AT&T INC.
Form 4
March 02, 2016

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
| OMB Number: | 3235-0287 |
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(Print or Type Responses)

1. Name and Address of Reporting Person *
DE LA VEGA RAFAEL

(Last) (First) (Middle)

208 S. AKARD STREET

(Street)

DALLAS, TX 75202

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
AT&T INC. [T]

3. Date of Earliest Transaction (Month/Day/Year)
02/29/2016

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Vice Chairman

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock | 02/29/2016 | | A(1) | | 59,955.9948 | A | $ 36.95 | 311,329.9689 | I | By Benefit Plan |
| Common Stock | | | | | | | | 2,983.9097 | I | By 401(k) |
| Common Stock | | | | | | | | 514,311 | D | |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

**displays a currently valid OMB control number.**

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Owne Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Code | V | (A) | (D) | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| DE LA VEGA RAFAEL<br>208 S. AKARD STREET<br>DALLAS, TX 75202 | | | Vice Chairman | |

# Signatures

| /s/ Stacey S. Maris, Secy., Attorney-in-fact | 03/02/2016 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** Represents deferred stock units purchased by the reporting person with automatic payroll deductions and partial company matching contributions. Deferred stock units are settled only in stock on a 1-for-1 basis.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Convertible Preferred Stock

214

214

Common stock

232

255

Additional paid-in capital

3,321

3,893

Treasury stock, at cost

(55
)

—

Retained earnings

5,072

4,856

Accumulated other comprehensive loss

(3,565
)

(3,748
)
Xerox shareholders’ equity

5,005

5,256

Noncontrolling interests

34

37

Total Equity

5,039

5,293

Total Liabilities and Equity

$
14,874

$
15,946

Shares of common stock issued

231,690

254,613

Treasury stock

(2,067
)

—

Shares of common stock outstanding

229,623

254,613

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

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Xerox Corporation
Consolidated Statements of Cash Flows

| (in millions) | Year Ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| Cash Flows from Operating Activities | | | |
| Net income (loss) | $374 | $207 | $(460) |
| (Income) loss from discontinued operations, net of tax | — | (3) | 1,093 |
| Income from continuing operations | 374 | 204 | 633 |
| Adjustments required to reconcile Net income (loss) to Cash flows from operating activities | | | |
| Depreciation and amortization | 526 | 527 | 563 |
| Provisions | 70 | 73 | 71 |
| Deferred tax expense (benefit) | 135 | 399 | (9) |
| Net gain on sales of businesses and assets | (35) | (15) | (22) |
| Undistributed equity in net income of unconsolidated affiliates | (7) | (18) | (75) |
| Stock-based compensation | 57 | 52 | 50 |
| Restructuring and asset impairment charges | 157 | 197 | 225 |
| Payments for restructurings | (170) | (220) | (113) |
| Defined benefit pension cost | 175 | 194 | 127 |
| Contributions to defined benefit pension plans | (144) | (836) | (178) |
| Decrease (increase) in accounts receivable and billed portion of finance receivables | 30 | (529) | (151) |
| Decrease (increase) in inventories | 35 | (69) | 7 |
| Increase in equipment on operating leases | (248) | (217) | (268) |
| Decrease in finance receivables | 166 | 162 | 126 |
| Decrease (increase) in other current and long-term assets | 29 | (19) | 76 |
| Decrease in accounts payable | (18) | (15) | (250) |
| (Decrease) increase in accrued compensation | (112) | (27) | 6 |
| Increase (decrease) in other current and long-term liabilities | 51 | (80) | (77) |
| Net change in income tax assets and liabilities | 41 | 11 | (182) |
| Net change in derivative assets and liabilities | (14) | 75 | (30) |
| Other operating, net | 42 | (28) | 187 |
| Net cash provided by (used in) operating activities of continuing operations | 1,140 | (179) | 716 |
| Net cash (used in) provided by operating activities of discontinued operations | — | (88) | 82 |
| Net cash provided by (used in) operating activities | 1,140 | (267) | 798 |
| Cash Flows from Investing Activities | | | |
| Cost of additions to land, buildings, equipment and software | (90) | (105) | (138) |
| Proceeds from sales of businesses and assets | 59 | 23 | 25 |
| Acquisitions, net of cash acquired | — | (87) | (30) |
| Collections of deferred proceeds from sales of receivables | — | 213 | 246 |
| Collections on beneficial interest from sales of finance receivables | — | 21 | 24 |
| Other investing, net | 2 | 100 | 39 |
| Net cash (used in) provided by investing activities of continuing operations | (29) | 165 | 166 |
| Net cash used in investing activities of discontinued operations | — | — | (251) |
| Net cash (used in) provided by investing activities | (29) | 165 | (85) |
| Cash Flows from Financing Activities | | | |
| Net (payments) proceeds on short-term debt | (5) | 2 | 1,888 |
| Proceeds from issuance of long-term debt | 9 | 1,008 | 25 |
| Payments on long-term debt | (311) | (1,832) | (988) |

| | | | |
|---|---|---|---|
| Dividends | (269) | (291) | (331) |
| Payments to acquire treasury stock, including fees | (700) | — | — |
| Other financing, net | (25) | 128 | (10) |
| Net cash (used in) provided by financing activities | (1,301) | (985) | 584 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | (30) | 53 | (17) |
| Increase in cash, cash equivalents and restricted cash of discontinued operations | — | — | (262) |
| (Decrease) increase in cash, cash equivalents and restricted cash | (220) | (1,034) | 1,018 |
| Cash, cash equivalents and restricted cash at beginning of year | 1,368 | 2,402 | 1,384 |
| Cash, Cash Equivalents and Restricted Cash at End of Year | $1,148 | $1,368 | $2,402 |

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

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Xerox Corporation
Consolidated Statements of Shareholders' Equity

| (in millions) | Common Stock | Additional Paid-in Capital | Treasury Stock | Retained Earnings | AOCL(3) | Xerox Shareholders' Equity | Non-controlling Interests | Total Equity |
|---|---|---|---|---|---|---|---|---|
| Balance at December 31, 2015 | $ 253 | $ 3,777 | $ — | $ 9,575 | $ (4,630) | $ 8,975 | $ 43 | $ 9,018 |
| Comprehensive (loss) income, net | — | — | — | (471) | (233) | (704) | 8 | (696) |
| Cash dividends declared- common(1) | — | — | — | (317) | — | (317) | — | (317) |
| Cash dividends declared - preferred(2) | — | — | — | (24) | — | (24) | — | (24) |
| Stock option and incentive plans, net | 1 | 81 | — | — | — | 82 | — | 82 |
| Distributions to noncontrolling interests | — | — | — | — | — | — | (13) | (13) |
| Separation of Conduent | — | — | — | (3,829) | 526 | (3,303) | — | (3,303) |
| Balance at December 31, 2016 | $ 254 | $ 3,858 | $ — | $ 4,934 | $ (4,337) | $ 4,709 | $ 38 | $ 4,747 |
| Comprehensive income, net | — | — | — | 195 | 589 | 784 | 13 | 797 |
| Cash dividends declared- common(1) | — | — | — | (259) | — | (259) | — | (259) |
| Cash dividends declared - preferred(2) | — | — | — | (14) | — | (14) | — | (14) |
| Stock option and incentive plans, net | 1 | 36 | — | — | — | 37 | — | 37 |
| Distributions and purchase - noncontrolling interests | — | (1) | — | — | — | (1) | (14) | (15) |
| Balance at December 31, 2017 | $ 255 | $ 3,893 | $ — | $ 4,856 | $ (3,748) | $ 5,256 | $ 37 | $ 5,293 |
| Cumulative effect of change in accounting principles(4) | — | — | — | 120 | — | 120 | — | 120 |
| Comprehensive income, net | — | — | — | 361 | 183 | 544 | 13 | 557 |
| Cash dividends declared- common(1) | — | — | — | (251) | — | (251) | — | (251) |
| Cash dividends declared - preferred(2) | — | — | — | (14) | — | (14) | — | (14) |
| Stock option and incentive plans, net | 1 | 49 | — | — | — | 50 | — | 50 |
| Payments to acquire treasury stock, including fees | — | — | (700) | — | — | (700) | — | (700) |
| Cancellation of treasury stock | (24) | (621) | 645 | — | — | — | — | — |
| Distributions to noncontrolling interests | — | — | — | — | — | — | (16) | (16) |
| Balance at December 31, 2018 | $ 232 | $ 3,321 | $ (55) | $ 5,072 | $ (3,565) | $ 5,005 | $ 34 | $ 5,039 |

(1) Cash dividends declared on common stock of $0.25 per share in each quarter of 2018, $0.25 per share in each quarter of 2017 and $0.31 per share in each quarter of 2016.
(2) Cash dividends declared on preferred stock of $20 per share in each quarter of 2018, 2017 and 2016.
(3) AOCL - Accumulated other comprehensive loss.
(4) Includes $117 related to the adoptions of the new Revenue Recognition Standard, see Note 2 - Revenue for additional information, and $3 related to our share of Fuji Xerox's adoption of ASU 2016-01 - Financial Instruments - Classification and Measurement.

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

Explanation of Responses:

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Xerox Corporation
Notes to Consolidated Financial Statements
(in millions, except per-share data and where otherwise noted)
Note 1 – Basis of Presentation and Summary of Significant Accounting Policies
The accompanying Consolidated Financial Statements and footnotes of Xerox Corporation have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).
References herein to “we,” “us,” “our,” the “Company” and “Xerox” refer to Xerox Corporation and its consolidated subsidiari unless the context suggests otherwise.
Description of Business
Xerox is a $9.8 billion global enterprise for document management solutions. We provide advanced document technology, services, software and genuine Xerox supplies for a range of customers including small and mid-size businesses, large enterprises, governments and graphic communications providers, and for our partners who serve them. We operate in approximately 160 countries worldwide.
Basis of Consolidation
The Consolidated Financial Statements include the accounts of Xerox Corporation and all of our controlled subsidiary companies. All significant intercompany accounts and transactions have been eliminated. Investments in business entities in which we do not have control, but we have the ability to exercise significant influence over operating and financial policies (generally 20% to 50% ownership) are accounted for using the equity method of accounting. Operating results of acquired businesses are included in the Consolidated Statements of Income (Loss) from the date of acquisition.
We consolidate variable interest entities if we are deemed to be the primary beneficiary of the entity. Operating results for variable interest entities in which we are determined to be the primary beneficiary are included in the Consolidated Statements of Income (Loss) from the date such determination is made.
For convenience and ease of reference, we refer to the financial statement caption “Income before Income Taxes and Equity Income” as “pre-tax income” throughout the Notes to the Consolidated Financial Statements.
Discontinued Operations
On December 31, 2016, we completed the separation of our Business Process Outsourcing (BPO) business through the distribution of all of the issued and outstanding stock of Conduent Incorporated to Xerox Corporation stockholders. As a result of the separation and distribution, the financial position and results of operations of the BPO Business are presented as discontinued operations and, as such, have been excluded from continuing operations for all periods presented.
Refer to Note 5 - Divestitures for additional information regarding discontinued operations and other divestitures.
Prior Period Adjustments
In third quarter 2018, we determined that the Pension Benefit Obligation (PBO) for our UK funded pension plan at December 31, 2017 was overstated by approximately GBP 40 million (approximately USD $53 or $43 after-tax). The error was the result of the plan administrator under-reporting benefit payments. The correction of the PBO was recorded as an out-of-period adjustment in the third quarter 2018 with the offset to the balance sheet recorded as a credit to Changes in defined benefit plans, net in Other comprehensive income for the period. We assessed the impact of this error and concluded that it was not material to the financial statements previously issued for any interim or annual period and the correction was not material to the annual financial statements for 2018.
Use of Estimates
The preparation of our Consolidated Financial Statements requires that we make estimates and assumptions that affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Future events and their effects cannot be predicted with certainty; accordingly, our accounting estimates require the exercise of judgment. The accounting estimates used in the preparation of our Consolidated Financial Statements will change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. Our estimates are based on management's best available information including current events,

historical experience, actions that the company may undertake in the future and on various other assumptions that are believed to be reasonable under the circumstances. As a result, actual results may be different from these estimates.

