ENERGIZER HOLDINGS, INC.
Form 8-K
May 02, 2018

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

FORM 8-K
CURRENT REPORT
Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
Date of Report (Date of Earliest Event Reported): May 2, 2018

Energizer Holdings, Inc.
(Exact Name of Registrant as Specified in its Charter)

Missouri	1-36837	36-4802442
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

533 Maryville University Drive
St. Louis, Missouri 63141
(Address of principal executive offices)
Registrant's telephone number, including area code: (314) 985-2000

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):
¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 or Rule 12b-12 of the Securities Exchange Act of 1934.
Emerging growth company ¨
If an emerging growth company, indicate by checkmark 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. ¨

Item 2.02. Results of Operations and Financial Condition.

On May 2, 2018, Energizer Holdings, Inc. (the “Company”) issued a press release announcing business results for the second fiscal quarter ended March 31, 2018. This press release is furnished as Exhibit 99.1 hereto and incorporated herein by reference.

Item 9.01. Financial Statements and Exhibits.
(d) Exhibits.
See Exhibit Index.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Current Report on Form 8-K to be signed on its behalf by the undersigned hereunto duly authorized.

ENERGIZER HOLDINGS, INC.

By: /s/ Timothy W. Gorman
Timothy W. Gorman
Executive Vice President and Chief Financial Officer

Dated: May 2, 2018

EXHIBIT INDEX

Exhibit No.	Description
99.1	Press Release, dated May 2, 2018.

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$
1

Other current liabilities

(2
)

(10
)

Net undesignated derivative asset (liability)

$
2

$
(9
)

Summary of Derivatives

Total Derivative Assets

$
12

$
3

Total Derivative Liabilities

(10
)

(25
)

Net Derivative asset (liability)

$
2

$
(22
)

Summary of Derivative Instruments Gains (Losses)

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

Designated Derivative Instruments Gains (Losses)

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

	Three Months Ended March 31,	
Gain (Loss) on Derivative Instruments	2018	2017
Fair Value Hedges - Interest Rate Contracts		
Derivative loss recognized in interest expense	$(5)	$(1)
Hedged item gain recognized in interest expense	5	1
Cash Flow Hedges - Foreign Exchange Forward Contracts and Options		
Derivative gain recognized in OCI (effective portion)	$12	$9
Derivative Loss reclassified from AOCL to income - Cost of sales (effective portion)	(12)	(4)

During the three months ended March 31, 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 March 31, 2018, a net after-tax gain of $5 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.

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

Derivatives NOT Designated as Hedging Instruments		Three Months Ended March 31,	
	Location of Derivative Gain	2018	2017
Foreign exchange contracts – forwards	Other expense – Currency gain, net	$ —	$ 4

For the three months ended March 31, 2018 and 2017, currency gains (losses), net were $2 and $(3), 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 14 – 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.

	March 31, 2018	December 31, 2017
Assets:		
Foreign exchange contracts - forwards	$ 9	$ 2
Foreign currency options	3	—
Interest rate swaps	—	1
Deferred compensation investments in mutual funds	18	18
Total	$ 30	$ 21
Liabilities:		
Foreign exchange contracts - forwards	$ 6	$ 25
Interest rate swaps	4	—
Deferred compensation plan liabilities	18	19
Total	$ 28	$ 44

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:

	March 31, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$1,398	$1,398	$1,293	$1,293
Accounts receivable, net	1,326	1,326	1,357	1,357
Short-term debt	678	679	282	283
Long-term debt	4,811	4,880	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 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.

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Note 15 – 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 March 31,					
	Pension Benefits					
	U.S. Plans		Non-U.S. Plans		Retiree Health	
Components of Net Periodic Benefit Costs:	2018	2017	2018	2017	2018	2017
Service cost	$1	$1	$6	$ 7	$1	$ 1
Interest cost	33	34	39	39	6	7
Expected return on plan assets	(34)	(31)	(63)	(53)	—	—
Recognized net actuarial loss	6	5	15	19	—	—
Amortization of prior service credit	—	—	(1)	(1)	(1)	(1)
Recognized settlement loss	25	42	—	—	—	—
Defined benefit plans	31	51	(4)	11	6	7
Defined contribution plans	6	6	7	7	n/a	n/a
Net Periodic Benefit Cost	37	57	3	18	6	7
Other Changes in Plan Assets and Benefit Obligations Recognized in Other Comprehensive Income:						
Net actuarial (gain) loss(1)	(58)	8	—	—	—	—
Amortization of net actuarial loss	(31)	(47)	(15)	(19)	—	—
Amortization of prior service credit	—	—	1	1	1	1
Total Recognized in Other Comprehensive Income(2)	(89)	(39)	(14)	(18)	1	1
Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income	$(52)	$18	$(11)	$ —	$7	$ 8

(1) The net actuarial (gain) loss for U.S. Plans primarily reflects the re-measurement of our primary U.S. pension plans as a result of the payment of periodic settlements.

(2) Amounts represent the pre-tax effect included within Other comprehensive Income. Refer to Note 17 - Other Comprehensive 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.

	Three Months Ended March 31,		Year Ended December 31,	
	2018	2017	Estimated 2018	2017
U.S. plans	$8	$ 6	$76	$675
Non-U.S. plans	30	17	116	161
Total Pension	$38	$ 23	$192	$836
Retiree Health	$15	$ 14	$62	$64

There are no 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.

