

XEROX CORP
Form 10-Q
November 03, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2016

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 16-0468020
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)
P.O. Box 4505, 45 Glover Avenue 06856-4505
Norwalk, Connecticut
(Address of principal executive offices) (Zip Code)
(203) 968-3000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 a check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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 September 30, 2016

Common Stock, \$1 par value 1,013,776,524 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words "anticipate," "believe," "estimate," "expect," "intend," "will," "should" and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect Management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include, but are not limited to: changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax matters in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that our bids do not accurately estimate the resources and costs required to implement and service very complex, multi-year governmental and commercial contracts, often in advance of the final determination of the full scope and design of such contracts or as a result of the scope of such contracts being changed during the life of such contracts; the risk that subcontractors, software vendors and utility and network providers will not perform in a timely, quality manner; service interruptions; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions and the relocation of our service delivery centers; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; the risk in the hiring and retention of qualified personnel; the risk that unexpected costs will be incurred; our ability to recover capital investments; the risk that our Services business could be adversely affected if we are unsuccessful in managing the start-up of new contracts; the collectability of our receivables for unbilled services associated with very large, multi-year contracts; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to expand equipment placements; interest rates, cost of borrowing and access to credit markets; the risk that our products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives; the outcome of litigation and regulatory proceedings to which we may be a party; the possibility that the proposed separation of the Business Process Outsourcing (BPO) business from the Document Technology and Document Outsourcing business will not be consummated within the anticipated time period or at all, including as the result of regulatory, market or other factors; the potential for disruption to our business in connection with the proposed separation; the potential that BPO and Document Technology and Document Outsourcing do not realize all of the expected benefits of the separation, and other factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section, the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2016 and June 30, 2016 and our 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC). Such factors also include, but are not limited to, the factors that are set forth in the "Risk Factors" section, the "Legal Proceedings" section and other sections of the Conduent Incorporated Form 10 Registration Statement, as amended, filed with the SEC. Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

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 September 30, 2016
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For additional information about Xerox Corporation and access to our Annual Reports to Shareholders and SEC filings, free of charge, please visit our website at www.xerox.com/investor. Any information on or linked from the website is not incorporated by reference into this Form 10-Q.

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PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

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

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

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XEROX CORPORATION

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

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

Comprehensive
Income (Loss), Net
Attributable to
Xerox

(1) Refer to Note 15 - Other Comprehensive (Loss) Income for gross components of Other Comprehensive (Loss) Income, reclassification adjustments out of Accumulated Other Comprehensive Loss and related tax effects.

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

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CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2016	December 31, 2015
Assets		
Cash and cash equivalents	\$ 1,423	\$ 1,368
Accounts receivable, net	2,466	2,319
Billed portion of finance receivables, net	99	97
Finance receivables, net	1,279	1,315
Inventories	1,019	942
Other current assets	721	644
Total current assets	7,007	6,685
Finance receivables due after one year, net	2,457	2,576
Equipment on operating leases, net	488	495
Land, buildings and equipment, net	958	996
Investments in affiliates, at equity	1,524	1,389
Intangible assets, net	1,528	1,765
Goodwill	8,688	8,823
Other long-term assets	1,992	2,060
Total Assets	\$ 24,642	\$ 24,789
Liabilities and Equity		
Short-term debt and current portion of long-term debt	\$ 2,033	\$ 985
Accounts payable	1,312	1,614
Accrued compensation and benefits costs	647	651
Unearned income	401	428
Other current liabilities	1,389	1,576
Total current liabilities	5,782	5,254
Long-term debt	5,346	6,354
Pension and other benefit liabilities	2,738	2,513
Post-retirement medical benefits	744	785
Other long-term liabilities	389	417
Total Liabilities	14,999	15,323
Commitments and Contingencies (See Note 17)		
Series A Convertible Preferred Stock	349	349
Equity		
Common stock	1,014	1,013
Additional paid-in capital	3,071	3,017
Retained earnings	9,801	9,686
Accumulated other comprehensive loss	(4,632)	(4,642)
Xerox shareholders' equity	9,254	9,074
Noncontrolling interests	40	43
Total Equity	9,294	9,117
Total Liabilities and Equity	\$ 24,642	\$ 24,789
Shares of common stock issued and outstanding	1,013,777	1,012,836

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

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XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

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

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Payments to acquire treasury stock, including fees	—	(691)	—	(1,302)
Repurchases related to stock-based compensation	—	(49)	—	(50)
Distributions to noncontrolling interests	(1)	(1)	(13)	(57)
Other financing	—	—	(1)	(1)
Net cash used in financing activities	(84)	(888)	(213)	(1,796)
Effect of exchange rate changes on cash and cash equivalents	3	(14)	7	(71)
Increase (decrease) in cash and cash equivalents	220	(837)	55	(607)
Cash and cash equivalents at beginning of period	1,203	1,641	1,368	1,411
Cash and Cash Equivalents at End of Period	\$1,423	\$804	\$1,423	\$804

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

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XEROX CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

Note 1 – Basis of Presentation

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

We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2015 Annual Report on Form 10-K (2015 Annual Report), and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2015 Annual Report.