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Changes in Estimates
In the ordinary course of accounting for the items discussed above, we make changes in estimates as appropriate and as we become aware of new or revised circumstances surrounding those estimates. Such changes and refinements in estimation methodologies are reflected in reported results of operations in the period in which the changes are made and, if material, their effects are disclosed in the Notes to the Consolidated Financial Statements and in Management's Discussion and Analysis of Financial Condition and Results of Operations.
New Accounting Standards and Accounting Changes
Except for the Accounting Standard Updates (ASUs) discussed below, the new ASUs issued by the FASB during the last two years did not have any significant impact on the Company.
Accounting Standard Updates to be Adopted:
Leases
In February 2016, the FASB issued ASU 2016-02, Leases (ASC Topic 842), with additional amendments and targeted improvements being issued during 2018. This update supersedes existing lease accounting guidance found under ASC 840, Leases (“ASC 840”) and requires the recognition of right-to-use assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires qualitative and quantitative disclosure of key information regarding the amount, timing and uncertainty of cash flows arising from leasing arrangements to increase transparency and comparability among companies. The accounting for lessors does not fundamentally change with this update except for changes to conform and align guidance to the lessee guidance as well as to the new revenue recognition guidance in ASU 2014-09. Some of these conforming changes such as those related to the definition of lease term and minimum lease payments, may potentially result in certain lease arrangements, which are currently accounted for as operating leases, being classified and accounted for as sales-type leases with a corresponding up-front recognition of equipment sales revenue. This update is effective for our fiscal year beginning January 1, 2019.
We will adopt the guidance as of January 1, 2019 and will apply the transition option, whereby prior comparative periods will not be retrospectively presented in the Consolidated Financial Statements. We will also elect the package of practical expedients not to reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and the lessee practical expedient to combine lease and non-lease components for certain asset classes (real estate and embedded lease arrangements). We will also make a policy election to not recognize right-of-use assets and lease liabilities for short-term leases for all asset classes. We will elect the package of practical expedients from both the Lessee and Lessor prospective, to the extent applicable.
Lessee accounting - we estimate the adoption of this update will result in an increase to assets and related liabilities of approximately $385 (approximately $440 undiscounted), which is consistent with prior period disclosures regarding our lease obligations and primarily related to leases of facilities. Lessor accounting - we estimate the adoption to increase equipment sales by approximately $35 in 2019 as compared to 2018.
Financial Instruments - Credit Losses and Derivatives
In June 2016, the FASB issued ASU 2016-13, Financial Instruments Credit Losses - Measurement of Credit Losses on Financial Instruments, with additional amendments being issued in 2018. This update requires measurement and recognition of expected credit losses for financial assets. The update impacts financial assets and net investment in leases that are not accounted for at fair value through Net income. This update is effective for our fiscal year beginning January 1, 2020. We are currently evaluating the impact of the adoption of ASU 2016-13 on our Consolidated Financial Statements.
In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in this update expand and refine hedge accounting for both financial and non-financial risk components, aligns the recognition and presentation of the effects of hedging instruments with the same income statement line item that the hedged item is reported and includes certain targeted improvements to ease the application of current guidance related to the assessment of hedge effectiveness. This update

is effective for our fiscal year beginning January 1, 2019. The adoption of this update is not expected to have a material impact on our financial condition, results of operations or cash flows.

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Intangibles - Internal-Use Software
In August 2018, the FASB issued ASU 2018-15, Intangibles - Goodwill and Other - Internal Use Software (Subtopic 350-40), Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract. This update aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The update provides criteria for determining which implementation costs to capitalize as an asset related to the service contract and which costs to expense. The capitalized implementation costs are required to be expensed over the term of the hosting arrangement. The update also clarifies the presentation requirements for reporting such costs in the entity's financial statements. This update is effective for our fiscal year beginning January 1, 2020. We are currently evaluating the impact of the adoption of ASU 2018-15 on our Consolidated Financial Statements.
Income Taxes
In February 2018, the FASB issued ASU 2018-02, Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The update allows the reclassification from Accumulated other comprehensive income to Retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act ("Tax Act") enacted in December 2017. Consequently, the update eliminates the stranded tax effects resulting from the Tax Act and will improve the usefulness of information reported to financial statement users. However, because the update only relates to the reclassification of the income tax effects of the Tax Act, the underlying guidance that requires that the effect of a change in tax laws or rates be included in Income from continuing operations is not affected. The update also requires certain disclosures about stranded tax effects. The update is effective for our fiscal year beginning January 1, 2019. We are still evaluating the impact of the adoption of ASU 2018-02 and the amount of the reclassification from AOCL to retained earnings for the stranded tax effects resulting from the Tax Act. We expect the tax impact to be primarily related to the amounts in AOCL from our retirement-related benefit plans.
Accounting Standard Updates Adopted in 2018:
Revenue Recognition
Refer to Note 2 - Revenue for a summary of the impacts from our adoption of ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606), effective for our fiscal year beginning January 1, 2018.
Cash Flows
In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. This update provides specific guidance on eight cash flow classification issues where previous guidance is either unclear or did not include specific requirements. We adopted ASU 2016-15 effective for our fiscal year beginning January 1, 2018. This update includes specific guidance that requires cash collected on beneficial interests received in a sale of receivables be classified as inflows from investing activities. Formerly, those collections were reported in operating cash flows. We reported $234 and $270 of collections on beneficial interests as operating cash inflows on the Statement of Cash Flows for the two years ended December 31, 2017, respectively. Since the update is required to be applied retrospectively, our reported 2017 and 2016 operating and investing cash flows were revised accordingly in 2018 to report these amounts as investing cash flows. There was no impact to our 2018 cash flows from this reporting change, due to the termination of all accounts receivable sales arrangements with an associated beneficial interest component during the fourth quarter of 2017. The other seven issues noted in this update did not have a material impact on our Consolidated Statements of Cash Flows.
Additionally, in November 2016 the FASB issued ASU 2016-18, Statement of Cash Flows - Restricted Cash. The update requires that amounts generally described as restricted cash and restricted cash equivalents should be included with Cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. We adopted ASU 2016-18 effective for our fiscal year beginning January 1, 2018 and applied it retrospectively through a revision of previously reported amounts. We held $64, $75 and $179 of restricted cash, currently reported in Other current or long-term assets at December 31, 2018, December 31, 2017 and December 31, 2016, respectively. In the prior year, the changes in our restricted cash balances were primarily related to our

accounts receivable sales programs, which were terminated during the fourth quarter of 2017. Accordingly, this update did not have a material impact on our financial condition, results of operations or cash flows. Refer to Note 13 - Supplementary Financial Information for additional information.

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Retirement Benefits

In March 2017, the FASB issued ASU 2017-07, Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. This update changes how employers that sponsor defined benefit pension plans and other postretirement plans present net periodic benefit costs in the income statement. An employer is required to report the service cost component in the same line item or items as other compensation costs arising from services rendered by the affected employees during the period. Other components of net retirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of Income from operations, if one is presented. We elected to report these costs as a separate item within Other expenses, net. The update also allows only the service cost component to be eligible for capitalization, when applicable. We adopted ASU 2017-07 effective January 1, 2018. The presentation requirements of this update were required to be applied retrospectively through a revision of previously reported amounts. The requirement to limit capitalization to the service cost component was required to be applied prospectively. The adoption of this update did not have a material impact on our financial condition, results of operations or cash flows. Refer to Note 17 - Employee Benefit Plans for the service cost component and other components of net retirement benefit cost.

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

| | Year Ended December 31, 2017 | | | Year Ended December 31, 2016 | | |
|---|---|---|---|---|---|---|
| | As Reported | Adjustment | As Recasted | As Reported | Adjustment | As Recasted |
| Cost of sales | $2,491 | $ (4) | $ 2,487 | $2,657 | $ (1) | $ 2,656 |
| Cost of services, maintenance and rentals | 3,580 | (62) | 3,518 | 3,725 | (43) | 3,682 |
| Research, development and engineering expenses | 446 | (22) | 424 | 476 | (13) | 463 |
| Selling, administrative and general expenses(1) | 2,622 | (96) | 2,526 | 2,695 | (59) | 2,636 |
| Restructuring and related costs | 220 | (4) | 216 | 264 | (5) | 259 |
| Other expenses, net | 141 | 188 | 329 | 200 | 121 | 321 |

(1) The 2017 reported amount for Selling, administrative and general expenses reflects the reclass of $9 for Transaction and related costs, net, in order to conform to the separate presentation of these costs in the 2018 Consolidated Statements of Income (Loss).

Business Combinations

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

Income Taxes

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

In December 2017, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 118 (as further clarified by the FASB's ASU 2018-05, Income Taxes (Topic 740): Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118) to provide guidance for companies that may not have completed their accounting for the income tax effects of the Tax Act. SAB No. 118 provides for a provisional one-year measurement period for entities to finalize their accounting for certain income tax effects related to the Tax Act. SAB No. 118 provides guidance where: (i) the accounting for the income tax effect of the Tax Act is complete and reported in the Tax Act's enactment period, (ii) the accounting for the income tax effect of the Tax Act is incomplete and reported as provisional amounts based on reasonable estimates (to the extent determinable) subject to adjustments during a limited measurement period until complete, and (iii) accounting for the income tax effect of the Tax Act is not reasonably estimable (no related provisional amounts are reported in the enactment period) and entities would continue to apply accounting based on tax law provisions in effect prior to the Tax Act enactment until provisional amounts are reasonably estimable. SAB No. 118 requires disclosure of the reasons for incomplete accounting additional information or analysis needed, among other relevant information.

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During the fourth quarter 2017, we recorded an estimated non-cash charge of $400 reflecting our provisional estimated impact associated with the provisions of the Tax Act based on currently available information. In 2018, we adjusted our provisional estimate by an additional charge of $89 reflecting certain positions taken on our filed 2017 U.S. income tax return as well as consideration of additional guidance from the U.S. Treasury and Internal Revenue Service (IRS). The adjustment includes changes to the determination of the one-time deemed repatriation tax as well as additional remeasurement of our U.S. deferred tax assets and liabilities to the lower enacted statutory tax rate. The total charge of $489 related to the Tax Act may change in the future based on new guidance being issued or changes in our expected filing positions.

Other Updates

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

- Collaborative Arrangements: ASU 2018-18, (Topic 808) Clarifying the Interaction between Topic 808 and Topic 606. This update is effective for our fiscal year beginning January 1, 2020, early adoption is permitted.
- Compensation - Retirement Benefits - Defined Benefit Plans - General: ASU 2018-14, (Topic 715-20) Changes to the Disclosure Requirements for Defined Benefit Plans. This update is effective for our fiscal year ended December 31, 2020, early adoption is permitted.
- Fair Value Measurement: ASU 2018-13, (Topic 820) Disclosure Framework. This update is effective for our fiscal year beginning January 1, 2020, early adoption is permitted.
- Service Concession Arrangements: ASU 2017-10, (Topic 853) Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force). This update is effective for our fiscal year beginning January 1, 2018.
- Compensation - Stock Compensation: ASU 2017-09, (Topic 718) Scope of Modification Accounting. This update was effective for our fiscal year beginning January 1, 2018.
- Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets: ASU 2017-05, (Subtopic 610-20) Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This update was effective for our fiscal year beginning January 1, 2018.
- Financial Instruments - Classification and Measurement: ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Instruments and Financial Liabilities. This update was effective for our fiscal year beginning January 1, 2018.

Summary of Accounting Policies

Refer to Note 2 - Revenue for a summary of our Revenue Recognition policies subsequent to the adoption of ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606), effective for our fiscal year beginning January 1, 2018.

Revenue Recognition (Policies prior to the adoption of ASU 2014-09 - ASC Topic 606)

We generate revenue through services, the sale and rental of equipment, supplies and income associated with the financing of our equipment sales. Revenue is recognized when it is realized or realizable and earned. We consider revenue realized or realizable and earned when we have persuasive evidence of an arrangement, delivery has occurred, the sales price is fixed or determinable and collectibility is reasonably assured. Delivery does not occur until equipment has been shipped or services have been provided to the customer, risk of loss has transferred to the customer, and either customer acceptance has been obtained, customer acceptance provisions have lapsed, or the company has objective evidence that the criteria specified in the customer acceptance provisions have been satisfied. The sales price is not considered to be fixed or determinable until all contingencies related to the sale have been resolved. More specifically, revenue related to services and sales of our products is recognized as follows:

Equipment: Revenues from the sale of equipment, including those from sales-type leases, are recognized at the time of sale or at the inception of the lease, as appropriate. For equipment sales that require us to install the product at the customer location, revenue is recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenues from equipment under other leases and similar arrangements are accounted for by the operating lease method and are recognized as earned over the lease term, which is generally on a straight-line basis.

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Maintenance Services: Maintenance service revenues are derived primarily from maintenance contracts on the equipment sold to our customers and are recognized over the term of the contracts. A substantial portion of our products are sold with full service maintenance agreements for which the customer typically pays a base service fee plus a variable amount based on usage. As a consequence, other than the product warranty obligations associated with certain of our low end products, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs.

Bundled Lease Arrangements: We sell our products and services under bundled lease arrangements, which typically include equipment, service, supplies and financing components for which the customer pays a single negotiated fixed minimum monthly payment for all elements over the contractual lease term. These arrangements also typically include an incremental, variable component for page volumes in excess of contractual page volume minimums, which are often expressed in terms of price-per-page. The fixed minimum monthly payments are multiplied by the number of months in the contract term to arrive at the total fixed minimum payments that the customer is obligated to make (fixed payments) over the lease term. The payments associated with page volumes in excess of the minimums are contingent on whether or not such minimums are exceeded (contingent payments). In applying our lease accounting methodology, we only consider the fixed payments for purposes of allocating to the relative fair value elements of the contract. Contingent payments, if any, are recognized as revenue in the period when the customer exceeds the minimum copy volumes specified in the contract.

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

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

Sales to distributors and resellers: We utilize distributors and resellers to sell many of our technology products, supplies and services to end-user customers. We refer to our distributor and reseller network as our two-tier distribution model. Sales to distributors and resellers are generally recognized as revenue when products are sold to such distributors and resellers. However, revenue is only recognized when the distributor or reseller has economic substance apart from the company, the sales price is not contingent upon resale or payment by the end user customer and we have no further obligations related to bringing about the resale, delivery or installation of the product. Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we record provisions for these programs as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

In certain instances, we may provide lease financing to end-user customers who purchased equipment we sold to distributors or resellers. We compete with other third-party leasing companies with respect to the lease financing provided to these end-user customers.

Supplies: Supplies revenue generally is recognized upon shipment or utilization by customers in accordance with the sales contract terms.

Software: Most of our equipment has both software and non-software components that function together to deliver the equipment's essential functionality and therefore they are accounted for together as part of equipment sales revenues. Software accessories sold in connection with our equipment sales, as well as free-standing software sales are accounted for as separate deliverables or elements. In most cases, these software products are sold as part of multiple element arrangements and include software maintenance agreements for the delivery of technical service, as well as unspecified upgrades or enhancements on a when-and-if-available basis. In those software accessory and free-standing software arrangements that include more than one element, we allocate the revenue among the elements based on vendor-specific objective evidence (VSOE) of fair value. Revenue allocated to software is normally recognized upon delivery while revenue allocated to the software maintenance element is recognized ratably over the term of the arrangement.

