFORE, the Plan is hereby amended as follows:

22. Change in Control

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

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

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

Effective Date: This amendment is effective for grants on and after the date hereof.

Dated: May 14, 2018

## XEROX CORPORATION

FORM OF RESTRICTED STOCK AWARD AGREEMENT

THIS AGREEMENT (this "**Agreement**") is made and entered into as of [DATE] by and between XEROX CORPORATION ("the "**Company**") and (the "**Grantee**").

Pursuant to the Offer Letter between the Company and the Grantee, dated (the "**Offer Letter**"), in connection with the employment of Grantee on [DATE] (the "**Grant Date**"), the Board approved a grant to Grantee of shares of the Company's common stock, \$1.00 par value ("**Common Stock**"), on the terms set forth below and subject to the restrictions set forth in this Agreement (the "**Restricted Stock**").

**Number of Shares of Restricted Stock:**

**Grant Date:**

**Vesting Schedule:**

**1. Award of Restricted Stock**

On the Grant Date, the Company granted to the Grantee the number of shares of Restricted Stock set forth above, in accordance with and subject to the restrictions, terms and conditions set forth in this Agreement.

**2. Restricted Period; Vesting**

2.1 *Vesting Schedule.* Subject to this Section 2, if the Grantee remains employed by the Company until [DATE] (the "**Vesting Date**"), the Grantee shall vest with respect to the entire shares of Restricted Stock, and the Restricted Period shall expire, on such date. The period from the Grant Date through the date on which the shares of Restricted Stock vest is referred to as the "**Restricted Period.**"

2.2 *Termination without Cause, for Good Reason, Death or Disability.* If prior to the Vesting Date (a) the Company terminates the Grantee's employment without Cause, (b) the Grantee terminates his employment for Good Reason, (c) the Grantee dies while employed by the Company, or (d) the Grantee's employment with the Company is terminated due to the Grantee's Disability ((a) – (d) collectively, a "**Good Leaver Termination**"), then the Grantee shall vest with respect to the entire shares of Restricted Stock, and the Restricted Period shall expire, as of the date of the Grantee's termination of employment. For purposes of this Agreement, the terms "Cause," "Disability" and "Good Reason" shall have the meanings assigned thereto under the Offer Letter.

2.3 *Change in Control.* Notwithstanding the other provisions of this Agreement, in the event of a Change in Control (as defined in the Offer Letter) that occurs prior to the Vesting Date, the Grantee shall vest with respect to the entire shares of Restricted Stock, and the Restricted Period shall expire, as of the date of such Change in Control.

2.4 *Other Termination of Employment.* If Grantee' employment terminates for any reason other than due to a Good Leaver Termination prior to the Vesting Date, the unvested shares of Restricted Stock shall be forfeited and all rights of Grantee to such unvested shares of Restricted Stock shall be terminated.

### **3. Rights as Shareholder; Dividends**

During the Restricted Period, the Grantee shall be the record owner of the shares of Restricted Stock and shall be entitled to all of the rights of a shareholder of the Company including, without limitation, the right to vote such shares and receive all dividends or other distributions paid with respect to such shares; provided that any dividends or other distributions paid during the Restricted Period shall be accrued and paid to the Grantee at the time of vesting of the shares of Restricted Stock. If the Grantee forfeits the shares of unvested Restricted Stock in accordance with Section 2.4 hereof, the Grantee shall, on the date of such forfeiture, no longer have any rights as a shareholder with respect to such shares of Restricted Stock, shall no longer be entitled to vote or receive dividends on such shares, and shall immediately forfeit any dividends accrued with respect to such shares.

### **4. Issuance of Shares**

During the Restricted Period, the shares of Restricted Stock shall be evidenced by a book-entry in the Company's stock records in the Grantee's name. As soon as practicable after the Restricted Period expires with respect to the shares of Restricted Stock, and subject to payment of all applicable withholding taxes in accordance with Section 9 hereof, the Company shall issue shares of unrestricted Common Stock to Grantee, either by the delivery of physical stock certificates or by certificateless book-entry issuance.