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Note 16 – Shareholders' Equity

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL[4]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2017	$ 255	$ 3,893	$4,856	$(3,748)	$ 5,256	$ 37	$5,293
Cumulative effect of change in accounting principle[1]	—	—	117	—	117	—	117
Comprehensive income, net	—	—	23	211	234	3	237
Cash dividends declared - common[2]	—	—	(65)	—	(65)	—	(65)
Cash dividends declared - preferred[3]	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	—	15	—	—	15	—	15
Distributions to noncontrolling interests	—	—	—	—	—	(11)	(11)
Balance at March 31, 2018	$ 255	$ 3,908	$4,927	$(3,537)	$ 5,553	$ 29	$5,582

	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL[4]	Xerox Shareholders' Equity	Non-controlling Interests	Total Equity
Balance at December 31, 2016	$ 254	$ 3,858	$4,934	$(4,337)	$ 4,709	$ 38	$4,747
Comprehensive income, net	—	—	40	166	206	3	209
Cash dividends declared - common[2]	—	—	(64)	—	(64)	—	(64)
Cash dividends declared - preferred[3]	—	—	(4)	—	(4)	—	(4)
Stock option and incentive plans, net	—	6	—	—	6	—	6
Distributions to noncontrolling interests	—	—	—	—	—	(1)	(1)
Balance at March 31, 2017	$ 254	$ 3,864	$4,906	$(4,171)	$ 4,853	$ 40	$4,893

(1)Refer to Note 3 - Adoption of New Revenue Recognition Standard for additional information.
(2)Cash dividends declared on common stock of $0.25 per share in the first quarter of 2018 and 2017.
(3)Cash dividends declared on preferred stock of $20.00 per share in the first quarter of 2018 and 2017.
(4)Refer to Note 17 - Other Comprehensive 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 quarter 2018.

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Note 17 - Other Comprehensive Income

Other Comprehensive Income is comprised of the following:

	Three Months Ended March 31,			
	2018		2017	
	Pre-tax	Net of Tax	Pre-tax	Net of Tax
Translation Adjustments Gains	$184	$176	$134	$133
Unrealized Gains (Losses):				
Changes in fair value of cash flow hedges - gains	12	8	9	6
Changes in cash flow hedges reclassed to earnings(1)	12	10	4	2
Other losses	(1)	(1)	—	—
Net unrealized gains	23	17	13	8
Defined Benefit Plans Gains (Losses):				
Net actuarial/prior service gains (losses)	58	43	(8)	(5)
Prior service amortization(2)	(2)	(1)	(2)	(1)
Actuarial loss amortization/settlement(2)	46	35	66	44
Fuji Xerox changes in defined benefit plans, net(3)	(21)	(21)	13	13
Other losses(4)	(38)	(38)	(25)	(25)
Changes in defined benefit plans gains	43	18	44	26
Other Comprehensive Income	250	211	191	167
Less: Other comprehensive income attributable to noncontrolling interests	—	—	1	1
Other Comprehensive Income Attributable to Xerox	$250	$211	$190	$166

(1) Reclassified to Cost of sales - refer to Note 13 - Financial Instruments for additional information regarding our cash flow hedges.

(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 15 - 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:

	March 31, 2018	December 31, 2017
Cumulative translation adjustments	$(1,605)	$ (1,781)
Other unrealized gains (losses), net	5	(12)
Benefit plans net actuarial losses and prior service credits(1)	(1,937)	(1,955)
Total Accumulated other comprehensive loss attributable to Xerox	$(3,537)	$ (3,748)

(1) Includes our share of Fuji Xerox.

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Note 18 – Earnings per Share

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

	Three Months Ended March 31,	
	2018	2017
Basic Earnings (Loss) per Share:		
Net Income from Continuing Operations Attributable to Xerox	$23	$46
Accrued dividends on preferred stock	(4)	(4)
Adjusted Net income from continuing operations available to common shareholders	19	42
Net loss from discontinued operations attributable to Xerox	—	(6)
Adjusted Net income available to common shareholders	$19	$36
Weighted average common shares outstanding	254,660	254,038
Basic Earnings (Loss) per Share:		
Continuing operations	$0.08	$0.17
Discontinued operations	—	(0.03)
Basic Earnings per Share	$0.08	$0.14
Diluted Earnings (Loss) per Share:		
Net Income from Continuing Operations Attributable to Xerox	$23	$46
Accrued dividends on preferred stock	(4)	(4)
Adjusted Net income from continuing operations available to common shareholders	19	42
Net loss from discontinued operations attributable to Xerox	—	(6)
Adjusted Net income available to common shareholders	$19	$36
Weighted average common shares outstanding	254,660	254,038
Common shares issuable with respect to:		
Restricted stock and performance shares	2,810	2,104
Adjusted Weighted average common shares outstanding	257,470	256,142
Diluted Earnings (Loss) per Share:		
Continuing operations	$0.08	$0.16
Discontinued operations	—	(0.02)
Diluted Earnings per Share	$0.08	$0.14
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	—	—
Restricted stock and performance shares	2,977	3,937
Convertible preferred stock	6,742	6,742
Total Anti-Dilutive Securities	9,719	10,679
Dividends per Common Share	$0.25	$0.25

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Note 19 – 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 March 31, 2018, the total amounts related to the unreserved portion of the tax and labor contingencies, inclusive of any related interest, amounted to approximately $585, with the decrease from our December 31, 2017 balance of approximately $600, primarily related to closed cases, partially offset by interest. With respect to the unreserved balance of $585, 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 March 31, 2018, we had $72 of escrow cash deposits for matters we are disputing and additional letters of credit and surety bonds of approximately $131 and $107, respectively, which include associated indexation. There were no liens on any of our Brazilian assets as of March 31, 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: 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 20 - 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 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 alleges 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 seeks to enjoin Xerox and its directors from

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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 proposed 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.

Xerox believes the lawsuits are meritless and will vigorously defend them. At this time, however, it is premature to make any conclusion regarding the probability of incurring material losses in these litigations. 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, including an inability to close the proposed transactions.

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'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 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. 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.

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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 $366 of guarantees as of March 31, 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 20 – Fuji Xerox Transaction and Recent Developments

Pending Litigation Relating to the Fuji Transaction

Refer to Note 19 - Contingencies and Litigation for discussion of the Pending Litigation Relating to the Fuji Transaction.