In our opinion, all adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. These adjustments consist of normal recurring items.

Interim results of operations are not necessarily indicative of the results of the full year.

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

Separation Update

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

During third quarter 2016, the CFO for Conduent was announced, and several amendments to the Form 10 registration statement for Conduent were filed with the U.S. Securities and Exchange Commission (SEC), including one that provided additional information on its pro-forma capitalization and results and another that named the majority of its executive management and seven of nine of its directors. Also, Xerox's credit ratings remain investment grade following recent updates from the major rating agencies. Conduent is expected to be a high non-investment grade rated company following the separation. These ratings are in line with management's expectations. In addition, we released Conduent's brand identity and announced that its stock will trade on the New York Stock Exchange (NYSE) under the symbol "CNDT" while Xerox will continue to trade on the NYSE as "XRX". Xerox has begun the process to separate and is finalizing the transaction structure, which is predicated on a spin-off of the BPO business. To effect the separation, Xerox is currently undertaking a series of internal transactions, following which Conduent will hold, directly or through its subsidiaries, the BPO business. The separation will be completed by way of a pro rata distribution of Conduent shares held by Xerox to Xerox's shareholders.

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

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

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Note 2 – Recent Accounting Pronouncements

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), to supersede nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, it is possible more judgment and estimates may be required within the revenue recognition process than required under existing U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. ASU 2014-09 is effective for our fiscal year beginning January 1, 2018, with early adoption permitted for fiscal years beginning January 1, 2017. Subsequent to the issuance of ASU 2014-09, the FASB issued the following ASU's which amend or provide additional guidance on topics addressed in ASU 2014-09. In March 2016, the FASB issued ASU 2016-08, Revenue Recognition - Principal versus Agent (reporting revenue gross versus net). In April 2016, the FASB issued ASU 2016-10, Revenue Recognition - Identifying Performance Obligations and Licenses. In May 2016, the FASB issued ASU 2016-12, Revenue Recognition - Narrow Scope Improvements and Practical Expedients. We will adopt this standard beginning January 1, 2018, and we will use the modified retrospective method. We continue to evaluate the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. This update requires the recognition of leased assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance as well as to the new revenue recognition guidance in ASU 2014-09. This update is effective for our fiscal year beginning January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements.

Cash Flows

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

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation, Improvements to Employee Share-Based payment Accounting (Topic 718). This update includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. The update also requires that excess tax benefits and deficiencies be recorded in the income statement when the awards vest or are settled as compared to equity as allowed under certain conditions by current US GAAP. This change is required to be adopted prospectively in the period of adoption. In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows and these changes are required to be applied retrospectively to all periods presented. ASU 2016-09 is effective for our fiscal year beginning January 1, 2017. The adoption of ASU No. 2016-09 for the most part is not expected to have a material impact on our financial condition, results of operations or cash flows. However, the update may add volatility to our income tax expense in future periods depending upon, among other things, the level of tax expense and the price of the Company's common stock at the

date of vesting for share-based awards.

Income Taxes

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

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

Financial Instruments - Credit Losses

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

Equity Method Accounting

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

Interest

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

Other Updates

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

Financial Instruments - Classification and Measurement: ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Instruments and Financial Liabilities. This update is effective for our fiscal year beginning January 1, 2018.

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

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

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

Disclosures of Going Concern Uncertainties: ASU 2014-15, Presentation of Financial Statements - Going Concern (Subtopic 205-40); Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern, which is

effective for our fiscal year ending December 31, 2016.

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

Note 3 – Segment Reporting

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

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

- The transfer of the Education/Student Loan business from the Services segment to Other as a result of the expected continued run-off of this business. This business does not meet the threshold for separate segment reporting.

- The exclusion of the non-service elements of our defined-benefit pension and retiree-health plan costs from Segment profit.

Prior year amounts were accordingly revised to reflect these changes.