### **5. Adjustments**

The shares of Restricted Stock shall be subject to adjustment pursuant to Section 6 of the Xerox Corporation 2004 Performance Incentive Plan (2016 Amendment and Restatement) as in effect on the date hereof.

### **6. Compliance with Law; Legends**

The issuance and transfer of the shares of Restricted Stock shall be subject to compliance by the Company and the Grantee with all applicable requirements of federal and state securities laws and with all applicable requirements of any stock exchange on which the Company's shares of Common Stock may be listed. No shares of Common Stock shall be issued or transferred unless and until any then applicable requirements of state and federal laws and regulatory agencies have been fully complied with to the satisfaction of the Company and its counsel.

During the Restricted Period a legend may be placed on any certificate(s) or other document(s) delivered to the Grantee indicating restrictions on transferability of the shares of Restricted Stock pursuant to this Agreement or any other restrictions that the Committee deems are required under the rules, regulations and other requirements of the Securities and Exchange Commission, any applicable federal or state securities laws or any stock exchange on which the Company's shares of Common Stock are then listed. The Grantee understands that the Company is under no obligation to register the shares of Common Stock with the Securities and Exchange Commission, any state securities commission or any stock exchange to effect such compliance.

#### **7. Nontransferability.**

Unless the Independent Compensation Committee of the Board (the "**Committee**") specifically determines otherwise, during the Restricted Period, the Restricted Stock and the rights relating thereto may not be sold, assigned, transferred, pledged, or otherwise encumbered other than by will or the laws of descent and distribution. Any such purported transfer or assignment shall be null and void.

#### **8. No Right to Continued Employment**

Nothing in this Agreement shall be interpreted or construed to confer upon the Grantee any right with respect to continuance of employment by the Company, nor shall this Agreement interfere in any way with the right of the Company to terminate at any time the Grantee's employment, subject to Grantee's rights under this Agreement and the Offer Letter.

#### **9. Taxes and Withholding**

The Grantee shall be responsible for all federal, state and local income and employment taxes payable with respect to the vesting of the shares of Restricted Stock under this Agreement. Unless the Grantee otherwise provides for the satisfaction of the tax withholding requirements in advance, upon vesting of the shares of Restricted Stock, the Company shall have the right to retain and withhold from any cash payment or distribution to the Grantee the amount necessary to satisfy any tax withholding obligations with respect to the vesting of the shares of Restricted Stock under this Agreement, or, with the consent of the Grantee which consent shall not be unreasonably withheld, withhold and cancel a number of shares of Restricted Stock having a market value equal to the minimum amount of taxes required to be withheld.

#### **10. Modification of Agreement**

No provision of this Agreement may be amended or waived unless agreed to in writing and signed by the Committee (or its designee) and the Grantee. The failure to exercise, or any delay in exercising, any right, power or remedy under this Agreement shall not waive any right, power or remedy which the Company or the Grantee, as applicable, has under this Agreement.

## **11. Severability**

Should any provision of this Agreement be held by a court of competent jurisdiction to be unenforceable or invalid for any reason, the remaining provisions of this Agreement shall not be affected by such holding and shall continue in full force in accordance with their terms.

## **12. Governing Law**

The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without giving effect to the conflicts of laws principles thereof. Any action arising under or related to this Agreement shall be filed exclusively in the courts of New York County, New York or the federal courts for the United States for the Southern District of New York, and each of the parties hereby consents to the jurisdiction and venue of such courts.

## **13. Successors and Assigns**

This Agreement shall be binding on and inure to the benefit of the parties hereto and the successors and assigns of the Company, and the legal representatives, legatees and heirs of the Grantee.

## **14. Code Section 409A**

This Agreement and this award of Restricted Stock is intended to be exempt from the requirements of Section 409A of the Internal Revenue Code of 1986, as amended, and accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered in accordance with such intent.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the parties have executed this Agreement as of [DATE].