Fuji Xerox Transaction Overview

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”). The Transaction Agreements provide that, on the terms and subject to the conditions set forth in the Transaction Agreements, among other things:

- Redemption and Issuance - Fuji Xerox will redeem most of the shares of Fuji Xerox owned by Fujifilm in exchange for cash. Immediately following the Redemption, Fujifilm will contribute to Xerox the cash it received in the Redemption and all shares of Fuji Xerox still held by Fujifilm after giving effect to the Redemption and, in exchange therefore, Xerox will issue to Fujifilm a number of shares of Xerox common stock such that Fujifilm will own 50.1% of the Xerox common stock, on a fully diluted basis, at the closing of the transactions (the “Closing”), a portion of which will be held in escrow in accordance with the terms of the Transaction Agreements. As a result of the transactions contemplated by the Transaction Agreements (referred to herein as the "combination"), Fuji Xerox will become a wholly owned subsidiary of Xerox and Xerox will become a direct, majority owned subsidiary of Fujifilm (with the remainder of Xerox continuing to be owned by Xerox’s existing shareholders). The escrowed shares will be released from escrow upon, among other things, (i) the conversion of any shares of Xerox Series B Convertible

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Perpetual Preferred Stock into Xerox common stock or (ii) the issuance of any Xerox common stock in respect of any performance shares, options that were not in-the-money options or restricted stock units that remain unvested as of two business days prior to the Closing. If the events that could give rise to a release of the escrow shares to Fujifilm can no longer reasonably be expected to occur, then the escrow shares will be transferred back to the combined company ("new Fuji Xerox") and thereafter cancelled. Prior to their release, Fujifilm, as the holder of the escrow shares, will be required to vote such shares in the same proportion as all of the outstanding shares of Xerox common stock that are not escrowed shares are voted (for or against, not voted, or abstained as the case may be) and to return to new Fuji Xerox any distributions of dividends received in respect thereof.

Special Dividend - In connection with the combination, subject to applicable law, Xerox will declare a special one-time cash dividend of $2.5 billion, in the aggregate, to the holders of record of Xerox common stock on the record date for the special dividend. The amount of the special dividend is currently estimated to be approximately $9.80 per share of Xerox common stock (based on the shares of Xerox common stock outstanding as of March 31, 2018). The special dividend will be paid immediately prior to the Closing and funded by a new borrowing. Fujifilm will not be a shareholder of Xerox as of the record date for the special dividend and therefore will not receive any payment in respect thereof.

As previously announced, the Company and Fujifilm have been in discussions about improving the terms of their announced transaction. In connection with such discussions, the Company has had correspondence with Fujifilm as to whether Xerox has the right to terminate the Subscription Agreement.

Fuji Xerox has been determined to be the accounting acquirer and Xerox to be the accounting acquiree under the acquisition method of accounting based on various considerations. As noted above, immediately following the Closing, Fujifilm, the former parent of Fuji Xerox, is expected to own approximately 50.1% of the fully diluted capital stock of new Fuji Xerox and the other Xerox shareholders are expected to own approximately 49.9%. Further, pursuant to the Shareholders Agreement, to be entered into by Xerox and Fujifilm at Closing (the "Shareholders Agreement"), the board of directors of new Fuji Xerox will have twelve directors, which will initially be composed of seven individuals designated by Fujifilm (including the current CEO of Xerox) and five individuals from among the members of the board of directors of Xerox immediately prior to Closing designated by Xerox in consultation with and subject to reasonable approval by Fujifilm. Accordingly, the combination is expected to be accounted for as a reverse acquisition as per ASC Topic 805-40 "Business Combinations - Reverse Acquisitions".

Under certain circumstances, including the following, Xerox must pay to Fujifilm a $183 termination fee (the "Termination Fee"): in the event that the Subscription Agreement is terminated (i) by either party because the applicable shareholder approvals are not obtained if an alternative acquisition proposal is publicly announced prior to the Xerox shareholder meeting duly called for the purpose of obtaining the applicable shareholder approvals and Xerox enters into a definitive agreement with respect to, or otherwise consummates, an alternative acquisition proposal within 12 months after the termination of the Subscription Agreement; (ii) by Fujifilm (A) in connection with a material and intentional breach by Xerox of its non-solicitation obligations resulting in a third party making an alternate acquisition proposal that is reasonably likely to materially interfere with the Fujifilm Transactions or (B) following a change in the recommendation by the Board of Directors of Xerox; or (iii) by Xerox in order to enter into a definitive agreement with a third party with respect to a superior proposal, in each case as set forth in, and subject to the conditions of, the Fujifilm Transaction Agreements.

The completion of the Fujifilm Transactions will require Xerox shareholder approval as well as customary regulatory approvals, filings with the U.S. Securities and Exchange Commission, tax considerations, and securing any necessary financing. Until the combination is complete, each of Xerox, Fuji Xerox and Fujifilm will continue to be separate, independent organizations and will operate as usual.

Bridge Facility

On January 31, 2018, Xerox entered into a Commitment Letter with Citigroup Global Markets Inc. and Morgan Stanley Senior Funding, Inc., which provides a commitment, subject to the satisfaction of customary conditions, for a $2.5 billion unsecured bridge loan facility. This facility would be available for Xerox to pay the special one-time cash dividend of $2.5 billion to existing shareholders of Xerox as described herein. Xerox has not borrowed funds nor does it currently plan to borrow funds from this facility, rather, prior to closing, Xerox intends to secure alternative financing to meet its obligation to pay the special dividend. At March 31, 2018, we had approximately $11 of debt issuance costs deferred in connection with this facility, which are currently being amortized over the remainder of the year, and another $6 was paid in the second quarter 2018, which will also be deferred and amortized. Xerox may also secure financing to fund approximately $350 required to settle certain of Xerox's obligations in respect of unfunded supplemental pension plans and deferred compensation plans which will accelerate in connection with the combination (such accelerated payments, the "change-in-control payments").

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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 19 - Contingencies and Litigation and Note 20 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements for additional information related to this 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 determined that the misstatements to our Equity in net income of unconsolidated affiliates in prior years and the first quarter of 2017 identified through the IIC's review were immaterial to our previously issued financial statements. However, we concluded that the cumulative correction of these misstatements would have had a material effect on our full year 2017 consolidated financial statements. Accordingly, we revised our previously issued annual consolidated financial statements for 2015 and 2016. 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.

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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 10 - Investments in Affiliates, at Equity in the Condensed Consolidated Financial Statements for additional information.