The Services segment is comprised of two outsourcing service offerings:

Business Process Outsourcing (BPO)

Document Outsourcing (which includes Managed Print Services) (DO)

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

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

- “Entry,” which includes A4 devices and desktop printers; to

- “Mid-range,” which includes A3 devices that generally serve workgroup environments in mid to large enterprises and includes products that fall into the following market categories: Color 41+ ppm priced at less than \$100K and Light Production 91+ ppm priced at less than \$100K; to

- “High-end,” which includes production printing and publishing systems that generally serve the graphic communications marketplace and large enterprises.

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

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

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Operating segment revenues and profitability were as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	Segment Revenue	Segment Profit (Loss)	Segment Revenue	Segment Profit (Loss)
2016				
Services	\$2,398	\$ 226	\$7,350	\$ 652
Document Technology	1,626	213	5,017	601
Other	188	(65)	511	(211)
Total	\$4,212	\$ 374	\$12,878	\$ 1,042
2015				
Services ⁽¹⁾	\$2,367	\$ (196)	\$7,360	\$ 172
Document Technology	1,778	248	5,488	715
Other	188	(55)	544	(164)
Total	\$4,333	\$ (3)	\$13,392	\$ 723

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

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

Business transformation costs represent incremental costs incurred directly in support of our business

(1) transformation and restructuring initiatives such as compensation costs for overlapping staff, consulting costs and training costs.

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

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

Note 4 – Divestitures

Information Technology Outsourcing (ITO)

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

completed on June 30, 2015.

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

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Other Discontinued Operations

There were no Discontinued Operations as of September 30, 2016. Summarized financial information for our Discontinued Operations in prior periods is as follows:

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

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

Note 5 – Accounts Receivable, Net

Accounts receivable, net were as follows:

	September 30, 2016	December 31, 2015
Amounts billed or billable	\$ 2,180	\$ 2,110
Unbilled amounts	360	289
Allowance for doubtful accounts	(74)	(80)
Accounts Receivable, Net	\$ 2,466	\$ 2,319

Unbilled receivables include receivables associated with percentage-of-completion accounting and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent month for current services provided are included in amounts billable, and at September 30, 2016 and December 31, 2015 were approximately \$843 and \$849, respectively.

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

Accounts Receivable Sales Arrangements

Accounts receivable sales arrangements are utilized in the normal course of business as part of our cash and liquidity management. We have facilities in the U.S., Canada and several countries in Europe that enable us to sell to third parties certain accounts receivable without recourse. The accounts receivable sold are generally short-term trade receivables with payment due dates of less than 60 days.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances, a portion of the sales proceeds is held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Condensed Consolidated Statements of Cash Flows because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to its short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in Other current assets in the accompanying Condensed Consolidated Balance Sheets and were \$55 and \$61 at September 30, 2016 and December 31, 2015, respectively.

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

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Of the accounts receivable sold and derecognized from our balance sheet, \$540 and \$660 remained uncollected as of September 30, 2016 and December 31, 2015, respectively.

Accounts receivable sales were as follows:

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

⁽¹⁾ Represents the difference between current and prior period receivable sales adjusted for the effects of: (i) the deferred proceeds, (ii) collections prior to the end of the quarter and, (iii) currency.

Note 6 - Finance Receivables, Net Sale of Finance Receivables

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

The following is a summary of our prior sales activity.

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

The principal value of finance receivables derecognized from our balance sheet was \$107 and \$238 (sales value of approximately \$115 and \$256) at September 30, 2016 and December 31, 2015, respectively.

The lease portfolios transferred and sold were from our Document Technology segment. The ultimate purchaser has no recourse to our other assets for the failure of customers to pay principal and interest when due beyond our beneficial interests, which were \$26 and \$38 at September 30, 2016 and December 31, 2015, respectively, and are included in Other current assets and Other long-term assets in the accompanying Condensed Consolidated Balance Sheets. Beneficial interests of \$16 and \$30 at September 30, 2016 and December 31, 2015, respectively, are held by bankruptcy-remote subsidiaries and therefore are not available to satisfy any of our creditor obligations. We report collections on the beneficial interests as operating cash flows in the Condensed Consolidated Statements of Cash Flows because such beneficial interests are the result of an operating activity, and the associated interest rate risk is de minimis considering their weighted average lives of less than 2 years.