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Leases: As noted above, equipment may be placed with customers under bundled lease arrangements. The two primary accounting provisions which we use to classify transactions as sales-type or operating leases are: (1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and (2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease.

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

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

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

Services: Revenues associated with our document management services are generally recognized as services are rendered, which is generally on the basis of the number of transactions processed. In service arrangements where final acceptance of a printing solution by the customer is required, revenue is deferred until all acceptance criteria have been met. Revenues on unit-price contracts are recognized at the contractual selling prices as work is completed and accepted by the customer.

In connection with our services arrangements, we may incur and capitalize costs to originate these long-term contracts and to perform the migration, transition and setup activities necessary to enable us to perform under the terms of the arrangement. These capitalized costs are amortized over the contractual service period of the arrangement to cost of services. From time to time, we also provide inducements to customers in various forms, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract.

Long-lived assets used in the fulfillment of service arrangements are capitalized and depreciated over the shorter of their useful life or the term of the contract if an asset is contract specific.

Our services contracts may also include the sale of equipment and software. In these instances, we follow the policies noted above under Equipment-Related Revenues.

Other Revenue Recognition Policies

Multiple Element Arrangements: As described above, we enter into the following revenue arrangements that may consist of multiple deliverables:

- Bundled lease arrangements, which typically include both lease deliverables and non-lease deliverables as described above.
- Contracts for multiple types of document related services including professional and value-added services. For instance, we may contract for an implementation of a printing solution and also provide services to operate the solution over a period of time; or we may contract to scan, manage and store customer documents.

In substantially all of our multiple element arrangements, we are able to separate the deliverables since we normally will meet both of the following criteria:

- The delivered item(s) has value to the customer on a stand-alone basis; and
- If the arrangement includes a general right of return relative to the delivered item(s), delivery or performance of the undelivered item(s) is considered probable and substantially in our control.

Consideration in a multiple-element arrangement is allocated at the inception of the arrangement to all deliverables on the basis of the relative selling price. When applying the relative selling price method, the selling price for each deliverable is primarily determined based on vendor-specific objective evidence (VSOE) or third-party evidence (TPE) of the selling price. The above noted revenue policies are then applied to each separated deliverable, as applicable.

Revenue-based Taxes: We report revenue net of any revenue-based taxes assessed by governmental authorities that are imposed on and concurrent with specific revenue-producing transactions. The primary revenue-based taxes are sales tax and value-added tax (VAT).

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Shipping and Handling
Costs related to shipping and handling are recognized as incurred and included in Cost of sales in the Consolidated Statements of Income (Loss).
Other Significant Accounting Policies
Research, Development and Engineering (RD&E)
Research, development and engineering costs are expensed as incurred. Sustaining engineering costs are incurred with respect to on-going product improvements or environmental compliance after initial product launch. Sustaining engineering costs were $72, $90 and $95 in for the years ended December 31, 2018, 2017 and 2016, respectively.
Cash and Cash Equivalents
Cash and cash equivalents consist of cash on hand, including money market funds, and investments with original maturities of three months or less.
Receivable Sales
We transfer certain portions of our receivable portfolios and normally account for those transfers as sales based on meeting the criteria for derecognition in accordance with ASC Topic 860 "Transfer and Servicing" of Financial Assets. Gains or losses on the sale of receivables depend, in part, on both (a) the cash proceeds and (b) the net non-cash proceeds received or paid. When we sell receivables, we normally receive beneficial interests in the transferred receivables from the purchasers as part of the proceeds. We may refer to these beneficial interests as a deferred purchase price. The beneficial interests obtained are initially measured at their fair value. We generally estimate fair value based on the present value of expected future cash flows, which are calculated using management's best estimates of the key assumptions including credit losses, prepayment rate and discount rates commensurate with the risks involved. Refer to Note 6 - Accounts Receivable, Net and Note 7 - Finance Receivables, Net for additional information on our receivable sales.
Inventories
Inventories are carried at the lower of average cost or net realizable value. Inventories also include equipment that is returned at the end of the lease term. Returned equipment is recorded at the lower of remaining net book value or salvage value, which is normally not significant. We regularly review inventory quantities and record a provision for excess and/or obsolete inventory based primarily on our estimated forecast of product demand, production requirements and servicing commitments. Several factors may influence the realizability of our inventories, including our decision to exit a product line, technological changes and new product development. The provision for excess and/or obsolete raw materials and equipment inventories is based primarily on near term forecasts of product demand and include consideration of new product introductions, as well as changes in remanufacturing strategies. The provision for excess and/or obsolete service parts inventory is based primarily on projected servicing requirements over the life of the related equipment populations. Refer to Note 8 - Inventories and Equipment on Operating Leases, Net for further discussion.
Land, Buildings and Equipment on Operating Leases
Land, buildings and equipment are recorded at cost. Buildings and equipment are depreciated over their estimated useful lives. Leasehold improvements are depreciated over the shorter of the lease term or the estimated useful life. Equipment on operating leases is depreciated to estimated salvage value over the lease term. Depreciation is computed using the straight-line method. Significant improvements are capitalized and maintenance and repairs are expensed. Refer to Note 8 - Inventories and Equipment on Operating Leases, Net and Note 9 - Land, Buildings, Equipment and Software, Net for further discussion.
Software - Internal Use and Product
We capitalize direct costs associated with developing, purchasing or otherwise acquiring software for internal use and amortize these costs on a straight-line basis over the expected useful life of the software, beginning when the software is implemented (Internal Use Software). Costs incurred for upgrades and enhancements that will not result in additional functionality are expensed as incurred. Amounts expended for Internal Use Software are included in Cash Flows from Investing.

We also capitalize certain costs related to the development of software solutions to be sold to our customers upon reaching technological feasibility (Product Software). These costs are amortized on a straight-line basis over the estimated economic life of the software. Amounts expended for Product Software are included in Cash Flows from Operations. We perform periodic reviews to ensure that unamortized Product Software costs remain recoverable from estimated future operating profits (net realizable value or NRV). Costs to support or service licensed software are

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charged to Costs of services as incurred. Refer to Note 9 - Land, Buildings, Equipment and Software, Net for further information.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the purchase price over the fair value of acquired net assets in a business combination, including the amount assigned to identifiable intangible assets. The primary drivers that generate goodwill are the value of synergies between the acquired entities and the company and the acquired assembled workforce, neither of which qualifies as an identifiable intangible asset. Goodwill is not amortized but rather is tested for impairment annually, or more frequently, whenever events or changes in circumstances indicate that the carrying value of the asset may not be recoverable an impairment loss may have been incurred.

We normally assess goodwill for impairment at least annually, during the fourth quarter, based on balances as of October 1st, or more frequently if indicators of impairment exist or if a decision is made to sell or exit a business. Impairment testing for goodwill is done at the reporting unit level. A reporting unit is an operating segment or one level below an operating segment (a "component") if the component constitutes a business for which discrete financial information is available, and segment management regularly reviews the operating results of that component. Consistent with the determination that we had one operating segment, we determined that there is one reporting unit and tested goodwill for impairment at the entity level.

We perform an assessment of goodwill, utilizing either a qualitative or quantitative impairment test. The qualitative impairment test assesses several factors to determine whether it is more likely than not that the fair value of the entity is less than its carrying amount. If we conclude it is more likely than not that the fair value of the entity is less than its carrying amount, a quantitative fair value test is performed. In certain circumstances, we may also bypass the qualitative test and proceed directly to a quantitative impairment test. In a quantitative impairment test, we assess goodwill by comparing the carrying amount of the entity to its fair value. Fair value of the entity is determined by using a weighted combination of an income approach and a market approach. If the fair value exceeds the carrying value, goodwill is not considered impaired. If the carrying value exceeds the fair value, goodwill is considered impaired and we would recognize an impairment loss for the excess.

Other intangible assets primarily consist of assets obtained in connection with business acquisitions, including installed customer base and distribution network relationships, existing technology, trademarks and non-compete agreements. We apply an impairment evaluation whenever events or changes in business circumstances indicate that the carrying value of our intangible assets may not be recoverable. Other intangible assets are amortized on a straight-line basis over their estimated economic lives. We believe that the straight-line method of amortization reflects an appropriate allocation of the cost of the intangible assets to earnings in proportion to the amount of economic benefits obtained annually by the Company. Refer to Note 11 - Goodwill and Intangible Assets, Net for further information.

Impairment of Long-Lived Assets

We review the recoverability of our long-lived assets, including buildings, equipment, internal use software and other intangible assets, when events or changes in circumstances occur that indicate that the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on our ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. Our primary measure of fair value is based on discounted cash flows.

Pension and Post-Retirement Benefit Obligations

We sponsor various forms of defined benefit pension plans in several countries covering employees who meet eligibility requirements. Retiree health benefit plans cover U.S. and Canadian employees for retiree medical costs. We employ a delayed recognition feature in measuring the costs of pension and post-retirement benefit plans. This requires changes in the benefit obligations and changes in the value of assets set aside to meet those obligations to be recognized not as they occur, but systematically and gradually over subsequent periods. All changes are ultimately recognized as components of net periodic benefit cost, except to the extent they may be offset by subsequent changes.

At any point, changes that have been identified and quantified but not recognized as components of net periodic benefit cost are recognized in Accumulated Other Comprehensive Loss, net of tax.

Several statistical and other factors that attempt to anticipate future events are used in calculating the expense, liability and asset values related to our pension and retiree health benefit plans. These factors include assumptions we make about the discount rate, expected return on plan assets, rate of increase in healthcare costs, the rate of future compensation increases and mortality. Actual returns on plan assets are not immediately recognized in our income statement due to the delayed recognition requirement. In calculating the expected return on the plan asset component of our net periodic pension cost, we apply our estimate of the long-term rate of return on the plan assets that support

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our pension obligations, after deducting assets that are specifically allocated to Transitional Retirement Accounts (which are accounted for based on specific plan terms).

For purposes of determining the expected return on plan assets, we utilize a market-related value approach in determining the value of the pension plan assets, rather than a fair market value approach. The primary difference between the two methods relates to systematic recognition of changes in fair value over time (generally two years) versus immediate recognition of changes in fair value. Our expected rate of return on plan assets is applied to the market-related asset value to determine the amount of the expected return on plan assets to be used in the determination of the net periodic pension cost. The market-related value approach reduces the volatility in net periodic pension cost that would result from using the fair market value approach.

The discount rate is used to present value our future anticipated benefit obligations. The discount rate reflects the current rate at which benefit liabilities could be effectively settled considering the timing of expected payments for plan participants. In estimating our discount rate, we consider rates of return on high-quality fixed-income investments adjusted to eliminate the effects of call provisions, as well as the expected timing of pension and other benefit payments.

Each year, the difference between the actual return on plan assets and the expected return on plan assets, as well as increases or decreases in the benefit obligation as a result of changes in the discount rate and other actuarial assumptions, are added to or subtracted from any cumulative actuarial gain or loss from prior years. This amount is the net actuarial gain or loss recognized in Accumulated other comprehensive loss. We amortize net actuarial gains and losses as a component of net pension cost for a year if, as of the beginning of the year, that net gain or loss (excluding asset gains or losses that have not been recognized in market-related value) exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets (the "corridor" method). This determination is made on a plan-by-plan basis. If amortization is required for a particular plan, we amortize the applicable net gain or loss in excess of the 10% threshold on a straight-line basis in net periodic pension cost over the remaining service period of the employees participating in that pension plan. In plans where substantially all participants are inactive, the amortization period for the excess is the average remaining life expectancy of the plan participants.

Our primary domestic plans allow participants the option of settling their vested benefits through the receipt of a lump-sum payment. The participant's vested benefit is considered fully settled upon payment of the lump sum. We have elected to apply settlement accounting and therefore we recognize the losses associated with settlements in this plan immediately upon the settlement of the vested benefits. Settlement accounting requires us to recognize a pro rata portion of the aggregate unamortized net actuarial losses upon settlement. The pro rata factor is computed as the percentage reduction in the projected benefit obligation due to the settlement of the participant's vested benefit. Refer to Note 17 - Employee Benefit Plans for further information regarding our Pension and Post-Retirement Benefit Obligations.

Foreign Currency Translation and Remeasurement

The functional currency for most of our foreign operations is the local currency. Net assets are translated at current rates of exchange and income, expense and cash flow items are translated at average exchange rates for the applicable period. The translation adjustments are recorded in Accumulated other comprehensive loss.

The U.S. Dollar is used as the functional currency for certain foreign subsidiaries that conduct their business in U.S. Dollars as well as foreign subsidiaries operating in highly inflationary economies. For these subsidiaries, non-monetary foreign currency assets and liabilities are translated using historical rates, while monetary assets and liabilities are translated at current rates, with the U.S. dollar effects of rate changes recorded in Currency (gains) and losses within Other expenses, net together with other foreign currency remeasurements.