First Quarter 2018 Review

Total revenue of $2.44 billion for first quarter 2018 declined 0.8% from first quarter 2017 including a 3.8-percentage point favorable impact from currency. Post-sale revenue, which primarily reflects contracted services, equipment maintenance, supplies and financing, were $1.94 billion and represented 80% of total revenues. Post-sale revenue, declined 0.3% including a 3.8-percentage point favorable impact from currency. The decline in post-sale revenue primarily reflected continuing lower page volume trends and 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. Equipment revenues of $499 million declined by 2.7%, including a 3.7-percentage point favorable impact from currency. Excluding the impact from currency, equipment revenues declined across all product areas and reflected price declines of approximately 5% as well as the follow-on impact of higher entry and mid-range sales in fourth quarter 2017 related to the expansion of our U.S. indirect channels. The decline in equipment sales also reflected the overall market decline trends, unfavorable mix and lower revenues from our OEM business.

Net income from continuing operations attributable to Xerox for the three months ended March 31, 2018 was $23 million and included after-tax costs of $155 million related to the amortization of intangible assets, restructuring and related costs, transaction and related costs, non-service retirement-related costs and other discrete adjustments, resulting in adjusted[1] net income from continuing operations attributable to Xerox of $178 million. Net income from continuing operations attributable to Xerox for the three months ended March 31, 2017 was $46 million and included after-tax costs of $130 million related to the amortization of intangible assets, restructuring and related costs, non-service retirement-related costs and other discrete adjustments, resulting in adjusted[1] net income from continuing operations attributable to Xerox of $176 million. The decrease in net income from continuing operations attributable to Xerox for the three months ended March 31, 2018 as compared to the prior year period was primarily due to lower equity income from our unconsolidated affiliates, which included our share of a significant restructuring charge recorded by Fuji Xerox, transaction and related costs and higher income taxes. These impacts were partially offset by lower restructuring and related costs and non-service retirement-related costs. The increase in adjusted[1] net income from continuing operations attributable to Xerox for the three months ended March 31, 2018 as compared to the prior year period was primarily related to increased operating profits reflecting the continued benefits of cost savings and productivity improvements, which offset the decline in revenues, as well as lower interest expense and a gain on the sale of non-core assets. These impacts were partially offset by lower equity income from unconsolidated affiliates and higher income taxes.

Operating cash flow from continuing operations for the three months ended March 31, 2018 was $216 million, as compared to $132 million for the prior year period. The increase is primarily due to improved operating profits, working capital[2] and the prior year reclassification of $54 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 4 - Recent Accounting Pronouncements in the Condensed Consolidated Financial Statements for additional information).
Cash used in investing activities for the three months ended March 31, 2018 was $2 million and included capital expenditures (including internal use software) of $18 million which were partially offset by proceeds of $16 million from the sale of non-core business assets. Cash used in financing activities of $117 million for the three months ended March 31, 2018 primarily reflects payments of $25 million related to the termination of a capital lease obligation and

$13 million of bridge facility costs, as well as dividend payments of $67 million.

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(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.

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Financial Review
Revenues

(in millions)	Three Months Ended March 31, 2018	2017	% Change	CC % Change	% of Total Revenue 2018	% of Total Revenue 2017
Equipment sales	$499	$513	(2.7)%	(6.4)%	20 %	21 %
Post sale revenue	1,936	1,941	(0.3)%	(4.1)%	80 %	79 %
Total Revenue	$2,435	$2,454	(0.8)%	(4.6)%	100%	100 %
Reconciliation to Condensed Consolidated Statements of Income:						
Sales	$933	$936	(0.3)%	(3.4)%		
Less: Supplies, paper and other sales	(434)	(434)	— %	(2.4)%		
Add: Equipment-related training[(1)]	—	11	NM	NM		
Equipment sales	$499	$513	(2.7)%	(6.4)%		
Services, maintenance and rentals	$1,431	$1,442	(0.8)%	(5.1)%		
Add: Supplies, paper and other sales	434	434	— %	(2.4)%		
Add: Financing	71	76	(6.6)%	(10.6)%		
Less: Equipment-related training[(1)]	—	(11)	NM	NM		
Post sale revenue	$1,936	$1,941	(0.3)%	(4.1)%		
North America	$1,438	$1,473	(2.4)%	(2.8)%	59 %	60 %
International	891	852	4.6 %	(5.5)%	37 %	35 %
Other	106	129	(17.8)%	(17.8)%	4 %	5 %
Total Revenue[(2)]	$2,435	$2,454	(0.8)%	(4.6)%	100%	100 %
Memo:						
Managed Document Services[(3)]	$862	$820	5.1 %	0.6 %	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 $753 million in first quarter 2018 and $714 million in first quarter 2017, representing an increase of 5.5% including a 4.4-percentage point favorable impact from currency.

First quarter 2018 total revenue decreased 0.8% as compared to first quarter 2017, with a 3.8-percentage point favorable impact from currency. First quarter 2018 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 decreased 0.3% as compared to first quarter 2017, with a 3.8-percentage point favorable impact from currency.

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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). These revenues decreased 0.8%, with a 4.3-percentage point favorable impact from currency. The decline at constant currency[1] reflected the continuing trends of lower page volumes and a lower population of devices, which are partially associated with lower signings and installs in prior periods, as well as the impact of a higher mix of installs of lower usage products. These impacts are partially offset by higher revenues from MDS driven by our SMB-focused channels, along with revenues from acquisitions within our Global Imaging business and higher revenues from developing markets.

- Supplies, paper and other sales includes unbundled supplies and other sales. These revenues were flat compared to the first quarter of 2017, with a 2.4-percentage point favorable impact from currency. The decline at constant currency[1] was driven by continued declines in equipment manufacturer (OEM) supplies as well as lower supplies demand consistent with a lower population of devices in the field, partially offset by higher supplies sales within our Global Imaging business.

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- Financing revenue is generated from financed equipment sale transactions. The 6.6% decline in these revenues reflected a declining finance receivables balance due to lower equipment sales in prior periods and included a 4.0-percentage point favorable impact from currency.