XEROX CORPORATION

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

By signing below or by accepting this award of Restricted Stock as evidenced by electronic means acceptable to the Committee, the Grantee hereby (i) acknowledges that the Company's latest annual report to shareholders or annual report on Form 10-K are available from the Company's intranet site or upon request, (ii) represents that the Grantee is familiar with the terms and provisions of this Agreement, and (iii) accepts the award of Restricted Stock subject to all the terms and provisions of this Agreement.

GRANTEE:

\_\_\_\_\_

AMENDMENT TO  
THE OPTION AND PERFORMANCE SHARE/RESTRICTED STOCK UNIT  
AWARD AGREEMENTS ISSUED TO JOHN VISENTIN

WHEREAS, in accordance with the terms of the Offer Letter dated May 14, 2018 (the "Offer Letter"), between Xerox Corporation (the "Company") and Giovanni (John) Visentin (the "Executive"), on May 15, 2018 (the "Grant Date") the Company granted annual long-term incentive awards to the Executive under the Xerox Corporation 2004 Performance Incentive Plan (as amended and/or restated through the Grant Date, the "Plan") consisting of options, restricted stock units and performance share units as follows:

- (i) an award of 269,314 options (the "Options") to purchase shares of the Company's common stock, \$1.00 par value (the "Common Stock") at a purchase price of \$28.51 per share, the closing price of the Common Stock on the Grant Date, pursuant to that certain award agreement and award summary, dated May 15, 2018 (together, the "Option Agreement"); and
- (ii) an award of 167,164 performance share units (the "PSUs") and 87,689 restricted stock units (the "RSUs") pursuant to that certain award agreement and award summary, dated May 15, 2018 (together, the "PSU/RSU Agreement");

WHEREAS, the Offer Letter provides that in the event of the Executive's voluntary termination of employment for "Good Reason" or the Executive's involuntary termination of employment by the Company without "Cause," in either case prior to a "Change in Control" (Good Reason, Cause and Change in Control, each as defined in the Offer Letter), any then-outstanding long term incentive awards that would have otherwise vested during the period of 24 months following such termination of employment the ("Severance Period") would accelerate and become immediately vested upon such termination, including vesting of performance shares at target (the "Severance Vesting Provisions"); and

WHEREAS, the parties intend that the Severance Vesting Provisions apply with equal effect to the Options, RSUs and PSUs, notwithstanding any contrary provisions in the Plan, or in the Option Agreement or PSU/RSU Agreement, respectively.

NOW THEREFORE, to conform with the terms of the Offer Letter and to avoid any uncertainty or confusion, the parties now desire to enter into this Amendment (this "Amendment") to amend each of the Option Agreement and the PSU/RSU Agreement to incorporate the Severance Vesting Provisions as set forth in the Offer Letter.

1. Notwithstanding any contrary provision in the Plan, the Option Agreement and the PSU/RSU Agreement, as applicable, in the event that (i) the Executive voluntarily terminates his employment for Good Reason prior to the occurrence of a Change in Control, or (ii) the Company involuntarily terminates the Executive's employment without Cause prior to the occurrence of a Change in Control, the number of the Executive's outstanding Options, RSUs and PSUs, as applicable, that would have otherwise become vested during the twenty-four (24) month period following such



termination shall become immediately vested upon such termination, with any PSUs deemed earned at the target performance level.

2. Notwithstanding any contrary provision in the Plan, the Option Agreement or the PSU/RSU Agreement, as applicable, the provisions of this Amendment shall control.
3. Except as set forth in this Amendment, the Option Agreement and PSU/RSU Agreement, as applicable, shall remain in full force and effect.

IN WITNESS WHEREOF, the Company and the Executive have executed this Amendment on the date set forth below.

XEROX CORPORATION

By: /s/ Darrell Ford  
Title: Chief Human Resources Officer  
Date: June 1, 2018

GIOVANNI VISENTIN

By: /s/ Giovanni Visentin  
Date: June 1, 2018

# XEROX CORPORATION

## OFFICER SEVERANCE PROGRAM

Effective July 18, 2018

Xerox Corporation (the "Company") hereby establishes the Officer Severance Program (the "Program").