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Note 2 – Revenue
Adoption of ASU 2014-09:
On January 1, 2018, we adopted ASU 2014-09, Revenue from Contracts with Customers (ASC Topic 606), which superseded nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASC Topic 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASC Topic 606 defines a five-step process to recognize revenue and requires more judgment and estimates within the revenue recognition process than required under previous U.S. GAAP, including identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation.
We adopted this standard using the modified retrospective method of adoption. Under ASC Topic 606, based on the nature of our contracts and consistent with prior practice, we recognize revenue upon invoicing the customer for the large majority of our revenue. Additionally, the unit of accounting, that is, the identification of performance obligations, is consistent with prior revenue recognition practice. Accordingly, the adoption of this standard did not have a material impact for the large majority of our revenues. Lastly, a significant portion of our Equipment sales are either recorded as sales-type leases or through direct sales to distributors and resellers and these revenue streams are not impacted by the adoption of ASC Topic 606. The only change of significance identified in our adoption involves a change in the classification of certain revenues that were previously reported in Services revenues. These revenues relate to certain analyst services performed in connection with the installation of equipment that are being considered part of the equipment sale performance obligation in 2018. Accordingly, in 2018 these revenues are now reported as part of Sales. As a result of this change, $34 of revenue was recorded, for the year ended December 31, 2018, as Sales, which would have been previously recorded as Services revenue in prior periods.
Another change identified upon adoption was with respect to deferred contract costs, which include incremental costs of obtaining a contract and costs to fulfill a contract. Deferred contract costs had been minimal under our prior practices as most costs to obtain a contract and fulfill a contract were expensed as incurred. However, as a result of the contract cost guidance included in ASC Topic 606 and ASC Topic 340-40 "Contracts with Customers", upon adoption, we recorded a transition asset of $153, and a net of tax increase of $117 to Retained earnings, related to the incremental cost to obtain contracts. Substantially all of this adjustment is related to the deferral of sales commissions paid to sales people and agents in connection with the placement of equipment with post sale service arrangements.
The impacts of adopting ASC Topic 606 on our Consolidated Balance Sheets were as follows:

| | Year Ended December 31, 2018 | | |
|---|---|---|---|
| | Superseded Revenue Guidance(1) | Adjustments | As Reported |
| Deferred tax assets | $773 | $ (33) | $ 740 |
| Other long-term assets | 717 | 142 | 859 |
| Retained earnings | 4,963 | 109 | 5,072 |

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

Revenue Recognition Summary:
We generate revenue through the sale of equipment, supplies and maintenance and printing services. Revenue is measured based on consideration specified in a contract with a customer and is recognized when we satisfy a performance obligation by transferring control of a product to a customer or in the period the customer benefits from the service. With the exception of our sales-type lease arrangements, our invoices to the customer, which normally have short-term payment terms, are typically aligned to the transfer of goods or as services are rendered to our customers and therefore in most cases we recognize revenue based on our right to invoice customers. As a result of the application of this practical expedient for the substantial portion of our revenue, the disclosure of the value of

unsatisfied performance obligations for our services is not required.
Significant judgments primarily include the identification of performance obligations in our Document management services arrangements as well the pattern of delivery for those services.
More specifically, revenue related to our products and services is generally recognized as follows:
Equipment: Revenues from the sale of equipment directly to end customers, including those from sales-type leases (see below), are recognized when obligations under the terms of a contract with our customer are satisfied and control has been transferred to the customer. For equipment placements that require us to install the product at the customer

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location, revenue is normally recognized when the equipment has been delivered and installed at the customer location. Sales of customer installable products are recognized upon shipment or receipt by the customer according to the customer's shipping terms. Revenue from the equipment performance obligation also includes certain analyst training services performed in connection with the installation or delivery of the equipment.

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

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

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

Sales to distributors and resellers: We utilize distributors and resellers to sell our equipment, supplies and maintenance services to end-user customers. We refer to our distributor and reseller network as our two-tier distribution model. Revenues on sales to distributors and resellers are generally recognized when products are shipped to such distributors and resellers. However, revenue is only recognized when the distributor or reseller has economic substance apart from the Company such that collectability is probable and we have no further obligations related to bringing about the resale, delivery or installation of the product that would impact transfer of control. Revenues associated with maintenance agreements sold through distributors and resellers to end customers are recognized in a consistent manner to maintenance services. Revenue that may be subject to a reversal of revenue due to contractual terms or uncertainties is not recorded as revenue until the contractual provisions lapse or the uncertainties are resolved. Distributors and resellers participate in various rebate, price-protection, cooperative marketing and other programs, and we estimate the variable consideration associated with these programs and record those amounts as a reduction to revenue when the sales occur. Similarly, we account for our estimates of sales returns and other allowances when the sales occur based on our historical experience.

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

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

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



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service revenue. The remaining amounts are allocated to the equipment and financing elements, which are subjected to the accounting estimates noted below under “Leases”.
Leases: The two primary lease accounting provisions we assess for the classification of transactions as sales-type or operating leases are: (1) a review of the lease term to determine if it is equal to or greater than 75% of the economic life of the equipment and (2) a review of the present value of the minimum lease payments to determine if they are equal to or greater than 90% of the fair market value of the equipment at the inception of the lease. Equipment placements included in arrangements meeting these conditions are accounted for as sales-type leases and revenue is recognized as noted above for Equipment. Equipment placements included in arrangements that do not meet these conditions are accounted for as operating leases and revenue is recognized over the term of the lease.
We consider the economic life of most of our products to be five years, since this represents the most frequent contractual lease term for our principal products and only a small percentage of our leases are for original terms longer than five years. There is no significant after-market for our used equipment. We believe five years is representative of the period during which the equipment is expected to be economically usable, with normal service, for the purpose for which it is intended. Residual values are not significant.
With respect to fair value, we perform an analysis of equipment fair value based on cash selling prices during the applicable period. The cash selling prices are compared to the range of values determined for our leases. The range of cash selling prices must be reasonably consistent with the lease selling prices in order for us to determine that such lease prices are indicative of fair value.
Our lease pricing interest rates, which are used in determining customer payments in a bundled lease arrangement, are developed based upon a variety of factors including local prevailing rates in the marketplace and the customer’s credit history, industry and credit class. We reassess our pricing interest rates quarterly based on changes in the local prevailing rates in the marketplace. These interest rates have generally been adjusted if the rates vary by 25 basis points or more, cumulatively, from the rate last in effect. The pricing interest rates generally equal the implicit rates within the leases, as corroborated by our comparisons of cash to lease selling prices.
Software: Most of our equipment has both software and non-software components that function together to deliver the equipment's essential functionality and therefore they are accounted for together as part of Equipment sales revenues. Software accessories sold in connection with our Equipment sales, as well as free-standing software sales are accounted for as separate performance obligations if determined to be material in relation to the overall arrangement. Revenue from software is not a significant component of our Total revenues.
Supplies: Supplies revenue is recognized upon transfer of control to the customer, generally upon utilization or shipment to the customer in accordance with the sales contract terms.
Financing: Finance income attributable to sales-type leases, direct financing leases and installment loans is recognized on the accrual basis using the effective interest method.

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

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Primary geographical markets[(1)] | | |
| United States | $5,778 | $6,064 |
| Europe | 2,625 | 2,697 |
| Canada | 569 | 648 |
| Other | 858 | 856 |
| Total Revenues | $9,830 | $10,265 |
| | | |
| Major product and services lines | | |
| Equipment[(2)] | $2,200 | $2,251 |
| Supplies, paper and other sales | 1,772 | 1,822 |
| Maintenance agreements[(3)] | 2,469 | 2,586 |
| Service arrangements[(4)] | 2,426 | 2,558 |
| Rental and other | 695 | 754 |
| Financing | 268 | 294 |
| Total Revenues | $9,830 | $10,265 |
| | | |
| Sales channels: | | |
| Direct equipment lease[(5)] | $699 | $718 |
| Distributors & resellers[(6)] | 1,394 | 1,433 |
| Customer direct | 1,879 | 1,922 |
| Total Sales | $3,972 | $4,073 |

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

(2) For the year ended December 31, 2017, Equipment sale revenues excluded $44 of equipment-related training revenue, which was classified as Services under previous revenue guidance - see "Adoption Summary" above.

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

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

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

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

Other Revenue Recognition Policies

Contract assets and liabilities:  We normally do not have contract assets, which are primarily unbilled accounts receivable that are conditional on something other than the passage of time. Our contract liabilities, which represent billings in excess of revenue recognized, are primarily related to advanced billings for maintenance and other services to be performed and were approximately $116 and $91 at December 31, 2018 and January 1, 2018, respectively. The majority of the balance at December 31, 2018 will be amortized to revenue over approximately the next 30 months.

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

For the year ended December 31, 2018, the incremental direct costs of obtaining a contract of $84 were deferred and the related amortization was $95. The balance of deferred incremental direct costs net of accumulated amortization at December 31, 2018 was $172. This amount is expected to be amortized over its estimated period of benefit, which we currently estimate to be approximately four years.

We may also incur costs associated with our services arrangements to generate or enhance resources and assets that will be used to satisfy our future performance obligations included in these arrangements. These costs are considered contract fulfillment costs and are amortized over the contractual service period of the arrangement to cost of services. In addition, we also provide inducements to certain customers in various forms, including contractual credits, which are capitalized and amortized as a reduction of revenue over the term of the contract. Amounts deferred associated with contract fulfillment costs and inducements were $12 at December 31, 2018 and related amortization was $5 for the year ended December 31, 2018.

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

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

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

Note 3 – Segment and Geographic Area Reporting

Segment Discussion

We manage our operations on a geographic basis and are primarily organized from a sales perspective on the basis of “go-to-market” sales channels. These sales channels are structured to serve a range of customers for our products and services. As a result of this structure, we concluded that we have one operating and reportable segment - the design, development and sale of document management systems and solutions. Our chief executive officer was identified as the chief operating decision maker (“CODM”). All of the company’s activities are interrelated, and each activity is dependent upon and supportive of the other, including product development, supply chain and back-office support services. In addition, all significant operating decisions, by management and the Board, are largely based upon an analysis of Xerox on a total company basis, including assessments related to the Company’s incentive compensation plans.

Geographic Area Data

Geographic area data is based upon the location of the subsidiary reporting the revenue or long-lived assets and is as follows:

| | Revenues | | | Long-Lived Assets (1) | |
|---|---|---|---|---|---|
| | Year Ended December 31, | | | As of December 31, | |
| | 2018 | 2017 | 2016 | 2018 | 2017 |
| United States | $5,778 | $6,064 | $6,403 | $671 | $770 |
| Europe | 2,625 | 2,697 | 2,861 | 278 | 355 |
| Other areas | 1,427 | 1,504 | 1,507 | 146 | 167 |
| Total | $9,830 | $10,265 | $10,771 | $1,095 | $1,292 |

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(1) Long-lived assets are comprised of (i) Land, buildings and equipment, net, (ii) Equipment on operating leases, net, (iii) Internal use software, net and (iv) Product software, net.

Note 4 – Acquisitions

2018 Acquisitions

During 2018, Xerox did not acquire any businesses.

2017 and 2016 Acquisitions

Acquisitions in 2017 totaled $87, in cash, and included the acquisition of MT Business Technologies, Inc. (MT Business), an Ohio-based multi-brand dealer, and two smaller multi-brand dealers in Iowa and North and South Carolina. Acquisitions in 2016 were $30, in cash, and related to the acquisition of two equipment dealers. The acquisitions in 2017 and 2016 were part of the strategy to increase our small and mid-sized (SMB) coverage through resellers and partners (including multi-brand dealers) and continued distribution acquisitions.

2017 and 2016 Summary

All of our 2017 and 2016 acquisitions resulted in 100% ownership of the acquired companies. The operating results of the 2017 and 2016 acquisitions described above are not material to our financial statements and were included within our results from the respective acquisition dates. The purchase prices for these acquisitions were primarily allocated to intangible assets and goodwill based on third-party valuations and management's estimates. The primary elements that generated the goodwill are the value of synergies and the acquired assembled workforce. Refer to Note 11 - Goodwill and Intangible Assets, Net for additional information. Our 2017 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately $79 and $54 to our 2018 and 2017 total revenues, respectively. Our 2016 acquisitions contributed aggregate revenues from their respective acquisition dates of approximately $27, $26 and $14 to our 2018, 2017 and 2016 total revenues, respectively.

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Note 5 – Divestitures

Discontinued Operations

Business Process Outsourcing (BPO)

On December 31, 2016, Xerox completed the Separation of its BPO business through the Distribution of all of the issued and outstanding stock of Conduent Incorporated to Xerox Corporation stockholders. As a result of the Separation and Distribution, the financial position and results of operations of the BPO Business are presented as discontinued operations and, as such, have been excluded from continuing operations results for all periods presented. Prior to the Separation and Distribution of Conduent, in connection with the annual goodwill impairment test, a pre-tax goodwill impairment charge of $935 was recorded in the fourth quarter 2016 associated with the Commercial Services reporting unit of the BPO business. This charge is reported in the Loss from discontinued operations, net of tax, for the year ended December 31, 2016.

In connection with the Separation, Conduent made a net cash distribution to Xerox of approximately $1.8 billion prior to the Distribution Date. Xerox used a portion of the cash distribution proceeds to repay the $1.0 billion Senior Unsecured Term Facility in January 2017, which was required to be repaid upon completion of the Separation.

Summarized financial information for our Discontinued Operations is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Revenue | $ — | $ — | $ 6,355 |
| Loss from operations[1] | $ — | $ (9) | $ (1,343) |
| Loss on disposal | — | — | — |
| Net loss before income taxes | — | (9) | (1,343) |
| Income tax benefit[2] | — | 12 | 250 |
| Income (Loss) from discontinued operations, net of tax | $ — | $ 3 | $ (1,093) |

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(1) 2017 includes $9 of Separation related costs. 2016 includes $159 of Separation related costs and $18 of interest on a $1.0 billion Senior Unsecured Term Facility, which was required to be repaid upon completion of the Separation.

(2) 2017 primarily reflects changes in estimates.