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

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

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

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Finance Receivables – Allowance for Credit Losses and Credit Quality

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

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

	United States	Canada	Europe	Other ⁽²⁾	Total	
Allowance for Credit Losses:						
Balance at December 31, 2015 ⁽¹⁾	\$ 54	\$ 17	\$ 45	\$ 2	\$ 118	
Provision	4	1	5	—	10	
Charge-offs	(2) (2) (2) —	(6)
Recoveries and other ⁽³⁾	1	2	1	—	4	
Balance at March 31, 2016	\$ 57	\$ 18	\$ 49	\$ 2	\$ 126	
Provision	—	1	7	—	8	
Charge-offs	(3) (2) (3) —	(8)
Recoveries and other ⁽³⁾	—	1	(2) —	(1)
Balance at June 30, 2016	\$ 54	\$ 18	\$ 51	\$ 2	\$ 125	
Provision	3	1	5	—	9	
Charge-offs	(1) (2) (3) —	(6)
Recoveries and other ⁽³⁾	1	—	—	—	1	
Balance at September 30, 2016	\$ 57	\$ 17	\$ 53	\$ 2	\$ 129	
Finance receivables as of September 30, 2016 collectively evaluated for impairment ⁽⁴⁾	\$ 2,139	\$ 377	\$ 1,382	\$ 66	\$ 3,964	
Balance at December 31, 2014 ⁽¹⁾	\$ 51	\$ 20	\$ 58	\$ 2	\$ 131	
Provision	4	1	5	1	11	
Charge-offs	—	(3) (1) (1) (5)
Recoveries and other ⁽³⁾	—	—	(6) —	(6)
Balance at March 31, 2015	\$ 55	\$ 18	\$ 56	\$ 2	\$ 131	
Provision	3	1	6	—	10	
Charge-offs	(3) (2) (5) —	(10)
Recoveries and other ⁽³⁾	(1	) 1	3	—	3
Balance at June 30, 2015	\$ 54	\$ 18	\$ 60	\$ 2	\$ 134	
Provision	2	1	6	—	9	
Charge-offs	—	(3) (1) —	(4)
Recoveries and other ⁽³⁾	—	—	(1) —	(1)
Balance at September 30, 2015	\$ 56	\$ 16	\$ 64	\$ 2	\$ 138	
Finance receivables as of September 30, 2015 collectively evaluated for impairment ^{(1),(4)}	\$ 2,142	\$ 366	\$ 1,562	\$ 67	\$ 4,137	

(1) In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified in Other was reclassified to the U.S. Prior year amounts have been revised to conform to current year presentation.

(2) Includes developing market countries and smaller units.

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

(4) Total Finance receivables exclude the allowance for credit losses of \$129 and \$138 at September 30, 2016 and 2015, respectively.

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

Investment grade: This rating includes accounts with excellent to good business credit, asset quality and the capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poors (S&P) rating of BBB- or better. Loss rates in this category are normally minimal at less than 1%.

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Non-investment grade: This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain on such leases. Loss rates in this category are generally in the range of 2% to 4%.

Substandard: This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade status when the lease was originated. Accordingly, there is a distinct possibility for a loss of principal and interest or customer default. The loss rates in this category are approximately 10%.

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

	September 30, 2016				December 31, 2015 ⁽⁴⁾			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services	\$178	\$ 336	\$ 94	\$ 608	\$195	\$ 285	\$ 91	\$ 571
Government and education	553	57	6	616	575	48	7	630
Graphic arts	133	117	98	348	145	92	127	364
Industrial	83	73	25	181	89	62	22	173
Healthcare	77	49	16	142	90	46	19	155
Other	90	102	52	244	121	107	53	281
Total United States	1,114	734	291	2,139	1,215	640	319	2,174
Finance and other services	57	41	10	108	55	35	9	99
Government and education	55	6	1	62	59	7	2	68
Graphic arts	42	38	22	102	45	35	21	101
Industrial	23	13	3	39	23	12	3	38
Other	35	25	6	66	33	23	3	59
Total Canada	212	123	42	377	215	112	38	365
France	192	237	60	489	203	207	101	511
U.K./Ireland	190	73	1	264	235	91	3	329
Central ⁽¹⁾	199	162	24	385	206	186	25	417
Southern ⁽²⁾	42	134	14	190	36	138	17	191
Nordics ⁽³⁾	28	25	1	54	24	35	2	61
Total Europe	651	631	100	1,382	704	657	148	1,509
Other	41	22	3	66	41	16	1	58
Total	\$2,018	\$ 1,510	\$ 436	\$ 3,964	\$2,175	\$ 1,425	\$ 506	\$ 4,106

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

(2)Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

(4) In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified in Other was reclassified to the U.S. Prior year amounts have been reclassified to conform to current year presentation.