The Program is a severance pay plan within the meaning of Labor Regulations section 2510.3-2 that is an employee welfare benefit plan within the meaning of Section 3(1) of ERISA and Labor Regulations section 2520.104-24, designed to provide severance payments pursuant to section 401(a)(1) of ERISA to a select group of management or highly compensated employees upon involuntary termination of employment from the Company.

To the maximum extent possible, the Program is not intended to provide for any "deferral of compensation," as defined in Code Section 409A and authoritative IRS guidance thereunder. Instead, the Program is intended to fall within the exceptions for "short-term deferrals," as set forth in Treasury Regulations section 1.409A-1(b)(4), and "separation pay due to involuntary separation from service or participation in a window program," as set forth in Treasury Regulations section 1.409A-1(b)(9)(iii), and it is further intended that Officer Severance shall be payable only upon an Eligible Officer's "separation from service" under Treasury Regulations section 1.409A-1(h). For purposes of Treasury Regulations section 1.409A-2(b)(2)(iii), the right to each payment under the Program shall be treated as the right to a separate payment. The Program shall be interpreted and administered, to the extent possible, in accordance with these intentions.

### ARTICLE I – DEFINITIONS

#### 1.1 Definitions.

Whenever the following terms are used in the Program, with the first letter capitalized, they shall have the meanings specified below.

"Administrator" shall mean the Compensation Committee or its delegate for any Eligible Officer who is an officer as defined by Section 16 of the Securities Exchange Act of 1934, or who reports directly to the CEO, and shall mean the CEO or his delegate for any other officer.

"Base Salary" shall mean an Eligible Officer's annualized gross base salary in effect as of his or her Severance Date excluding any overtime, bonuses or other supplemental compensation.

"Cause" shall mean (i) a violation of any of the rules, policies, procedures or guidelines of the Company, including but not limited to the Company's Business Ethics Policy and the Proprietary Information and Conflict of Interest Agreement, (ii) any conduct which qualifies for "immediate discharge" under the Company's Human Resources

Policies as in effect from time to time, (iii) rendering services to a firm which engages, or engaging directly or indirectly, in any business that is competitive with the Company, or represents a conflict of interest with the interests of the Company, (iv) conviction of, or entering a guilty plea with respect to, a felony whether or not connected with the Company, or (v) any other conduct determined to be injurious, detrimental or prejudicial to any interest of the Company.

“CEO” shall mean the Company’s Chief Executive Officer.

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time.

“Compensation Committee” shall mean the Compensation Committee of the Board of Directors of Xerox Corporation, or its delegate.

“Company” shall mean Xerox Corporation or any successor corporation resulting from merger, consolidation, or transfer of assets substantially as a whole, to the extent the Program is assumed by or assigned to such successor.

“Detrimental Activity” shall include (i) violating terms of a non-compete agreement with the Company, (ii) disclosing confidential or proprietary business information of the Company to any person or entity including but not limited to a competitor, vendor or customer without appropriate authorization from the Company, (iii) violating any rules, policies, procedures or guidelines of the Company, (iv) directly or indirectly soliciting any employee of the Company to terminate employment with the Company, (v) directly or indirectly soliciting or accepting business from any customer or potential customer or encouraging any customer, potential customer or supplier of the Company, to reduce the level of business it does with the Company, (vi) engaging in any other conduct or act that is determined to be injurious, detrimental or prejudicial to any interest of the Company, and (vii) being convicted of, or entry of a guilty plea with respect to, a felony, whether or not connected with the Company.

“Eligible Officer” shall mean (i) the CEO, (ii) all officers of the Company elected by the Board of Directors pursuant to Article IV, Section 3 of the By-Laws of the Company, and (iii) any person who becomes such an officer after the date hereof, if such individual (a) satisfies the eligibility requirements set forth in Article II and (b) does not have a written agreement with the Company providing for severance benefits upon separation from the Company. A list of current Eligible Officers is attached hereto as Annex A.

“Officer Severance” shall mean the benefit, if any, payable pursuant to Section 3.1, except as otherwise provided in a written agreement between the Eligible Officer and the Company.

“ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

“Severance Date” shall mean the date that an Eligible Officer has a “separation from service,” as defined in Treasury Regulations section 1.409A-1(h) or any successor thereto.

## **ARTICLE II - ELIGIBILITY**

### **2. Eligibility Requirements.**

(a) An officer shall be eligible to receive Officer Severance only if such officer is an officer of the Company elected pursuant to Article IV, Section 3 of the By-Laws of the Company.

(b) An officer shall be eligible to receive Officer Severance only if the Administrator determines that the officer was involuntarily terminated by the Company for reasons other than for Cause. Involuntary termination shall include, but shall not be limited to, termination resulting from a reduction in force, a restructuring, or mutual agreement between the officer and the Company.

(c) An officer shall not be eligible to receive Officer Severance unless the officer executes a valid release of claims, a non-compete and non-solicitation agreement and any other document deemed appropriate by the Administrator in connection with the Eligible Officer's severance ("Separation Documents"). In this case, an officer shall be entitled to Officer Severance only if both of the following requirements are satisfied no later than the date that is thirty (30) days after his or her Severance Date, or, if earlier, thirty (30) days after he or she first obtains a legally binding right to Officer Severance:

(i) the officer executes and delivers a valid release, as developed by the Company, of all claims against the Company or any employees, directors, or agents of the Company and any other Separation Documents required by the Administrator; and

(ii) the release and any other Separation Documents required by the Administrator becomes effective and irrevocable in accordance with its terms.

(d) An officer shall not be entitled to Officer Severance if his or her employment with the Company is terminated for any reason other than as set forth in subsection (b) above, including but not limited to retirement, termination by the Company for Cause, or death.

### **ARTICLE III - BENEFITS PAYABLE UNDER THE PROGRAM**

#### **3.1 Amount of Officer Severance.**

(a) If the CEO is an Eligible Officer, the CEO shall receive a benefit equal to two times the CEO's Base Salary.

(b) Any other Eligible Officer shall receive a benefit equal to one times the Eligible Officer's Base Salary.

(c) The Eligible Officer shall be eligible to continue to participate in employee benefits plans (e.g. medical, dental and life insurance plans) offered by the Company for active employees while receiving Officer Severance under the Program, to the extent permitted by the Code and other applicable law.

(d) The Compensation Committee may determine, in its sole and absolute discretion, that the Eligible Officer shall be eligible to continue to vest in his or her equity awards (including, without limitation, stock options, restricted stock, restricted stock units and performance shares) under the Company's 2004 Performance Incentive Plan, as amended and restated, while receiving Officer Severance under the Program, to the extent permitted under the applicable equity award agreements and by the Code and other applicable law.

(e) The Eligible Officer shall be eligible to receive a prorated bonus for the period of active service pursuant to the terms of the Company's Annual Performance Incentive Plan.

### 3.2 Payment of Officer Severance.

(a) Except as provided in subsections (b) through (e) below, Officer Severance shall be paid in accordance with the Company's regular payroll practices for similarly situated active employees, and shall be paid ratably over a period of one year (two years for the CEO) following the Eligible Officer's Severance Date.

(b) Officer Severance payments shall not be made until the date the Separation Documents required pursuant to Section 2(c) become effective and irrevocable in accordance with their terms. Any payments that otherwise would have been made prior to such date shall be made as soon as practicable after the release and any other Separation Documents become effective and irrevocable, but not later than the fifteenth day of the third month following the date the Eligible Officer first obtained a legally binding right to Officer Severance.

(c) To the extent that Officer Severance payable to an Eligible Officer during the first six months following the Eligible Officer's Severance Date exceeds two times the compensation limit described in Code section 401(a)(17) determined as of the Officer's Severance Date, such excess amounts shall be paid on a ratably basis over all payments made on or after the six-month anniversary of the Eligible Officer's Severance Date, or such other schedule as determined pursuant to a written agreement between the Eligible Officer and the Company.

(d) Interest shall not be payable on any Officer Severance.