The following is a summary of selected financial information for our Discontinued Operations:

| | Year Ended December 31, 2016 |
|---|---|
| Cost and Expenses: | |
| Cost of services | $ 5,456 |
| Other Expenses | 2,065 |
| Total Costs and Expenses | $ 7,521 |
| Selected amounts included in Costs and Expenses: | |
| Depreciation of buildings and equipment | $ 130 |
| Amortization of internal use software | 49 |
| Amortization of product software | 61 |
| Amortization of acquired intangible assets | 280 |
| Amortization of customer contract costs | 93 |
| Operating lease rent expense | 378 |
| Defined contribution plans | 35 |
| Interest expense[1] | 13 |

| | |
|---|---|
| Goodwill impairment charge[(2)] | 935 |
| Expenditures: | |
| Cost of additions to land, buildings and equipment | $ 150 |
| Cost of additions to internal use software | 39 |
| Customer-related deferred set-up/transition and inducement costs | 62 |

(1) Represents interest on third-party borrowings only that were transferred to Conduent as part of the Distribution. Excludes $18 of interest associated with the $1.0 billion Senior Unsecured Term Facility noted above. No additional interest expense was allocated to discontinued operations for the year ended December 31, 2016.

(2) Prior to the Separation and Distribution of Conduent, in connection with the annual goodwill impairment test, a pre-tax goodwill impairment charge was recorded in the fourth quarter 2016 associated with the Commercial Services reporting unit of the BPO business.

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Other Divestitures

Xerox Research Centre Europe in Grenoble

In August 2017, we completed the sale of the Xerox Research Centre Europe in Grenoble, France to Naver Corporation (Naver). The selling price was approximately $23 and included a license agreement and the transfer of liabilities. The net assets and expenses of the sale were approximately $10, including approximately $6 of Goodwill, resulting in a pre-tax gain of $13 ($4 after-tax), which is included in Other expenses, net in the Consolidated Statements of Income (Loss) for the year ended December 31, 2017. The sale included the transfer of approximately 80 researchers and administrative staff who became part of Naver.

Note 6 – Accounts Receivable, Net

Accounts receivable, net were as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Invoiced | $999 | $1,048 |
| Accrued [1] | 333 | 368 |
| Allowance for doubtful accounts | (56 ) | (59 ) |
| Accounts receivable, net | $1,276 | $1,357 |

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(1) Accrued amounts are normally invoiced to customers in the subsequent quarter.

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

Accounts Receivable Sales Arrangements

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

Of the accounts receivable sold and derecognized from our balance sheet, $131 and $161 remained uncollected as of December 31, 2018 and 2017, respectively. Accounts receivable sales activity was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Accounts receivable sales[1] | $405 | $1,733 | $2,267 |
| Deferred proceeds [2] | — | 164 | 233 |
| Loss on sale of accounts receivable | 3 | 10 | 16 |

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

(2) For sales arrangements terminated in the fourth quarter 2017, a portion of the sales proceeds was normally held back by the purchaser and payment was deferred until collection of the related sold receivables.

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Note 7 – Finance Receivables, Net

Finance receivables include sales-type leases, direct financing leases and installment loans arising from the marketing of our equipment. These receivables are typically collateralized by a security interest in the underlying assets. Finance receivables, net were as follows:

| | December 31, 2018 | December 31, 2017 |
|---|---|---|
| Gross receivables | $4,003 | $4,354 |
| Unearned income | (439) | (494) |
| Subtotal | 3,564 | 3,860 |
| Residual values | — | — |
| Allowance for doubtful accounts | (92) | (108) |
| Finance Receivables, Net | 3,472 | 3,752 |
| Less: Billed portion of finance receivables, net | 105 | 112 |
| Less: Current portion of finance receivables not billed, net | 1,218 | 1,317 |
| Finance Receivables Due After One Year, Net | $2,149 | $2,323 |

Contractual maturities of our gross finance receivables as of December 31, 2018 were as follows (including those already billed of $107):

| 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|---|---|---|---|---|---|---|
| $1,543 | $1,108 | $755 | $425 | $158 | $ 14 | $4,003 |

Finance Receivables - Allowance for Credit Losses and Credit Quality

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

The allowance for doubtful accounts and provision for credit losses represents an estimate of the losses expected to be incurred from the Company's finance receivable portfolio. The level of the allowance is determined on a collective basis by applying projected loss rates to our different portfolios by country, which represent our portfolio segments. This is the level at which we develop and document our methodology to determine the allowance for credit losses. This loss rate is primarily based upon historical loss experience adjusted for judgments about the probable effects of relevant observable data including current economic conditions as well as delinquency trends, resolution rates, the aging of receivables, credit quality indicators and the financial health of specific customer classes or groups. The allowance for doubtful finance receivables is inherently more difficult to estimate than the allowance for trade accounts receivable because the underlying lease portfolio has an average maturity, at any time, of approximately two to three years and contains past due billed amounts, as well as unbilled amounts. We consider all available information in our quarterly assessments of the adequacy of the allowance for doubtful accounts. The identification of account-specific exposure is not a significant factor in establishing the allowance for doubtful finance receivables. Our policy and methodology used to establish our allowance for doubtful accounts has been consistently applied over all periods presented.

Since our allowance for doubtful finance receivables is determined by country, the risk characteristics in our finance receivable portfolio segments will generally be consistent with the risk factors associated with the economies of those countries/regions. Loss rates in the U.S. remained steady and did not change significantly during 2018 and 2017. Since Europe is comprised of various countries and regional economies, the risk profile within our European portfolio segment is somewhat more diversified due to the varying economic conditions among and within the countries. Charge-offs in Europe were $18 in 2018 as compared to $11 in 2017.

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

| Allowance for Credit Losses: | United States | Canada | Europe | Other[2] | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2016[1] | $ 55 | $ 16 | $ 37 | $ 2 | $ 110 |
| Provision | 11 | 2 | 4 | — | 17 |
| Charge-offs | (12) | (5) | (11) | — | (28) |
| Recoveries and other[3] | 2 | 2 | 5 | — | 9 |
| Balance at December 31, 2017 | $ 56 | $ 15 | $ 35 | $ 2 | $ 108 |
| Provision | 12 | 3 | 9 | — | 24 |
| Charge-offs | (17) | (6) | (18) | — | (41) |
| Recoveries and other[3] | 2 | — | (1) | — | 1 |
| Balance at December 31, 2018 | $ 53 | $ 12 | $ 25 | $ 2 | $ 92 |
| Finance Receivables Collectively Evaluated for Impairment: | | | | | |
| December 31, 2017[4] | $ 2,029 | $ 397 | $ 1,362 | $ 72 | $ 3,860 |
| December 31, 2018[4] | $ 1,932 | $ 335 | $ 1,239 | $ 58 | $ 3,564 |

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

(2) Includes developing market countries and smaller units.

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

(4) Total Finance receivables exclude the allowance for credit losses of $92 and $108 at December 31, 2018 and 2017, respectively.

In the U.S. and Canada, customers are further evaluated or segregated by class based on industry sector. The primary customer classes are Finance & Other Services, Government & Education, Graphic Arts, Industrial, Healthcare and Other. In Europe, customers are further grouped by class based on the country or region of the customer. The primary customer classes include the U.K./Ireland, France and the following European regions - Central, Nordic and Southern. These groupings or classes are used to understand the nature and extent of our exposure to credit risk arising from finance receivables.

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

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

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

| | December 31, 2018 | | | | December 31, 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | Investment Grade | Non-investment Grade | Sub-standard | Total Finance Receivables | Investment Grade | Non-investment Grade | Sub-standard | Total Finance Receivables |
| Finance and other services | $177 | $ 330 | $ 87 | $ 594 | $199 | $ 345 | $ 75 | $ 619 |
| Government and education | 451 | 62 | 9 | 522 | 490 | 61 | 6 | 557 |
| Graphic arts | 82 | 131 | 86 | 299 | 84 | 97 | 141 | 322 |
| Industrial | 85 | 81 | 16 | 182 | 82 | 84 | 14 | 180 |
| Healthcare | 86 | 47 | 9 | 142 | 88 | 48 | 9 | 145 |
| Other | 63 | 89 | 41 | 193 | 68 | 98 | 40 | 206 |
| Total United States | 944 | 740 | 248 | 1,932 | 1,011 | 733 | 285 | 2,029 |
| Finance and other services | 52 | 33 | 20 | 105 | 54 | 42 | 27 | 123 |
| Government and education | 38 | 3 | 4 | 45 | 48 | 5 | 5 | 58 |
| Graphic arts | 22 | 30 | 26 | 78 | 34 | 35 | 27 | 96 |
| Industrial | 16 | 12 | 9 | 37 | 20 | 12 | 11 | 43 |
| Other | 34 | 21 | 15 | 70 | 36 | 25 | 16 | 77 |
| Total Canada | 162 | 99 | 74 | 335 | 192 | 119 | 86 | 397 |
| France | 221 | 180 | 17 | 418 | 234 | 226 | 22 | 482 |
| U.K/Ireland | 132 | 105 | 7 | 244 | 106 | 150 | 10 | 266 |
| Central[(1)] | 179 | 136 | 12 | 327 | 189 | 149 | 16 | 354 |
| Southern[(2)] | 46 | 148 | 11 | 205 | 52 | 144 | 13 | 209 |
| Nordic[(3)] | 28 | 17 | — | 45 | 29 | 21 | 1 | 51 |
| Total Europe | 606 | 586 | 47 | 1,239 | 610 | 690 | 62 | 1,362 |
| Other | 34 | 21 | 3 | 58 | 38 | 28 | 6 | 72 |
| Total | $1,746 | $ 1,446 | $ 372 | $ 3,564 | $1,851 | $ 1,570 | $ 439 | $ 3,860 |

(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.

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

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

| | December 31, 2018 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Current | 31-90 Days Past Due | >90 Days Past Due | Total Billed | Unbilled | Total Finance Receivables | >90 Days and Accruing |
| Finance and other services | $ 15 | $ 4 | $ 2 | $ 21 | $ 573 | $ 594 | $ 11 |
| Government and education | 17 | 4 | 3 | 24 | 498 | 522 | 24 |
| Graphic arts | 10 | 1 | 1 | 12 | 287 | 299 | 5 |
| Industrial | 5 | 2 | 1 | 8 | 174 | 182 | 5 |
| Healthcare | 4 | 2 | 1 | 7 | 135 | 142 | 5 |
| Other | 5 | 2 | 1 | 8 | 185 | 193 | 4 |
| Total United States | 56 | 15 | 9 | 80 | 1,852 | 1,932 | 54 |
| Canada | 7 | 2 | 1 | 10 | 325 | 335 | 22 |
| France | 5 | — | — | 5 | 413 | 418 | 14 |
| U.K./Ireland | 2 | — | — | 2 | 242 | 244 | — |
| Central(1) | 1 | 1 | 1 | 3 | 324 | 327 | 6 |
| Southern(2) | 3 | 1 | 1 | 5 | 200 | 205 | 6 |
| Nordic(3) | — | — | — | — | 45 | 45 | — |
| Total Europe | 11 | 2 | 2 | 15 | 1,224 | 1,239 | 26 |
| Other | 2 | — | — | 2 | 56 | 58 | — |
| Total | $ 76 | $ 19 | $ 12 | $ 107 | $ 3,457 | $ 3,564 | $ 102 |

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

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(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.

Sale of Finance Receivables

In 2013 and 2012, we transferred our entire interest in certain groups of lease finance receivables to third-party entities for cash proceeds and beneficial interests. The transfers were accounted for as sales with derecognition of the associated lease receivables. There have been no transfers or sales of finance receivables since 2013. We continued to service the sold receivables and record servicing fee income over the expected life of the associated receivables. During 2017, we exercised the various clean-up calls we, as the servicer, held on the sold receivables and, accordingly, repurchased the remaining balances of the previously derecognized receivables and terminated the programs. The amounts repurchased were not material. Due to the repurchase, there was no remaining balance of beneficial interests at December 31, 2017.

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Note 8 – Inventories and Equipment on Operating Leases, Net

The following is a summary of Inventories by major category:

| | December 31, 2018 | 2017 |
|---|---|---|
| Finished goods | $699 | $777 |
| Work-in-process | 49 | 49 |
| Raw materials | 70 | 89 |
| Total Inventories | $818 | $915 |

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

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

| | December 31, 2018 | 2017 |
|---|---|---|
| Equipment on operating leases | $1,519 | $1,546 |
| Accumulated depreciation | (1,077) | (1,092) |
| Equipment on operating leases, net | $442 | $454 |

Depreciable lives generally vary from three to four years consistent with our planned and historical usage of the equipment subject to operating leases. Our equipment operating lease terms vary, generally from one to three years. Estimated minimum future revenues associated with Equipment on operating leases are as follows:

| 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter |
|---|---|---|---|---|---|
| $260 | $178 | $111 | $61 | $21 | $ 2 |

Total contingent rentals on operating leases, consisting principally of usage charges in excess of minimum contracted amounts, for the years ended December 31, 2018, 2017 and 2016 amounted to $120, $119 and $132, respectively.

Note 9 - Land, Buildings, Equipment and Software, Net

Land, buildings and equipment, net were as follows:

| | Estimated Useful Lives (Years) | December 31, 2018 | 2017 |
|---|---|---|---|
| Land | | $12 | $22 |
| Building and building equipment | 25 to 50 | 793 | 909 |
| Leasehold improvements | Varies | 179 | 192 |
| Plant machinery | 5 to 12 | 1,143 | 1,214 |
| Office furniture and equipment | 3 to 15 | 611 | 651 |
| Other | 4 to 20 | 45 | 54 |
| Construction in progress | | 26 | 30 |
| Subtotal | | 2,809 | 3,072 |
| Accumulated depreciation | | (2,310) | (2,443) |
| Land, buildings and equipment, net | | $499 | $629 |

Depreciation expense and operating lease rent expense were as follows:

| | Year Ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| Depreciation expense | $148 | $136 | $148 |
| Operating lease rent expense | 147 | 161 | 157 |

We lease buildings and equipment, substantially all of which are accounted for as operating leases. Capital leased assets were $9 and $35 at December 31, 2018 and 2017, respectively.