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

September 30, 2016

	31-90 Current Days Past Due		>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	\$ 12	\$ 2	\$ 2	\$ 16	\$ 592	\$ 608	\$ 11
Government and education	17	1	3	21	595	616	23
Graphic arts	14	1	—	15	333	348	5
Industrial	4	1	1	6	175	181	5
Healthcare	3	1	1	5	137	142	5
Other	10	1	1	12	232	244	6
Total United States	60	7	8	75	2,064	2,139	55
Canada	3	—	—	3	374	377	9
France	4	—	—	4	485	489	28
U.K./Ireland	3	1	—	4	260	264	1
Central ⁽¹⁾	2	1	2	5	380	385	12
Southern ⁽²⁾	7	2	2	11	179	190	8
Nordics ⁽³⁾	1	—	—	1	53	54	3
Total Europe	17	4	4	25	1,357	1,382	52
Other	3	—	—	3	63	66	—
Total	\$ 83	\$ 11	\$ 12	\$ 106	\$ 3,858	\$ 3,964	\$ 116

December 31, 2015⁽⁴⁾

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

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

(2) Italy, Greece, Spain and Portugal.

(3) Sweden, Norway, Denmark and Finland.

(4)

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In the first quarter 2016, as a result of an internal reorganization, a U.S. leasing unit previously classified in Other was reclassified to the U.S. Prior year amounts have been reclassified to conform to current year presentation.

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Note 7 – Inventories

The following is a summary of Inventories by major category:

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

Note 8 – Investment in Affiliates, at Equity

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

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

Fuji Xerox

Equity in net income of Fuji Xerox is affected by certain adjustments required to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest.

Condensed financial data of Fuji Xerox was as follows:

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

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

Note 9 – Restructuring Programs

During the nine months ended September 30, 2016, we recorded net restructuring and asset impairment charges of \$199, which included approximately \$218 of severance costs related to headcount reductions of approximately 5,700 employees worldwide, \$4 of lease cancellation costs and \$2 of asset impairments. These costs were offset by \$20 of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives, as well as a gain of \$5 from the sale of real estate impaired in prior periods.

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

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

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments ⁽²⁾	Total
Balance at December 31, 2015	\$ 22	\$ 2	\$ —	\$24
Provision	218	4	2	224
Reversals	(20)	—	(5)	(25)
Net Current Period Charges ⁽¹⁾	198	4	(3)	199
Charges against reserve and currency	(118)	(5)	3	(120)
Balance at September 30, 2016	\$ 102	\$ 1	\$ —	\$103

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

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

Reconciliation to the Condensed Consolidated Statements of Cash Flows:

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

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

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

(1) The nine months ended September 30, 2015 includes \$146 of software asset impairment charges.

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Note 10 – Debt

Term Loan Facility

On March 4, 2016, Xerox Corporation entered into a \$1.0 billion senior unsecured term facility. The facility was fully drawn by April 1, 2016 and must be repaid on the earlier of 364 days or upon receipt of financing related to the separation of the Company into two independent publicly traded companies. Refer to Note 1- Basis of Presentation for information regarding the planned Company separation. Borrowings under the facility currently bear interest at a rate of LIBOR plus 1.50% and current interest rates vary between 2.02% and 2.15%.

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

Interest Expense and Income

Interest expense and interest income were as follows:

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

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

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

Note 11 – Financial Instruments

Interest Rate Risk Management

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

Fair Value Hedges

As of September 30, 2016, pay variable/receive fixed interest rate swaps with notional amounts of \$300 and net asset fair value of \$15 were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments.

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

Debt Instrument	Year First Designated	Notional Amount	Net Fair Value	Weighted Average Interest Rate Paid	Interest Rate Received	Basis	Maturity
Senior Note 2021	2014	\$ 300	\$ 15	2.56 %	4.5 %	Libor	2021

Foreign Exchange Risk Management

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

Foreign currency-denominated assets and liabilities

Forecasted purchases and sales in foreign currency

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At September 30, 2016 and December 31, 2015, we had outstanding forward exchange and purchased option contracts with gross notional values of \$2,473 and \$3,212 respectively, with terms of less than 12 months. The associated currency exposures being hedged at September 30, 2016 were consistent with year-end currency exposures, and there has not been any material change in our hedging strategy.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated expenses. The net asset (liability) fair value of these contracts were \$22 and \$(1) as of September 30, 2016 and December 31, 2015, respectively.