### 3.3. Detrimental Activity and Breach

Payments of Officer Severance to an Eligible Officer shall cease immediately upon a determination by the Administrator that such Eligible Officer engaged in Detrimental Activity against the Company, or breached the written agreement under which Officer Severance is provided to such officer under the Program.

### 3.4 Termination of Officer Severance Upon Re-employment.

The payment of Officer Severance to an Eligible Officer will terminate and any remaining benefits will be forfeited in the event that the Eligible Officer is subsequently re-employed by the Company, any subsidiary or affiliated company, or any entity that acquires part or all of the assets or operations of the Company or any subsidiary or affiliated company, whether by merger, stock or asset transfer, or other means, before he or she receives the full Officer Severance to which he or she is entitled under the Program.

## **ARTICLE IV - PLAN ADMINISTRATION**

### 4.1 Powers and Duties of the Administrator.

The Administrator shall be the Plan Administrator, as defined in Section 3(16)(A) of ERISA. The Administrator shall enforce the Program in accordance with its terms, and shall be charged with the general administration

of the Program. In accordance with Section 4.2, the Administrator shall have all powers and duties necessary to accomplish its purposes. The Administrator may delegate any or all of its duties under the Program.

#### 4.2 Manner of Administering.

The Administrator shall have full discretionary authority and the exclusive right to construe and interpret the terms and provisions of the Program and to carry out its other powers and duties, and to determine any and all questions arising under the Program or in connection with the administration thereof, including, without limitation, the right to remedy or resolve possible ambiguities, inconsistencies, or omissions, by general rule or particular decision. The actions, interpretations or constructions of the Administrator shall be final, binding, and conclusive on all parties, including but not limited to the Company and any Eligible Officers, and shall be given the maximum possible deference allowed by law.

### **ARTICLE V - AMENDMENT AND TERMINATION**

#### 5.1 Amendments and Termination.

The term of the Program shall be 18 months from the date of approval of the Program. At such time, the Program shall terminate unless the Administrator takes action to renew or extend the Program. In the event that the Program terminates, no Eligible Officer shall have any claim against any of the assets of the Company.

The Chief Human Resources Officer of the Company shall have the power to amend the Program at any time solely to the extent necessary to ensure compliance with applicable law or effectuate the legal intent of the Program, including the intent that the Program constitute a severance pay welfare benefit plan under Labor Regulations section 2510.3-2(b)(ii), and that no payment under the Program would constitute deferred compensation within the meaning of Code section 409A.

Any amendment shall be in writing and effective in the manner and at the time therein set forth, and the Company and all Eligible Officers and others shall be bound thereby.

### **ARTICLE VI - MISCELLANEOUS**

#### 6.1 Limitation of Eligible Officers' Rights.

(a) Payments made under the Program shall not give any employee the right to be retained in the employ of the Company or any right or interest under the Program other than as herein provided. The Company reserves the right to dismiss any employee without any liability for any claim against the Company. Inclusion under the Program will not give any Eligible Officer any right to claim any benefit hereunder except to the extent such right has specifically become fixed under the terms of the Program. An Eligible Officer shall not have any recourse towards satisfaction of such benefit becoming fixed under the terms of the Program from other than the general assets of his or her Employer.

(b) Payments made under the Program shall not give any employee the right to any benefits provided only to employees retained in the employ of the Company. Except as may otherwise be required by law or set forth specifically in such plans or in an agreement between the Company and the Eligible Officer, such benefits shall be terminated as of the employee's Severance Date.

#### 6.2 Unsecured General Creditor.

All Eligible Officers and their heirs, successors, assigns and personal representatives shall have no legal or equitable rights, claims, or interests in any specific property or assets of the Company with respect to benefits payable under the Program. No assets of the Company shall be held under any trust, or held in any way as collateral security for the fulfillment of the obligations of the Company under the Program. The Company's assets shall be, and remain, the general, unpledged, unrestricted assets of the Company. The Company's obligation under the Program shall be merely that of an unfunded and unsecured promise to pay money in the future, and the rights of all Eligible Officers shall be no greater than those of unsecured general creditors.