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Future minimum operating lease commitments that have initial or remaining non-cancelable lease terms in excess of one year at December 31, 2018 were as follows:

| 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter |
|---|---|---|---|---|---|
| $114 | $ 88 | $ 64 | $ 50 | $ 36 | $ 27 |

Internal Use Software

As of December 31, 2018 and 2017, capitalized costs related to internal use software, net of accumulated amortization, were $154 and $209, respectively. Useful lives of our internal use software generally vary from three to seven years.

Note 10 – Investment in Affiliates, at Equity

Investments in corporate joint ventures and other companies in which we generally have a 20% to 50% ownership interest were as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Fuji Xerox | $1,360 | $1,366 |
| Other | 43 | 38 |
| Investments in affiliates, at equity | $1,403 | $1,404 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Fuji Xerox | $25 | $102 | $114 |
| Other | 8 | 13 | 13 |
| Total Equity in net income of unconsolidated affiliates | $33 | $115 | $127 |

Fuji Xerox

Fuji Xerox is headquartered in Tokyo and operates in Japan, China, Australia, New Zealand, Vietnam and other areas of the Pacific Rim. Our investment in Fuji Xerox of $1,360 at December 31, 2018, differs from our implied 25% interest in the underlying net assets, or $1,452, due primarily to our deferral of gains resulting from sales of assets by us to Fuji Xerox.

Equity in net income of Fuji Xerox is affected by certain adjustments to reflect the deferral of profit associated with intercompany sales. These adjustments may result in recorded equity income that is different from that implied by our 25% ownership interest. In addition, the Equity in net income of Fuji Xerox for the three years ended December 31, 2018 includes after-tax restructuring and other charges of $95, $10 and $3, respectively.

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

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

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Summarized financial information for Fuji Xerox is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Summary of Operations | | | |
| Revenues | $9,161 | $9,638 | $10,149 |
| Costs and expenses | 8,880 | 9,072 | 9,460 |
| Income before income taxes | 281 | 566 | 689 |
| Income tax expense | 160 | 144 | 206 |
| Net Income | 121 | 422 | 483 |
| Less: Net income - noncontrolling interests | 2 | 5 | 8 |
| Net Income - Fuji Xerox | $119 | $417 | $475 |
| Balance Sheet | | | |
| Assets: | | | |
| Current assets | $4,179 | $4,315 | $4,313 |
| Long-term assets | 4,034 | 4,488 | 4,516 |
| Total Assets | $8,213 | $8,803 | $8,829 |
| Liabilities and Equity | | | |
| Short-term debt | $130 | $428 | $681 |
| Other current liabilities | 1,827 | 2,079 | 2,001 |
| Long-term debt | 24 | 76 | 283 |
| Other long-term liabilities | 395 | 369 | 587 |
| Noncontrolling interests | 30 | 33 | 31 |
| Fuji Xerox shareholders' equity | 5,807 | 5,818 | 5,246 |
| Total Liabilities and Equity | $8,213 | $8,803 | $8,829 |

Yen/U.S. Dollar exchange rates used to translate are as follows:

| Financial Statement | Exchange Basis | 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Summary of Operations | Weighted average rate | 110.28 | 112.14 | 108.76 |
| Balance Sheet | Year-end rate | 110.26 | 112.87 | 116.53 |

Transactions with Fuji Xerox

We receive dividends from Fuji Xerox, which are reflected as a reduction in our investment. Additionally, we have a Technology Agreement with Fuji Xerox whereby we receive royalty payments for their use of our Xerox brand trademark, as well as rights to access our patent portfolio in exchange for access to their patent portfolio. These payments are included in Services, maintenance and rentals revenues in the Consolidated Statements of Income (Loss). We also have arrangements with Fuji Xerox whereby we purchase inventory from and sell inventory to Fuji Xerox. Pricing of the transactions under these arrangements is based upon terms the Company believes to be negotiated at arm's length. Our purchase commitments with Fuji Xerox are in the normal course of business and typically have a lead time of three months. In addition, we pay Fuji Xerox and they pay us for unique research and development costs.

Transactions with Fuji Xerox were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Dividends received from Fuji Xerox | $23 | $ 46 | $ 47 |
| Royalty revenue earned | 96 | 103 | 110 |
| Inventory purchases from Fuji Xerox | 1,501 | 1,585 | 1,641 |
| Inventory sales to Fuji Xerox | 43 | 58 | 80 |

| | | | |
|---|---|---|---|
| R&D payments received from Fuji Xerox | 1 | 1 | 1 |
| R&D payments paid to Fuji Xerox | 8 | 14 | 13 |

As of December 31, 2018 and 2017, net amounts due to Fuji Xerox were $320 and $331, respectively.

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Note 11 - Goodwill and Intangible Assets, Net
Goodwill
The following table presents the changes in the carrying amount of goodwill:

| | Total |
|---|---|
| Balance at December 31, 2015 | $3,951 |
| Foreign currency translation | (183 ) |
| Acquisitions: | |
| Imagetek | 10 |
| Other | 9 |
| Balance at December 31, 2016 | $3,787 |
| Foreign currency translation | 105 |
| Acquisitions: | |
| MT Business | 33 |
| Other | 11 |
| Divestiture[(1)] | (6 ) |
| Balance at December 31, 2017 | $3,930 |
| Foreign currency translation | (63 ) |
| Balance at December 31, 2018 | $3,867 |

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(1) Relates to the sale of Xerox Research Centre Europe in Grenoble, France to Naver. Refer to Note 5 - Divestitures for additional information regarding this divestiture.

Intangible Assets, Net
Net intangible assets were $220 at December 31, 2018. Intangible assets were comprised of the following:

| | | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|---|
| | Weighted Average Amortization | Gross Carrying Amount | Accumulated Amortization | Net Amount | Gross Carrying Amount | Accumulated Amortization | Net Amount |
| Customer relationships | 10 years | $317 | $ 263 | $ 54 | $319 | $ 236 | $ 83 |
| Distribution network | 25 years | 123 | 93 | 30 | 123 | 89 | 34 |
| Trademarks | 20 years | 260 | 133 | 127 | 261 | 120 | 141 |
| Technology and non-compete | 14 years | 15 | 6 | 9 | 16 | 6 | 10 |
| Total Intangible Assets | | $715 | $ 495 | $ 220 | $719 | $ 451 | $ 268 |

Amortization expense related to intangible assets was $48, $53, and $58 for the three years ended December 31, 2018, 2017 and 2016, respectively. Excluding the impact of additional acquisitions, amortization expense is expected to approximate $48 in 2019, $45 in 2020, and $19 in each of the years 2021, 2022 and 2023.

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Note 12 – Restructuring and Asset Impairment Charges

We engage in restructuring actions, including Project Own It, as well as other transformation efforts in order to reduce our cost structure, realign it to the changing nature of our business and to achieve operating efficiencies. In addition, these actions are expected to simplify our organizational structure, upgrade our IT infrastructure and redesign business processes. As part of our efforts to streamline operations and reduce costs, our restructuring actions may also include the off-shoring or outsourcing of certain operations, services and other functions.

Costs associated with restructuring, including employee severance and lease termination costs, are generally recognized when it has been determined that a liability has been incurred, which is generally upon communication to the affected employees or exit from the leased facility, respectively. In those geographies where we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize employee severance costs when they are both probable and reasonably estimable.

A summary of our restructuring program activity for the three years ended December 31, 2018 is as follows:

| | Severance and Related Costs | Lease Cancellation and Other Costs | Asset Impairments[2] | Total |
|---|---|---|---|---|
| Balance at December 31, 2015 | $ 18 | $ 1 | $ — | $19 |
| Restructuring provision | 219 | 28 | — | 247 |
| Reversals of prior accruals | (16) | (1) | (5) | (22) |
| Net Current Period Charges[1] | 203 | 27 | (5) | 225 |
| Charges against reserve and currency | (117) | (5) | 5 | (117) |
| Balance at December 31, 2016 | $ 104 | $ 23 | $ — | $127 |
| Restructuring provision | 221 | 4 | 7 | 232 |
| Reversals of prior accruals | (29) | (6) | — | (35) |
| Net Current Period Charges[1] | 192 | (2) | 7 | 197 |
| Charges against reserve and currency | (188) | (20) | (7) | (215) |
| Balance at December 31, 2017 | $ 108 | $ 1 | $ — | $109 |
| Restructuring provision | 176 | 14 | — | 190 |
| Reversals of prior accruals | (33) | — | — | (33) |
| Net Current Period Charges[1] | 143 | 14 | — | 157 |
| Charges against reserve and currency | (157) | (14) | — | (171) |
| Balance at December 31, 2018 | $ 94 | $ 1 | $ — | $95 |

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

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

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Charges against reserve and currency | $(171) | $(215) | $(117) |
| Asset impairments | — | 7 | — |
| Effects of foreign currency and other non-cash items | 1 | (12) | 4 |
| Restructuring Cash Payments | $(170) | $(220) | $(113) |

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Note 13 - Supplementary Financial Information

The components of Other assets and liabilities were as follows:

| | December 31, 2018 | 2017 |
|---|---|---|
| Other Current Assets | | |
| Income taxes receivable | $14 | $43 |
| Royalties, license fees and software maintenance | 20 | 18 |
| Restricted cash | 1 | 1 |
| Prepaid expenses | 31 | 43 |
| Derivative instruments | 15 | 2 |
| Advances and deposits | 28 | 27 |
| Other | 85 | 102 |
| Total Other Current Assets | $194 | $236 |
| Other Current Liabilities | | |
| Income taxes payable | $33 | $7 |
| Other taxes payable | 77 | 91 |
| Interest payable | 41 | 43 |
| Restructuring reserves | 93 | 106 |
| Derivative instruments | 1 | 25 |
| Product warranties | 5 | 6 |
| Dividends payable | 69 | 73 |
| Distributor and reseller rebates/commissions | 158 | 175 |
| Unearned income and other revenue deferrals | 156 | 170 |
| Other | 217 | 211 |
| Total Other Current Liabilities | $850 | $907 |
| Other Long-term Assets | | |
| Income taxes receivable | $8 | $10 |
| Prepaid pension costs | 281 | 193 |
| Derivative instruments | — | 1 |
| Internal use software, net | 154 | 209 |
| Restricted cash | 63 | 74 |
| Debt issuance costs, net | 4 | 5 |
| Customer contract costs, net | 184 | 10 |
| Deferred compensation plan investments | 16 | 18 |
| Other | 149 | 162 |
| Total Other Long-term Assets | $859 | $682 |
| Other Long-term Liabilities | | |
| Deferred taxes | $51 | $42 |
| Income taxes payable | 18 | 21 |
| Environmental reserves | 9 | 9 |
| Restructuring reserves | 2 | 3 |
| Other | 189 | 131 |
| Total Other Long-term Liabilities | $269 | $206 |

Cash, Cash Equivalents and Restricted Cash

Restricted cash amounts were as follows:

| | December 31, 2018 | 2017 |
|---|---|---|

| | | |
|---|---|---|
| Cash and cash equivalents | $1,084 | $1,293 |
| Restricted cash | | |
| Litigation deposits in Brazil | 61 | 72 |
| Other restricted cash | 3 | 3 |
| Total Restricted Cash | 64 | 75 |
| Cash, cash equivalents and restricted cash | $1,148 | $1,368 |

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Restricted cash primarily relates to escrow cash deposits made in Brazil associated with tax litigation. As more fully discussed in Note 19 - Contingencies and Litigation, various litigation matters in Brazil require us to make cash deposits to escrow as a condition of continuing the litigation. Restricted cash amounts are classified in our Consolidated Balance Sheets based on when the cash will be contractually or judicially released.

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

| | December 31, 2018 | 2017 |
|---|---|---|
| Other current assets | $ 1 | $ 1 |
| Other long-term assets | 63 | 74 |
| Total Restricted cash | $ 64 | $ 75 |

Pension and Other Benefit Liabilities

| | December 31, 2018 | 2017 |
|---|---|---|
| Pension liabilities[1] | $ 1,386 | $ 1,493 |
| Accrued compensation liabilities | 73 | 72 |
| Deferred compensation liabilities[2] | 23 | 30 |
| Pension and other benefit liabilities | $ 1,482 | $ 1,595 |

(1) Refer to Note 17 - Employee Benefit Plans for additional information regarding pension liabilities.

(2) As of December 31, 2018 and 2017, deferred compensation liabilities include amounts that are measured at fair value on a recurring basis of $16 and $19, respectively and amounts related to executive deferred compensation of $7 and $11, respectively. Refer to Note 16 - Fair Value of Financial Assets and Liabilities for additional information regarding deferred compensation liabilities.

Summarized Cash Flow Information

Summarized cash flow information is as follows:

| | Year Ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| Provision for receivables | $ 40 | $ 46 | $ 43 |
| Provision for inventory | 30 | 27 | 28 |
| Provision for product warranty | 14 | 15 | 15 |
| Depreciation of buildings and equipment | 148 | 136 | 148 |
| Depreciation and obsolescence of equipment on operating leases | 249 | 265 | 276 |
| Amortization of internal use software | 81 | 65 | 73 |
| Amortization of product software | — | 4 | 4 |
| Amortization of acquired intangible assets | 48 | 53 | 58 |
| Amortization of customer contract costs[1] | 100 | 4 | 4 |
| Cost of additions to land, buildings and equipment | 55 | 69 | 93 |
| Cost of additions to internal use software | 35 | 36 | 45 |
| Common stock dividends | 255 | 274 | 307 |
| Preferred stock dividends | 14 | 17 | 24 |
| Payments to noncontrolling interests | 17 | 18 | 17 |

(1) Amortization of customer contract costs for the year ended December 31, 2018 is reported in Decrease (increase) in other current and long-term assets. Refer to Note 2 - Revenue - Contract Costs for additional information.