(in millions)	Three Months Ended March 31, 2018	2017	% Change	CC % Change	% of Equipment Sales 2018	2017
Entry(1)	$53	$56	(5.4)%	(10.9)%	11%	11%
Mid-range	334	332	0.6%	(2.5)%	67%	65%
High-end	92	97	(5.2)%	(9.4)%	18%	19%
Other(1)	20	28	(28.6)%	(28.6)%	4%	5%
Equipment sales(2)	$499	$513	(2.7)%	(6.4)%	100%	100%

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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 decreased 2.7% as compared to first quarter 2017, with a 3.7-percentage point favorable impact from currency and was impacted by price declines of approximately 5% (which were in-line with our historic declines). This decrease also reflected the follow-on impact of higher entry and mid-range sales in fourth quarter 2017 related to the expansion of our U.S. indirect channels. The decline at constant currency[1] in entry sales reflected in part higher sales in the prior year related to the indirect channels transition to the new products as well as lower revenues within our indirect channel in the current year, and a higher mix of low-end personal devices mainly in our developing markets. Mid-range declined modestly at constant currency[1] reflecting higher installs of new products offset by ongoing declines consistent with overall market trends. The decrease at constant currency[1] in high-end sales primarily reflected lower revenues from iGen and continuous feed systems due in part to timing of installs in the prior year, 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 Versant entry production color systems that were 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 Systems. Detail by product group (see Geographic Sales Channels and Product and Offerings Definitions) is shown below:

Entry(1)

- 4% increase in color multifunction devices, reflecting demand for recently launched products.
- 18% increase in black-and-white multifunction devices, driven largely by higher activity for low-end devices in developing markets.

Mid-Range(2)

- 16% increase in mid-range color installs, reflecting higher demand for recently launched products.
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11% increase in mid-range black-and-white, as demand for recently launched products more than offset market trends.

High-End[(2)]

- 6% increase in high-end color systems, as growth from Versant products offset lower installs of higher-end color systems.
- 9% decrease in high-end black-and-white systems reflecting market trends.

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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 Systems channel. Total Contract Value (TCV) is the estimated total contractual revenue related to signed contracts; our signings expressed in TCV were as follows:

	Three Months Ended March 31,			
(in millions)	2018	2017	% Change	CC % Change
Signings	$509	$512	(0.6)%	(2.0)%

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

First quarter 2018 signings decreased 0.6% from first quarter 2017, with a 1.4-percentage point favorable impact from currency, reflecting lower contribution from new business. On a trailing twelve month (TTM) basis, signings increased 1.1% from the comparable prior year period, with a 0.5-percentage point unfavorable impact from currency. New business TCV decreased 5.2% from first quarter 2017, with a 1.4-percentage point favorable impact from currency, and decreased 12.2% at constant currency[1] on a TTM basis, led by lower signings in Europe.

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 first quarter 2018 was 85%, 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, Entry color multifunction devices increased 7%, while Entry black-and-white multifunction devices increased 16%.

(2) Mid-range and High-end color installations exclude Fuji Xerox digital front-end sales; including Fuji Xerox digital front-end sales, Mid-range color devices increased 16%, and High-end color systems increased 5%.

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Costs, Expenses and Other Income

Summary of Key Financial Ratios

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

	Three Months Ended March 31,		
(in millions)	2018	2017	B/(W)
Gross Profit	$970	$975	$(5)
RD&E	100	111	11
SAG	628	634	6
Equipment Gross Margin	32.3 %	30.7 %	1.6 pts.
Post sale Gross Margin	41.8 %	42.1 %	(0.3)pts.
Total Gross Margin	39.8 %	39.7 %	0.1 pts.
RD&E as a % of Revenue	4.1 %	4.5 %	0.4 pts.
SAG as a % of Revenue	25.8 %	25.8 %	— pts.
Pre-tax Income (Loss)	$134	$(16)	$150
Pre-tax Income (Loss) Margin	5.5 %	(0.7)%	6.2 pts.
Adjusted(1) Operating Profit	$253	$270	$(17)
Adjusted (1) Operating Margin	10.4 %	11.0 %	(0.6)pts.

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

Pre-tax Income (Loss) Margin

First quarter 2018 pre-tax income margin of 5.5% increased 6.2-percentage points as compared to first quarter 2017. The increase was primarily driven by lower restructuring and related costs that reflected the phasing of our strategic transformation initiatives, as well as lower Other expense, net partially offset by Transaction related costs.

Adjusted[1] Operating Margin

First quarter 2018 adjusted[1] operating margin of 10.4% decreased 0.6-percentage points as compared to first quarter 2017, reflecting a 1.2-percentage point impact from lower Equity in income (associated with our share of Fuji Xerox net income), partially offset by improvement in other areas of our business as a result of cost savings, including savings from strategic transformation which more than offset the impact of revenue decline and investments in the business. Adjusted[1] operating margin includes favorable transaction currency of 0.7-percentage points.

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

Gross Margin

First quarter 2018 gross margin of 39.8% increased by 0.1-percentage points compared to first quarter 2017. This performance reflected cost productivity savings, along with favorable transaction currency of 0.7-percentage points partially offset by the impact of lower revenues.

First quarter 2018 equipment gross margin of 32.3% increased 1.6-percentage points as compared to first quarter 2017, reflecting benefits from transaction currency and cost productivity savings.

First quarter 2018 post sale gross margin of 41.8% decreased 0.3-percentage points as compared to first quarter 2017 reflecting in part, the impact of lower revenues, partially offset by net productivity savings as well as favorable transaction currency.

Research, Development and Engineering Expenses (RD&E)

Three
Months
Ended

	March 31,		
(in millions)	2018	2017	Change
R&D	$81	$88	$ (7)
Sustaining engineering	19	23	(4)
Total RD&E Expenses	$100	$111	$ (11)

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First quarter 2018 RD&E as a percentage of revenue of 4.1% was 0.4-percentage points lower compared to first quarter 2017.

RD&E of $100 million decreased by $11 million compared to first quarter 2017 and reflected cost savings, including restructuring savings and lower expenses from the sales of businesses and associated transfers of resources to third parties during the prior year. We strategically coordinate our R&D investments with Fuji Xerox.