Summary of Derivative Instruments Fair Value

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

Designation of Derivatives	Balance Sheet Location	September 30, December 31, 2016 2015	
Derivatives Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 24	\$ 4
	Other current liabilities	(2	) (4
Foreign currency options	Other current liabilities	—	(1
Interest rate swaps	Other long-term assets	15	7
	Net Designated Derivative Asset	\$ 37	\$ 6
Derivatives NOT Designated as Hedging Instruments			
Foreign exchange contracts – forwards	Other current assets	\$ 62	\$ 51
	Other current liabilities	(6	) (8
	Net Undesignated Derivative Asset	\$ 56	\$ 43
Summary of Derivatives		Total Derivative Assets	\$ 101
		Total Derivative Liabilities	(8
		Net Derivative Asset	\$ 93

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 Fair Value Hedges - Interest rate contracts Derivative (loss) gain recognized in interest expense Hedged item gain (loss) recognized in interest expense	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	\$ (3	)	\$ 7	
			\$ 8	\$ 7
	3	(7	)	(8
			)	(7

Cash Flow Hedges - Foreign exchange forward contracts and options				
Derivative gain recognized in OCI (effective portion)	\$ 4	\$ 5	\$ 61	\$ 12
Derivative gain (loss) reclassified from AOCI to income	17	(11)	24	(21)
- Cost of sales (effective portion)				

During the three and nine months ended September 30, 2016 and 2015, no amount of ineffectiveness was recorded in earnings for these designated cash flow hedges and all components of each derivative's gain (loss) was included in the assessment of hedge effectiveness. In addition, no amount was recorded for an underlying exposure that did not occur or was not expected to occur.

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

Non-Designated Derivative Instruments Gains (Losses)

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

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

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

Net currency gains and losses are included in Other expenses, net and include the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives as well as the re-measurement of foreign currency-denominated assets and liabilities. For the three and nine months ended September 30, 2016, currency losses, net were \$3 and \$4, respectively. For the three and nine months ended September 30, 2015, currency losses, net were \$3 and \$4, respectively.

Note 12 – Fair Value of Financial Assets and Liabilities

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

	September 30, December 31,	
	2016	2015
Assets:		
Foreign exchange contracts - forwards	\$ 86	\$ 55
Interest rate swaps	15	7
Deferred compensation investments in cash surrender life insurance	97	92
Deferred compensation investments in mutual funds	35	33
Total	\$ 233	\$ 187
Liabilities:		
Foreign exchange contracts - forwards	\$ 8	\$ 12
Foreign currency options	—	1
Deferred compensation plan liabilities	127	125
Total	\$ 135	\$ 138

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

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

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

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

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	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$1,423	\$1,423	\$1,368	\$1,368
Accounts receivable, net	2,466	2,466	2,319	2,319
Short-term debt	2,033	2,047	985	976
Long-term debt	5,346	5,537	6,354	6,395

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

Note 13 – Employee Benefit Plans

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

	Three Months Ended September 30, Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
	2016	2015	2016	2015	2016	2015
Components of Net Periodic Benefit Costs:						
Service cost	\$1	\$1	\$7	\$8	\$1	\$2
Interest cost	33	38	50	53	9	8
Expected return on plan assets	(35)	(38)	(63)	(73)	—	—
Recognized net actuarial loss	8	5	16	19	—	—
Amortization of prior service credit	—	—	(1)	—	(2)	(1)
Recognized settlement loss	16	16	—	—	—	—
Defined Benefit Plans	23	22	9	7	8	9
Defined contribution plans	16	15	8	8	n/a	n/a
Net Periodic Benefit Cost	39	37	17	15	8	9
Other changes in plan assets and benefit obligations recognized in Other Comprehensive Loss (Income):						
Net actuarial loss (gain) ⁽¹⁾	113	(40)	—	—	—	—
Amortization of prior service credit	—	—	1	—	2	1
Amortization of net actuarial loss	(24)	(21)	(16)	(19)	—	—
Total Recognized in Other Comprehensive Loss (Income) ⁽²⁾	89	(61)	(15)	(19)	2	1
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Loss (Income)	\$128	\$(24)	\$2	\$(4)	\$10	\$10

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	Nine Months Ended September 30,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2016	2015	2016	2015	2016	2015
Service cost	\$3	\$3	\$23	\$25	\$4	\$6
Interest cost	106	114	155	159	25	25
Expected return on plan assets	(11)	(114)	(196)	(220)	—	—
Recognized net actuarial loss	20	18	50	59	1	1
Amortization of prior service credit						