Note 14 – Debt

Short-term borrowings were as follows:

| | December 31, 2018 | 2017 |
|---|---|---|
| Notes Payable | $— | $6 |
| Current maturities of long-term debt | 961 | 276 |
| Short-term debt and current portion of long-term debt | $961 | $282 |

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We classify our debt based on the contractual maturity dates of the underlying debt instruments or as of the earliest put date available to the debt holders. We defer costs associated with debt issuance over the applicable term, or to the first put date in the case of convertible debt or debt with a put feature. These costs are amortized as interest expense in our Consolidated Statements of Income (Loss).

Long-term debt was as follows:

| | Stated Rate | Weighted Average Interest Rates at December 31, 2018[2] | December 31, 2018 | December 31, 2017 |
|---|---|---|---|---|
| Xerox Corporation | | | | |
| Notes due 2018 | | | $— | $1 |
| Senior Notes due 2018 | | | — | 265 |
| Senior Notes due 2019 | 2.75% | 2.58% | 406 | 406 |
| Senior Notes due 2019 | 5.63% | 5.48% | 554 | 554 |
| Senior Notes due 2020 | 2.80% | 2.50% | 313 | 313 |
| Senior Notes due 2020 | 3.50% | 3.47% | 362 | 362 |
| Senior Notes due 2020 | 2.75% | 2.67% | 375 | 375 |
| Senior Notes due 2021 | 4.50% | 5.39% | 1,062 | 1,062 |
| Senior Notes due 2022 | 4.07% | 4.07% | 300 | 300 |
| Senior Notes due 2023[3] | 3.63% | 3.64% | 1,000 | 1,000 |
| Senior Notes due 2024 | 3.80% | 3.84% | 300 | 300 |
| Senior Notes due 2035 | 4.80% | 4.84% | 250 | 250 |
| Senior Notes due 2039 | 6.75% | 6.78% | 350 | 350 |
| Subtotal - Notes | | | $5,272 | $5,538 |
| Capital lease obligations | | 4.08% | $9 | $35 |
| Principal debt balance | | | $5,281 | $5,573 |
| Unamortized discount | | | (25) | (35) |
| Debt issuance costs | | | (25) | (32) |
| Fair value adjustments[1] | | | | |
| Terminated swaps | | | 2 | 4 |
| Current swaps | | | (3) | 1 |
| Less: current maturities | | | (961) | (276) |
| Total Long-term Debt | | | $4,269 | $5,235 |

(1) 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.

(2) Represents the weighted average effective interest rate, which includes the effect of discounts and premiums on issued debt.

(3) As a result of the downgrade of our debt rating, the original coupon rate of 3.625% will increase by 0.50% to 4.125% effective March 15, 2019.

Scheduled principal payments due on our long-term debt for the next five years and thereafter are as follows:

| 2019[1] | 2020 | 2021 | 2022 | 2023 | Thereafter | Total |
|---|---|---|---|---|---|---|
| $961 | $1,052 | $1,064 | $302 | $1,002 | $ 900 | $5,281 |

(1) Quarterly long-term debt maturities from continuing operations for 2019 are $407, $0, $0 and $554 for the first, second, third and fourth quarters, respectively.

Bridge Facility

Refer to Note 25 - Fuji Xerox Transaction for additional information regarding the bridge loan facility that was terminated during the second quarter 2018.

Credit Facility

We have a $1.8 billion unsecured revolving Credit Facility with a group of lenders, which matures in August 2022. The Credit Facility includes a $250 letter of credit sub-facility as well as an accordion feature that allows us to increase (from time to time, with willing lenders) the overall size of the facility by $750. We also have the right to request a one year extension on any anniversary of the restated amendment date.

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Proceeds from any borrowings under the Credit Facility can be used to provide working capital for the Company and its subsidiaries and for general corporate purposes. The Credit Facility is available, without sublimit, to certain of our qualifying subsidiaries. Our obligations under the Credit Facility are unsecured and are not currently guaranteed by any of our subsidiaries. Any domestic subsidiary that guarantees more than $100 of Xerox Corporation debt must also guaranty our obligations under the Credit Facility. In the event that any of our subsidiaries borrows under the Credit Facility, its borrowings thereunder would be guaranteed by us. At December 31, 2018 and 2017, we had no outstanding borrowings or letters of credit under the amended and restated Credit Facility.

Borrowings under the Credit Facility bear interest at our choice, at either (a) a Base Rate as defined in the new Credit Facility agreement, plus a spread that varies between 0.000% and 0.700% depending on our credit rating at the time of borrowing, or (b) LIBOR plus an all-in spread that varies between 1.000% and 1.700% depending on our credit rating at the time of borrowing. Based on our credit rating as of December 31, 2018, the applicable all-in spreads for the Base Rate and LIBOR borrowing were 0.375% and 1.375%, respectively.

An annual facility fee is payable to each lender in the Credit Facility at a rate that varies between 0.125% and 0.300% depending on our credit rating. Based on our credit rating as of December 31, 2018 the applicable rate is 0.25%.

The Credit Facility contains various conditions to borrowing and affirmative, negative and financial maintenance covenants. Certain of the more significant covenants are summarized below:

(a) Maximum leverage ratio (a quarterly test that is calculated as principal debt divided by consolidated EBITDA, both as defined in the amended and restated Credit Facility) of 4.25x.

(b) Minimum interest coverage ratio (a quarterly test that is calculated as consolidated EBITDA divided by consolidated interest expense, both as defined in the amended and restated Credit Facility) may not be less than 3.00x.

(c) Limitations on (i) liens securing debt, (ii) mergers, consolidations and liquidations, (iii) limitations on debt incurred by certain subsidiaries, (iv) sale of all or substantially all our assets, (v) payment restrictions affecting subsidiaries, (vi) non-arm's length transactions with affiliates, (vii) change in nature of business, (viii) actions that may violate OFAC and anti-corruption laws.

The Credit Facility contains various events of default that are substantially similar to those included in the prior, 2014 $2.0 billion Credit Facility, the occurrence of which could result in termination of the lenders' commitments to lend and the acceleration of all our obligations under the amended and restated Credit Facility. These events of default include, without limitation: (i) payment defaults, (ii) breaches of covenants under the amended and restated Credit Facility (certain of which breaches do not have any grace period), (iii) cross-defaults and acceleration to certain of our other obligations and (iv) a change of control of Xerox.

On February 15, 2018, the Credit Facility was amended to modify the “change of control” provisions to permit the consummation of the Fuji Xerox Transaction. Refer to Note 25 - Fuji Xerox Transaction for additional details regarding the transaction.

Commercial Paper

We have a private placement commercial paper (CP) program in the U.S. under which we may issue CP up to a maximum amount of $1.8 billion. At this time, based on our current debt credit rating, this program is not available for use.

Interest

Interest paid on our short-term and long-term debt amounted to $231, $268 and $352 for the years ended December 31, 2018, 2017 and 2016, respectively.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Interest paid - continuing operations | $231 | $268 | $332 |
| Interest paid - discontinued operations | — | — | 20 |
| Total interest paid on debt | $231 | $268 | $352 |

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Interest expense and interest income was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Interest expense(1) | $244 | $252 | $309 |
| Interest income(2) | 283 | 302 | 330 |

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

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

Equipment financing interest is determined based on an estimated cost of funds, applied against the estimated level of debt required to support our net finance receivables. The estimated cost of funds is based on the interest cost associated with actual borrowings determined to be in support of the leasing business. The estimated level of debt continues to be based on an assumed 7 to 1 leverage ratio of debt/equity as compared to our average finance receivable balance during the applicable period.

Note 15 – Financial Instruments

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 do not believe there is significant risk of loss in the event of non-performance by the counterparties associated with our derivative instruments because these transactions are executed with a diversified group of major financial institutions. Further, our policy is to deal only with counterparties having a minimum investment grade or better credit rating. Credit risk is managed through the continuous monitoring of exposures to such counterparties.

Interest Rate Risk Management

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

Terminated Swaps

During the period from 2004 to 2011, we early terminated several interest rate swaps that were designated as fair value hedges of certain debt instruments. The associated net fair value adjustments to the debt instruments are being amortized to interest expense over the remaining term of the related notes. In 2018, 2017 and 2016, the amortization of these fair value adjustments reduced interest expense by $3, $13 and $19, respectively. The remaining unamortized balance associated with terminated swaps was $2 at December 31, 2018.

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Fair Value Hedges

As of December 31, 2018 and 2017, pay variable/received fixed interest rate swaps with notional amounts of $300 and $300, respectively, and net (liability) asset fair value of $(3) and $1, respectively, were designated and accounted for as fair value hedges. The swaps were structured to hedge the fair value of related debt by converting them from fixed rate instruments to variable rate instruments. No ineffective portion was recorded to earnings for the three years ended December 31, 2018.

The following is a summary of our fair value hedges at December 31, 2018:

| Debt Instrument | Year First Designated | Notional Amount | Net Fair Value | Weighted Average Interest Rate Paid | Interest Rate Received | Basis | Maturity |
|---|---|---|---|---|---|---|---|
| Senior Note 2021 | 2014 | $ 300 | $ (3 ) | 3.12 % | 4.50 % | Libor | 2021 |

The downgrade of the Company to non-investment grade is a termination event under one of our interest rate swap agreements with a notional amount of $100 and net liability fair value of $(1). While the counterparty has not provided a notice of a termination event, we are discussing potential actions regarding this interest rate swap.

Foreign Exchange Risk Management

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

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

At December 31, 2018, we had outstanding forward exchange and purchased option contracts with gross notional values of $1,103, with terms of less than 12 months. Approximately 79% of these contracts at December 31, 2018 mature within three months, 10% in three to six months and 11% in six to twelve months.

The following is a summary of the primary hedging positions and corresponding fair values as of December 31, 2018:

| Currencies Hedged (Buy/Sell) | Gross Notional Value | Fair Value Asset(1) |
|---|---|---|
| Japanese Yen/U.S. Dollar | $ 399 | $ 5 |
| Japanese Yen/Euro | 239 | 5 |
| U.S. Dollar/Euro | 107 | 2 |
| Euro/U.K. Pound Sterling | 101 | — |
| U.S. Dollar/Canadian Dollar | 54 | 2 |
| Euro/U.S. Dollar | 32 | — |
| U.K. Pound Sterling/Euro | 29 | — |
| Euro/Danish Krone | 23 | — |
| U.S. Dollar/Russian Ruble | 19 | — |
| Euro/Swiss Franc | 17 | — |
| U.S. Dollar/Japanese Yen | 14 | — |
| Mexican Peso/U.S. Dollar | 7 | — |
| All Other | 62 | — |
| Total Foreign exchange hedging | $ 1,103 | $ 14 |

(1) Represents the net receivable (payable) amount included in the Consolidated Balance Sheet at December 31, 2018.

Foreign Currency Cash Flow Hedges

We designate a portion of our foreign currency derivative contracts as cash flow hedges of our foreign currency-denominated inventory purchases, sales and expenses. No amount of ineffectiveness was recorded in the Consolidated Statements of Income (Loss) for these designated cash flow hedges and all components of each derivative's gain or loss was included in the assessment of hedge effectiveness. The net asset (liability) fair value of these contracts were $8 and $(14) as of December 31, 2018 and December 31, 2017, respectively.

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Summary of Derivative Instruments Fair Value

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

| Designation of Derivatives | Balance Sheet Location | December 31, 2018 | December 31, 2017 |
|---|---|---|---|
| Derivatives Designated as Hedging Instruments | | | |
| Foreign exchange contracts – forwards | Other current assets | $ 7 | $ 1 |
| | Other current liabilities | — | (15 ) |
| Foreign currency options | Other current assets | 1 | — |
| | Other current liabilities | — | — |
| Interest rate swaps | Other long-term assets | — | 1 |
| | Other long-term liabilities | (3 ) | — |
| | Net Designated Derivative Asset (Liability) | $ 5 | $ (13 ) |
| Derivatives NOT Designated as Hedging Instruments | | | |
| Foreign exchange contracts – forwards | Other current assets | $ 7 | $ 1 |
| | Other current liabilities | (1 ) | (10 ) |
| | Net Undesignated Derivative Asset (Liability) | $ 6 | $ (9 ) |
| Summary of Derivatives | Total Derivative Assets | $ 15 | $ 3 |
| | Total Derivative Liabilities | (4 ) | (25 ) |
| | Net Derivative Asset (Liability) | $ 11 | $ (22 ) |

Summary of Derivative Instruments Gains (Losses)

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

Designated Derivative Instruments Gains (Losses)

The following tables provide a summary of gains (losses) on derivative instruments:

| Derivatives in Fair Value Relationships | Location of Gain (Loss) Recognized in Income | Year Ended December 31, Derivative Loss Recognized in Income 2018 | 2017 | 2016 | Hedged Item Gain Recognized in Income 2018 | 2017 | 2016 |
|---|---|---|---|---|---|---|---|
| Interest rate contracts | Interest expense | $(3) | $(3 ) | $(3 ) | $ 3 | $ 3 | $ 3 |

| Derivatives in Cash Flow Hedging Relationships | Year Ended December 31, Derivative Gain (Loss) Recognized in OCI (Effective Portion) | | | Location of Derivative Gain (Loss) Reclassified from AOCI into Income (Effective Portion) | (Loss) Gain Reclassified from AOCI to Income (Effective Portion) | | |
|---|---|---|---|---|---|---|---|
| | 2018 | 2017 | 2016 | | 2018 | 2017 | 2016 |
| Foreign exchange contracts – forwards/options | $9 | $(28) | $ 20 | Cost of sales | $ (14 ) | $ (35 ) | $ 42 |

For the three years ended December 31, 2018 no amount of ineffectiveness was recorded in the Consolidated Statements of Income (Loss) for these designated cash flow hedges. 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 December 31, 2018, a net after-tax gain of $4 was recorded in Accumulated other comprehensive loss associated with our cash flow hedging activity. The entire balance is expected to be reclassified into Net income within the next 12 months, providing an offsetting economic impact against the underlying anticipated transactions.