Selling, Administrative and General Expenses (SAG)

SAG as a percentage of revenue of 25.8% was flat compared to first quarter 2017.

SAG of $628 million was $6 million lower than first quarter 2017, including an approximate $19 million unfavorable impact from currency as well as $9 million of accelerated depreciation related to the early termination of a capital lease associated with a surplus facility. These adverse impacts were more than offset by cost savings, including restructuring savings, partially offset by higher compensation and benefit expense as well as expenses from Global Imaging acquisitions. Bad debt expense of $13 million was flat compared to first quarter 2017 and remained at less than one percent of receivables.

Restructuring and Related Costs

First quarter 2018 restructuring and related costs of $28 million included $24 million of severance costs related to headcount reductions of approximately 400 employees worldwide and $12 million of lease cancellation charges reflecting continued optimization of our operating locations. These costs were partially offset by $8 million of net reversals for changes in estimated reserves from prior period initiatives. First quarter 2018 actions impacted several functional areas, with approximately 55% focused on gross margin improvements and approximately 45% on SAG reductions. Costs related to professional support services associated with the implementation of the Strategic Transformation program were minimal.

First quarter 2017 restructuring and related costs of $118 million included net restructuring and asset impairment charges of $108 million as well as $10 million of additional costs primarily related to professional support services associated with the implementation of the Strategic Transformation program.

First quarter 2017 net restructuring and asset impairment charges of $108 million included $108 million of severance costs related to headcount reductions of approximately 1,000 employees worldwide and $2 million of lease cancellation charges. The first quarter 2017 actions impacted several functional areas, with approximately 30% of the actions focused on gross margin improvements, approximately 60% on SAG reductions and approximately 10% on RD&E optimization. These costs were partially offset by $2 million of net reversals for changes in estimated reserves from prior period initiatives.

The restructuring reserve balance as of March 31, 2018 for all programs was $85 million, of which $82 million is expected to be spent over the next twelve months.

Refer to Note 11 - Restructuring Programs in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Transaction and Related Costs

During first quarter 2018, we recorded costs of $36 million related to Xerox's planned combination transaction with Fuji Xerox, which is currently halted as a result of a court injunction. These costs were primarily for third-party investment banking, accounting, legal, consulting and other similar types of services as well as certain employee-related costs associated with the planned combination. These costs will also include additional expenses expected to be incurred in the second quarter 2018 for third-party legal and other related costs associated with the ongoing litigation with certain shareholders as well as other related matters.

Amortization of Intangible Assets

First quarter 2018 amortization of intangible assets of $12 million was $2 million lower than first quarter 2017.

Worldwide Employment

Worldwide employment was approximately 35,000 as of March 31, 2018 and decreased by approximately 300 from December 31, 2017. The reduction is primarily due to the impact of restructuring and productivity-related reductions.

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Other Expenses, Net

(in millions)	Three Months Ended March 31, 2018	2017
Non-financing interest expense	$31	$36
Non-service retirement-related costs	25	60
Interest income	(3)	(2)
Gains on sales of businesses and assets	(16)	—
Currency (gains) losses, net	(2)	3
Loss on sales of accounts receivable	1	3
Loss on early extinguishment of debt	—	13
Bridge facility costs	2	—
All other expenses, net	(6)	1
Other expenses, net	$32	$114

Non-Financing Interest Expense

First quarter 2018 non-financing interest expense of $31 million was $5 million lower than first quarter 2017. When combined with financing interest expense (Cost of financing), total interest expense declined by $4 million from first quarter 2017 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

First quarter 2018 non-service retirement-related costs were $35 million lower than first quarter 2017, primarily driven by lower losses from pension settlements and the favorable impact of higher pension contributions and asset returns in the prior year.

Gains on Sales of Businesses and Assets

First quarter 2018 gains on sales of businesses and assets of $16 million 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

First quarter 2018 effective tax rate was 29.9%. On an adjusted[1] basis, first quarter 2018 effective tax rate was 28.3%. 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[1] effective tax rate excludes the tax benefits associated with the following charges: restructuring and related costs, amortization of intangible assets, transaction and related costs, non-service retirement-related costs and other discrete items.

First quarter 2017 tax benefit was at an effective tax rate of 150.0%, which was higher than the U.S. statutory tax rate of 35% primarily due to the favorable re-measurement of certain unrecognized tax positions. On an adjusted[1] basis, first quarter 2017 tax expense was at an effective tax rate of 27.0% which was lower than the U.S. statutory tax rate primarily due to foreign tax credits and the geographic mix of profits. The adjusted[1] 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.

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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 first quarter 2018. However, we continue to evaluate the 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.

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 first quarter 2018 effective tax rate 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 (Loss) Income of Unconsolidated Affiliates

	Three Months Ended March 31,	
(in millions)	2018	2017
Total equity in net (loss) income of unconsolidated affiliates	$(68)	$ 40
Fuji Xerox after-tax restructuring and other charges included in equity (loss) income	79	—

Equity in net (loss) income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox net loss. First quarter 2018 equity loss of $68 million included an approximate $28 million charge related to the out-of-period adjustments described in Note 10 - Investments in Affiliates, at Equity in the Condensed Consolidated Financial Statements and in the "Fuji Xerox Adjustments" section above, and was $108 million worse compared to first quarter 2017, including $79 million of higher year-over-year charges related to our share of Fuji Xerox after-tax restructuring and other charges. Other charges included costs associated with the combination transaction.

We have revised Equity in net income of unconsolidated affiliates for the prior year period presented throughout this document. Refer to Note 2 - Correction of Fuji Xerox Misstatement in Prior Period Financial Statements in the Condensed Consolidated Financial Statements, for additional information on this revision.

Net Income from Continuing Operations

First quarter 2018 net income from continuing operations attributable to Xerox was $23 million, or $0.08 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $178 million, or $0.68 per diluted share. First quarter 2018 adjustments to net income include restructuring and related costs, amortization of intangible assets, transaction and related costs and non-service retirement-related costs as well as other discrete, unusual or infrequent items as described in our Non-GAAP Financial Measures section.