#### 6.3 Non-Duplication of Benefits.

Benefits payable under the Program are in lieu of, and not in addition to, any other severance, separation, change in control or similar type of benefit payable under a severance, separation, change in control or similar plan, policy, agreement or arrangement of the Company. Accordingly, notwithstanding any provision of the Program to the contrary, benefits payable under the Program will be reduced and forfeited by the amount of benefits payable under any and all such other severance, separation, change in control and similar plans, policies, agreements or arrangements.

#### 6.4 Withholding.

There shall be deducted from each payment under the Program all taxes that are required to be withheld by the Company with respect to such payment. The Company shall have the right to reduce any payment by (i) the amount of cash sufficient to provide the amount of said taxes, and (ii) an amount of cash equal to the amount of any contributions that the Eligible Officer has elected to make to any medical, welfare, or retirement plan maintained by the Company in accordance with the terms and provisions of those plans.

#### 6.5 Restriction Against Alienation.

None of the benefits, payments, proceeds or claims of any Eligible Officer shall be subject to any claim of any creditor and, in particular, the same shall not be subject to attachment or garnishment or other legal process by any creditor, nor shall any such Eligible Officer have any right to alienate, anticipate, commute, pledge, encumber or assign any of the benefits or payments or proceeds which he or she may expect to receive, contingently or otherwise, under the Program. Notwithstanding the above, benefits which are in pay status may be subject to a garnishment or wage assignment made pursuant to a court order, or a tax levy.

#### 6.6 Governing Law.

The Program shall be construed, administered, and governed in all respects under applicable federal law, and to the extent that federal law is inapplicable, under the laws of the State of New York provided, however, that if

any provision is susceptible to more than one interpretation, such interpretation shall be given thereto as is consistent with the Program being a "top hat" welfare benefit plan within the meaning of Section 3(1) of ERISA and Labor Regulations section 2520.104-24. If any provision of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

#### 6.7 Headings, etc., Not Part of Agreement.

Headings and subheadings in the Program are inserted for convenience of reference only and are not to be considered in the construction of the provisions hereof.

#### 6.8 Instrument on Counterparts.

The Program may be executed in several counterparts, each of which shall be deemed an original, and said counterparts shall constitute but one and the same instrument, which may be sufficiently evidenced by any one counterpart.

#### 6.9 Correction of Errors.

If the Administrator determines, in its sole discretion, that the Program has made an overpayment to any individual, the Administrator may recover the amount of the overpayment by requiring the payee to return the excess payments to the Program, reducing any future Program payments to the payee, or any other method deemed reasonable by the Administrator.

If the Administrator determines, in its sole discretion, that the Program has made an underpayment to any individual, the Administrator may correct the underpayment by making a lump-sum payment to the payee, increasing any future Plan payments to the payee, or any other method deemed reasonable by the Administrator.

#### 6.11 Claims and Issues.

From time to time, claims or issues may arise that involve the Program. The resolution, settlement or adjudication of these claims or issues may result in an agreement or order that is not expressly contemplated under the Program document, including the payment of benefits which differ from the amounts generally payable under the Program. Any such agreements and orders will be respected to the extent that, as determined in the sole discretion of the Administrator, they do not violate any applicable statute, government regulation or ruling.

#### 6.12 Entire Agreement

This Program contains the entire agreement and understanding with respect to the matters covered herein and supersedes all prior or contemporaneous negotiations, commitments, consents, agreements and writings with respect to matters covered by this Program.

#### 6.13 Construction.



As used in the Program, the masculine gender shall include the feminine and the singular may include the plural, unless the context clearly indicates to the contrary.

IN WITNESS WHEREOF, the undersigned has caused these presents to be executed by its duly authorized officers on the date indicated below.