First quarter 2017 net income from continuing operations attributable to Xerox was $46 million, or $0.16 per diluted share. On an adjusted[1] basis, net income from continuing operations attributable to Xerox was $176 million, or $0.67 per diluted share. First quarter 2017 adjustments to net income include 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.

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Refer to Note 18 - Earnings per Share in the Condensed Consolidated Financial Statements, for additional information regarding the calculation of basic and diluted earnings per share.

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(1) 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 5 - Divestitures in the Condensed Consolidated Financial Statements for additional information regarding discontinued operations.

Net Income

First quarter 2018 net income attributable to Xerox was $23 million, or $0.08 per diluted share. First quarter 2017 net income attributable to Xerox was $40 million, or $0.14 per diluted share.

Other Comprehensive Income

First quarter 2018 Other comprehensive income attributable to Xerox was $211 million as compared to $166 million in first quarter 2017. The $45 million increase is primarily due to a $43 million increase in net translation adjustment gains of $176 million for the first quarter 2018 as compared to $133 million for the first quarter 2017. The increase reflected a greater strengthening of our major foreign currencies against the U.S. Dollar in first quarter 2018 as compared to the prior year period. Additionally, 2018 Other comprehensive income included a $9 million year-over-year benefit from higher net unrealized gains on derivatives. Both the net translation adjustment gains and net unrealized gains were offset by lower net year-over-year changes in defined benefits of $8 million.

Refer to Note 13 - Financial Instruments in the Condensed Consolidated Financial Statements, for additional information regarding derivatives, and Note 15 - 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 March 31, 2018 and December 31, 2017, total cash, cash equivalents and restricted cash were $1,474 million and $1,368 million, respectively. There were no borrowings under our Credit Facility or Commercial Paper Program at March 31, 2018 or December 31, 2017, respectively.

Cash Flow Analysis

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

	Three Months Ended March 31,		Change
(in millions)	2018	2017	
Net cash provided by operating activities of continuing operations	$216	$132	$ 84
Net cash used in operating activities of discontinued operations	—	(80)	80
Net cash provided by operating activities	216	52	164
Net cash used in investing activities	(2)	(11)	9
Net cash used in financing activities	(117)	(1,258)	1,141
Effect of exchange rate changes on cash, cash equivalents and restricted cash	9	9	—
Increase (decrease) in cash, cash equivalents and restricted cash	106	(1,208)	1,314
Cash, cash equivalents and restricted cash at beginning of period	1,368	2,402	(1,034)
Cash, Cash Equivalents and Restricted Cash at End of Period	$1,474	$1,194	$ 280

Cash Flows from Operating Activities

Net cash provided by operating activities of continuing operations was $216 million in first quarter 2018. The $84 million increase in operating cash from first quarter 2017 was primarily due to the following:

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$71 million increase in pre-tax income before transaction and related costs, depreciation and amortization, gain on sales of businesses and assets, restructuring charges and defined benefit pension costs.

- $123 million increase from accounts receivable primarily due to the timing of collections and lower revenue, as well as the prior year reclassification of $48 million of collections of deferred proceeds from the sales of accounts receivables to investing.

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- $20 million increase from finance receivables primarily related to a higher level of run-off due to lower originations.
- $73 million decrease primarily related to the prior year settlements of foreign currency derivative contracts.
- $29 million decrease from inventory primarily due to lower equipment sales.
- $15 million decrease from higher pension contributions primarily in the U.K.
- $15 million decrease due to payments for transaction and related costs.

Cash Flows from Investing Activities

Net cash used in investing activities was $2 million in first quarter 2018. The $9 million change from first quarter 2017 was primarily due to the following:

- $54 million decrease primarily as a result of the termination of certain accounts receivables sales arrangements in fourth quarter 2017.
- $15 million increase primarily from the sale of non-core business assets in 2018.
- $11 million increase due to no acquisitions in 2018.
- $8 million increase due to lower capital expenditures.

Cash Flows from Financing Activities

Net cash used in financing activities was $117 million in first quarter 2018. The $1,141 million decrease in the use of cash from first quarter 2017 was primarily due to the following:

- $1,287 million decrease from net debt activity. 2018 reflects payments of $25 million related to the termination of a capital lease obligation and $13 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.
- $11 million increase due to higher distributions to noncontrolling interests as a result of the timing of payments.

Cash, Cash Equivalents and Restricted Cash

Refer to Note 6 - Cash, Cash Equivalents and Restricted Cash in the Condensed Consolidated Financial Statements for additional information.

Debt and Customer Financing Activities

The following summarizes our debt:

(in millions)	March 31, 2018	December 31, 2017
Principal debt balance(1)	$ 5,552	$ 5,579
Net unamortized discount	(33)	(35)
Debt issuance costs	(30)	(32)
Fair value adjustments(2)		
- terminated swaps	(4)	4
- current swaps	4	1
Total Debt	$ 5,489	$ 5,517

(1) Includes Notes Payable of $4 million and $6 million as of March 31, 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)	March 31, 2018	December 31, 2017

Total finance receivables, net[1]	$3,685	$ 3,752
Equipment on operating leases, net	448	454
Total Finance Assets, net[2]	$4,133	$ 4,206

(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 an increase of $36 million due to currency.

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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)	March 31, 2018	December 31, 2017
Finance receivables debt[1]	$ 3,224	$ 3,283
Equipment on operating leases debt	392	397
Financing debt	3,616	3,680
Core debt	1,873	1,837
Total Debt	$ 5,489	$ 5,517

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(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 20 - Fuji Xerox Transaction and Recent Developments in the Condensed Consolidated Financial Statements for additional information regarding the bridge facility entered into in connection with the Fuji Xerox Transaction.

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 7 - 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 Q2	$ 270
2018 Q3	1
2018 Q4	—
2019	962
2020	1,052
2021	1,064
2022	301
2023 and thereafter	1,902
Total	$ 5,552

Treasury Stock

There were no share repurchases through the first quarter of 2018 or through the date of our filing on May 10, 2018.

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

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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 first quarter 2018 presentation slides available at www.xerox.com/investor.

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

Adjusted Earnings Measures

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

The above measures were adjusted for the following items:

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: Transaction and related costs are expenses incurred in connection with Xerox's planned combination transaction with Fuji Xerox, which is currently halted as a result of a court injunction. These costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services as well as certain employee-related costs associated with the planned combination. These costs will also include additional expenses expected to be incurred in the second quarter 2018 for third-party legal and other related costs associated with the ongoing litigation with certain shareholders as well as other related matters. 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. 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 for similar items noted above such as Restructuring and related costs and Transaction and related costs based on the same rationale discussed above.

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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:

- 2018 - Bridge facility costs relate to the previously disclosed $2.5 billion bridge loan facility, which was entered into in the first quarter 2018 to provide funding for the payment of the expected $2.5 billion dividend associated with the Fuji Xerox combination transaction in the event Xerox does not secure permanent financing. Since these costs are related to the Fuji Xerox combination transaction, the exclusion was considered consistent with Transaction and related costs discussed above.
- 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 (loss) 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 (loss) income of unconsolidated affiliates. Equity in net (loss) income of unconsolidated affiliates primarily reflects our 25% share of Fuji Xerox's net income. 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:

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Net Income and EPS reconciliation:

	Three Months Ended March 31,			
	2018		2017	
(in millions, except per share amounts)	Net Income	EPS	Net Income	EPS
Reported[(1)]	$23	$0.08	$46	$0.16
Adjustments:				
Restructuring and related costs	28		118	
Amortization of intangible assets	12		14	
Transaction and related costs	36		—	
Non-service retirement-related costs	25		60	
Loss on early extinguishment of debt	—		13	
Bridge facility costs	2		—	
Income tax on adjustments[(2)]	(27)		(59)	
Remeasurement of unrecognized tax positions	—		(16)	
Restructuring and other charges - Fuji Xerox[(3)]	79		—	
Adjusted	$178	$0.68	$176	$0.67
Dividends on preferred stock used in adjusted EPS calculation[(4)]		$—		$—
Weighted average shares for adjusted EPS[(4)]		264		263
Fully diluted shares at end of period[(5)]		264		

(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 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 March 31, 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 first quarter 2018.

Effective Tax Rate reconciliation:

	Three Months Ended March 31,					
	2018			2017		
(in millions)	Pre-Tax Income	Income Tax Expense	Effective Tax Rate	Pre-Tax (Loss) Income	Income Tax (Benefit) Expense	Effective Tax Rate
Reported[(1)]	$134	$ 40	29.9 %	$(16)	$ (24)	150.0 %
Non-GAAP Adjustments[(2)]	103	27		205	59	
Remeasurement of unrecognized tax positions	—	—		—	16	
Adjusted[(3)]	$237	$ 67	28.3 %	$189	$ 51	27.0 %

(1) Pre-Tax Income (Loss) and Income Tax Expense (Benefit) 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 (Loss) under ASC 740, which employs an annual effective tax rate method to the results.

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Operating Income / Margin reconciliation:

	Three Months Ended March 31,					
	2018			2017		
(in millions)	Profit	Revenue	Margin	(Loss) Profit	Revenue	Margin
Reported[1]	$134	$ 2,435	5.5 %	$(16)	$ 2,454	(0.7)%
Adjustments:						
Restructuring and related costs	28			118		
Amortization of intangible assets	12			14		
Transaction and related costs	36			—		
Non-service retirement-related costs	25			60		
Equity in net (loss) income of unconsolidated affiliates	(68)			40		
Restructuring and other charges - Fuji Xerox[2]	79			—		
Other expenses, net	7			54		
Adjusted	$253	$ 2,435	10.4 %	$270	$ 2,454	11.0 %

(1) Pre-Tax Income (Loss) and revenue from continuing operations.
(2) Other charges in 2018 represent costs associated with the 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 19 – 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 remain applicable from our 2017 Annual Report.

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

(a) Sales of Unregistered Securities during the Quarter ended March 31, 2018

During the quarter ended March 31, 2018, Registrant issued the following securities in transactions that were not registered under the Securities Act of 1933, as amended (the “Act”).

Semi-Annual Director Fees:

a. Securities issued on January 14, 2018: Registrant issued 25,137 deferred stock units (DSUs), representing the right to receive shares of Common Stock, par value $1 per share, at a future date.

b. No underwriters participated. The shares were issued to each of the non-employee Directors of Registrant: Gregory Q. Brown, Joseph J. Echevarria, 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 $32.225 per DSU (aggregate price $810,040), based upon the market value on the date of issuance, in payment of the semi-annual Director's fees pursuant to Registrant's 2004 Equity Compensation Plan for Non-Employee Directors.

d. Exemption from registration under the Act was claimed based upon Section 4(2) as a sale by an issuer not involving a public offering.

Dividend Equivalent:

a. Securities issued on January 31, 2018: Registrant issued 2,832 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 $29.295 per DSU (aggregate price $82,963), 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 March 31, 2018

Board Authorized Share Repurchases Programs:

There were no repurchases of Xerox Common Stock pursuant to Board authorized share repurchase programs during the first quarter 2018 or through the date of our filing on May 10, 2018.

Repurchases Related to Stock Compensation Programs[1]:

	Total Number of Shares Purchased	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum That May Be Purchased under the Plans or Programs
January 1 through 31	42,318	$ 29.15	n/a	n/a
February 1 through 28	—	—	n/a	n/a
March 1 through 31	—	—	n/a	n/a
Total	42,318			

(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.

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ITEM 6 — EXHIBITS

3(a)	Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on February 21, 2013, as amended by the Certificates of Amendment of Certificate of Incorporation filed with the Department of State of the State of New York on December 23, 2016 and June 14, 2017.
	Incorporated by reference to Exhibit 3(a) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. See SEC File Number 001-04471.
3(b)	By-Laws of Registrant as amended through August 15, 2016.
	Incorporated by reference to Exhibit 3(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2016. See SEC File Number 001-04471.
12	Computation of Ratio of Earnings to Fixed Charges.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

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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: May 10, 2018

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