## Annex A

President, Chief Operations Officer  
Executive Vice President (President, North American Operations)  
Executive Vice President and CHRO  
Executive Vice President and Chief Financial Officer  
Executive Vice President (President, International Operations)  
Senior Vice President (Chief Technology Officer)  
Senior Vice President (Chief Delivery Officer)  
Senior Vice President and Chief Strategy & Marketing Officer  
Vice President and Chief Accounting Officer  
Vice President and Treasurer  
Vice President, Worldwide Tax  
Vice President and Controller

## COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES

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

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

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

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

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
<b>Fixed Charges:</b>				
Interest expense <sup>(1)</sup>	\$ 61	\$ 57	\$ 126	\$ 126
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	13	15	28	28
<b>Total Fixed Charges</b>	<b>\$ 74</b>	<b>\$ 72</b>	<b>\$ 154</b>	<b>\$ 154</b>
<b>Earnings Available for Fixed Charges:</b>				
Pre-tax income	\$ 133	\$ 193	\$ 267	\$ 177
Add: Distributed equity income of affiliated companies	3	30	3	30
Add: Fixed charges	74	72	154	154
Less: Capitalized interest	—	—	—	—
Less: Net income attributable to noncontrolling interests	(2)	(4)	(5)	(6)
<b>Total Earnings Available for Fixed Charges</b>	<b>\$ 208</b>	<b>\$ 291</b>	<b>\$ 419</b>	<b>\$ 355</b>
<b>Ratio of Earnings to Fixed Charges</b>	<b>2.81</b>	<b>4.04</b>	<b>2.72</b>	<b>2.31</b>

## Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends:

<b>Fixed Charges:</b>				
Interest expense <sup>(1)</sup>	\$ 61	\$ 57	\$ 126	\$ 126
Capitalized interest	—	—	—	—
Portion of rental expense which represents interest factor	13	15	28	28
Total Fixed charges before preferred stock dividends pre-tax income requirements	74	72	154	154
Preferred stock dividends pre-tax income requirements	5	6	10	12
<b>Total Combined Fixed Charges and Preferred Stock Dividends</b>	<b>\$ 79</b>	<b>\$ 78</b>	<b>\$ 164</b>	<b>\$ 166</b>
<b>Earnings Available for Fixed Charges:</b>				
Pre-tax income	\$ 133	\$ 193	\$ 267	\$ 177
Add: Distributed equity income of affiliated companies	3	30	3	30
Add: Fixed charges before preferred stock dividends	74	72	154	154
Less: Capitalized interest	—	—	—	—
Less: Net income attributable to noncontrolling interests	(2)	(4)	(5)	(6)
<b>Total Earnings Available for Fixed Charges and Preferred Stock Dividends</b>	<b>\$ 208</b>	<b>\$ 291</b>	<b>\$ 419</b>	<b>\$ 355</b>
<b>Ratio of Earnings to Fixed Charges and Preferred Stock Dividends</b>	<b>2.63</b>	<b>3.73</b>	<b>2.55</b>	<b>2.14</b>

(1) Includes amortization of fees for a Bridge Facility prior to its termination in May 2018 of \$1 million and \$3 million for the three and six months ended June 30, 2018, respectively. Refer to Note 19 - Fuji Xerox Transaction and Recent Developments in our Condensed Consolidated Financial Statements, which is incorporated by reference, for additional information regarding this terminated Bridge Facility.

**CEO CERTIFICATIONS**

I, Giovanni Visentin, certify that:

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

August 2, 2018

/s/ GIOVANNI VISENTIN

**Giovanni Visentin**  
Principal Executive Officer

**CFO CERTIFICATIONS**

I, William F. Osbourn, Jr., certify that:

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

August 2, 2018

/s/ WILLIAM F. OSBOURN, JR.

William F. Osbourn, Jr.  
Principal Financial Officer

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

In connection with the Form 10-Q of Xerox Corporation, a New York corporation (the "Company"), for the quarter ending June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Giovanni Visentin, Vice Chairman and Chief Executive Officer of the Company, and William F. Osbourn, Jr., Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

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

/s/ GIOVANNI VISENTIN

**Giovanni Visentin**  
**Chief Executive Officer**

**August 2, 2018**

/s/ WILLIAM F. OSBOURN, JR.

**William F. Osbourn, Jr.**  
**Chief Financial Officer**

**August 2, 2018**

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

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