Non-Designated Derivative Instruments Gains (Losses)

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

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

| Derivatives NOT Designated as Hedging Instruments | Location of Derivative Gain (Loss) | Year Ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|---|
| Foreign exchange contracts – forwards | Other expense – Currency gains (losses), net | $ 21 | $ (44 ) | $ 172 |

For the three years ended December 31, 2018, we recorded Currency losses, net of $5, $4 and $13, respectively. Net currency gains and losses include the mark-to-market adjustments of the derivatives not designated as hedging instruments and the related cost of those derivatives, as well as the remeasurement of foreign currency-denominated assets and liabilities and are included in Other expenses, net.

Note 16 – Fair Value of Financial Assets and Liabilities

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

| | As of December 31, 2018 | 2017 |
|---|---|---|
| Assets | | |
| Foreign exchange contracts - forwards | $ 14 | $ 2 |
| Foreign currency options | 1 | — |
| Interest rate swaps | — | 1 |
| Deferred compensation investments in mutual funds | 16 | 18 |
| Total | $ 31 | $ 21 |
| Liabilities | | |
| Foreign exchange contracts - forwards | $ 1 | $ 25 |
| Interest rate swaps | 3 | — |
| Deferred compensation plan liabilities | 16 | 19 |
| Total | $ 20 | $ 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:

| | December 31, 2018 | | December 31, 2017 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | $ 1,084 | $ 1,084 | $ 1,293 | $ 1,293 |
| Accounts receivable, net | 1,276 | 1,276 | 1,357 | 1,357 |
| Short-term debt and current portion of long-term debt | 961 | 966 | 282 | 283 |
| Long-term debt | 4,269 | 3,922 | 5,235 | 5,373 |

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

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Note 17 – Employee Benefit Plans

We sponsor numerous defined benefit and defined contribution pension and other post-retirement benefit plans, primarily retiree health care, in our domestic and international operations. December 31 is the measurement date for all of our post-retirement benefit plans.

Over the past several years, where legally possible, we have amended our major defined benefit pension plans to freeze current benefits and eliminate benefits accruals for future service, including our primary U.S. defined benefit plan for salaried employees, the Canadian Salary Pension Plan and the U.K. Final Salary Pension Plan. The freeze of current benefits is the primary driver of the reduction in pension service costs since 2012. In certain Non-U.S. plans, we are required to continue to consider salary increases and inflation in determining the benefit obligation related to prior service. The Netherlands defined benefit pension plan has also been amended to reflect the Company's ability to reduce the indexation of future pension benefits within the plan in scenarios when the returns on plan assets are insufficient to cover that indexation.

Prior to the freeze of current benefits, most of our defined benefit pension plans generally provided employees a benefit, depending on eligibility, calculated under a highest average pay and years of service formula. Our primary domestic defined benefit pension plans provided a benefit at the greater of (i) the highest average pay and years of service formula, (ii) the benefit calculated under a formula that provides for the accumulation of salary and interest credits during an employee's work life or (iii) the individual account balance from the Company's prior defined contribution plan (Transitional Retirement Account or TRA).

Pension plan assets consist of both defined benefit plan assets and assets legally restricted to the TRA accounts. The combined investment results for these plans, along with the results for our other defined benefit plans, are shown below in the “actual return on plan assets” caption. To the extent that investment results relate to TRA, such results are charged directly to these accounts as a component of interest cost.

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| | Pension Benefits | | | | | |
|---|---|---|---|---|---|---|
| | U.S. Plans | | Non-U.S. Plans | | Retiree Health | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Change in Benefit Obligation: | | | | | | |
| Benefit obligation, January 1 | $4,180 | $4,161 | $6,703 | $6,160 | $723 | $761 |
| Service cost | 2 | 2 | 27 | 29 | 4 | 5 |
| Interest cost | 63 | 226 | 149 | 158 | 23 | 28 |
| Plan participants' contributions | — | — | 4 | 4 | 3 | 2 |
| Actuarial (gain) loss | (288 ) | 392 | (293 ) | (29 ) | (63 ) | (16 ) |
| Currency exchange rate changes | — | — | (339 ) | 635 | (11 ) | 10 |
| Plan Amendments/Curtailments | — | — | 41 | (4 ) | (234 ) | — |
| Benefits paid/settlements | (723 ) | (606 ) | (281 ) | (246 ) | (60 ) | (66 ) |
| Other | — | 5 | (4 ) | (4 ) | — | (1 ) |
| Benefit Obligation, December 31 | $3,234 | $4,180 | $6,007 | $6,703 | $385 | $723 |
| | | | | | | |
| Change in Plan Assets: | | | | | | |
| Fair value of plan assets, January 1 | $3,224 | $2,774 | $6,308 | $5,384 | $— | $— |
| Actual return on plan assets | (170 ) | 381 | (85 ) | 453 | — | — |
| Employer contributions | 27 | 675 | 117 | 161 | 57 | 64 |
| Plan participants' contributions | — | — | 4 | 4 | 3 | 2 |
| Currency exchange rate changes | — | — | (329 ) | 557 | — | — |
| Benefits paid/settlements | (723 ) | (606 ) | (281 ) | (246 ) | (60 ) | (66 ) |
| Other | — | — | (5 ) | (5 ) | — | — |
| Fair Value of Plan Assets, December 31 | $2,358 | $3,224 | $5,729 | $6,308 | $— | $— |
| | | | | | | |
| Net Funded Status at December 31[(1)] | $(876 ) | $(956 ) | $(278 ) | $(395 ) | $(385) | $(723) |
| | | | | | | |
| Amounts Recognized in the Consolidated Balance Sheets: | | | | | | |
| Other long-term assets | $— | $— | $281 | $193 | $— | $— |
| Accrued compensation and benefit costs | (25 ) | (26 ) | (24 ) | (25 ) | (35 ) | (61 ) |
| Pension and other benefit liabilities | (851 ) | (930 ) | (535 ) | (563 ) | — | — |
| Post-retirement medical benefits | — | — | — | — | (350 ) | (662 ) |
| Net Amounts Recognized | $(876 ) | $(956 ) | $(278 ) | $(395 ) | $(385) | $(723) |
| | | | | | | |
| Accumulated Benefit Obligation | $3,234 | $4,179 | $5,847 | $6,483 | | |

(1) Includes under-funded and unfunded plans.

Benefit plans pre-tax amounts recognized in AOCL at December 31:

| | Pension Benefits | | | | | |
|---|---|---|---|---|---|---|
| | U.S. Plans | | Non-U.S. Plans | | Retiree Health | |
| | 2018 | 2017 | 2018 | 2017 | 2018 | 2017 |
| Net actuarial loss (gain) | $933 | $1,178 | $1,457 | $1,562 | $(42 ) | $22 |
| Prior service (credit) cost | (5 ) | (7 ) | 19 | (28 ) | (240 ) | (26 ) |
| Total Pre-tax loss (gain) | $928 | $1,171 | $1,476 | $1,534 | $(282) | $(4 ) |

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Aggregate information for pension plans with an Accumulated benefit obligation in excess of plan assets is presented below:

| | December 31, 2018 | | | December 31, 2017 | | |
|---|---|---|---|---|---|---|
| | Projected benefit obligation | Accumulated benefit obligation | Fair value of plan assets | Projected benefit obligation | Accumulated benefit obligation | Fair value of plan assets |
| Underfunded Plans: | | | | | | |
| U.S. | $2,918 | $ 2,918 | $2,358 | $3,830 | $ 3,829 | $3,224 |
| Non U.S. | 725 | 713 | 624 | 814 | 799 | 723 |
| Unfunded Plans: | | | | | | |
| U.S. | $316 | $ 316 | $— | $350 | $ 350 | $— |
| Non U.S. | 456 | 446 | — | 496 | 485 | — |
| Total Underfunded and Unfunded Plans: | | | | | | |
| U.S. | $3,234 | $ 3,234 | $2,358 | $4,180 | $ 4,179 | $3,224 |
| Non U.S. | 1,181 | 1,159 | 624 | 1,310 | 1,284 | 723 |
| Total | $4,415 | $ 4,393 | $2,982 | $5,490 | $ 5,463 | $3,947 |

Our pension plan assets and benefit obligations at December 31, 2018 were as follows:

| | Fair Value of Pension Plan Assets | Pension Benefit Obligations | Net Funded Status |
|---|---|---|---|
| U.S. funded | $ 2,358 | $ 2,918 | $(560) |
| U.S. unfunded | — | 316 | (316) |
| Total U.S. | 2,358 | 3,234 | (876) |
| U.K. | 3,730 | 3,501 | 229 |
| Netherlands | 968 | 1,040 | (72) |
| Canada | 653 | 656 | (3) |
| Germany | — | 355 | (355) |
| Other | 378 | 455 | (77) |
| Total | $ 8,087 | $ 9,241 | $(1,154) |

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

| | Year Ended December 31, | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Pension Benefits | | | | | | | | |
| | U.S. Plans | | | Non-U.S. Plans | | | Retiree Health | | |
| | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 | 2018 | 2017 | 2016 |
| Components of Net Periodic Benefit Costs: | | | | | | | | | |
| Service cost | $2 | $2 | $4 | $27 | $29 | $31 | $4 | $5 | $6 |
| Interest cost[1] | 63 | 226 | 184 | 149 | 158 | 195 | 23 | 28 | 32 |
| Expected return on plan assets[2] | (67) | (227) | (190) | (244) | (221) | (249) | — | — | — |
| Recognized net actuarial loss | 22 | 21 | 26 | 56 | 79 | 65 | — | 1 | 2 |
| Amortization of prior service credit | (2) | (2) | (2) | (4) | (4) | (3) | (19) | (4) | (5) |
| Recognized settlement loss | 173 | 133 | 65 | 1 | 2 | 1 | — | — | — |
| Recognized curtailment gain | — | — | — | (1) | (2) | — | — | — | — |
| Defined Benefit Plans | 191 | 153 | 87 | (16) | 41 | 40 | 8 | 30 | 35 |
| Defined contribution plans[3] | 37 | 38 | 43 | 29 | 29 | 31 | n/a | n/a | n/a |
| Net Periodic Benefit Cost | 228 | 191 | 130 | 13 | 70 | 71 | 8 | 30 | 35 |
| Other changes in plan assets and benefit obligations recognized in Other Comprehensive Income (Loss): | | | | | | | | | |
| Net actuarial (gain) loss[4] | (50) | 238 | 84 | 33 | (273) | 76 | (63) | (16) | (75) |
| Prior service cost (credit) | — | — | — | 41 | (1) | — | (234) | — | — |
| Amortization of net actuarial loss | (195) | (154) | (92) | (57) | (81) | (66) | — | (1) | (2) |
| Amortization of net prior service credit | 2 | 2 | 2 | 4 | 4 | 3 | 19 | 4 | 5 |
| Curtailment gain | — | — | — | 1 | — | — | — | — | — |
| Total Recognized in Other Comprehensive Income (Loss)[5] | (243) | 86 | (6) | 22 | (351) | 13 | (278) | (13) | (72) |
| Total Recognized in Net Periodic Benefit Cost and Other Comprehensive Income (Loss) | $(15) | $277 | $124 | $35 | $(281) | $84 | $(270) | $17 | $(37) |

(1) Interest cost for Pension Benefits includes interest expense on non-TRA obligations of $258, $257 and $296 and interest (income) expense directly allocated to TRA participant accounts of $(46), $127 and $83 for the years ended December 31, 2018, 2017 and 2016, respectively.

(2) Expected return on plan assets includes expected investment (loss) income on non-TRA assets of $(357), $321 and $356 and actual investment (loss) income on TRA assets of $(46), $127 and $83 for the years ended December 31, 2018, 2017 and 2016, respectively.

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

(4) The non-U.S. plans Net actuarial (gain) loss for 2018 reflects an out-of-period adjustment in third quarter 2018 of $(53) to correct an overstated benefit obligation for our U.K. Final Salary Pension Plan at December 31, 2017. Refer to Note 1 - Basis of Presentation and Summary of Significant Accounting Policies for additional information regarding this adjustment.

(5) Amounts represent the pre-tax effect included in Other Comprehensive Income (Loss). Refer to Note 23 - Other Comprehensive Income (Loss) for the related tax effects and the net of tax amounts.

The net actuarial loss and prior service credit for the defined benefit pension plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $(63) and $4, respectively, excluding amounts that may be recognized through settlement losses. The net actuarial gain and prior service credit for the retiree health benefit plans that will be amortized from Accumulated other comprehensive loss into net periodic benefit cost over the next fiscal year are $3 and $76, respectively.

Plan Amendments

Pension:
On October 26, 2018, the High Court of Justice in the United Kingdom (the "High Court") ruled that Lloyds Bank PLC was required to equalize benefits payable to men and women under its U.K. defined benefit pension plans by amending those plans to increase the pension benefits payable to participants that accrued such benefits during the period from 1990 to 1997. The inequalities arose from statutory differences in the retirement ages and rates of accrual of benefits for men and women related to Guaranteed Minimum Pension ("GMP") benefits that are included in U.K. defined benefit pension plans.
Based on the above ruling, we currently estimate the cost of equalization under the minimum cost approach permitted by the High Court’s ruling to be approximately 1.2% of our U.K. defined benefit plan obligation at December 31, 2018 or approximately GBP 33 million (approximately USD $42). This increase in the benefit obligation was recorded as a

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plan amendment in 2018 and will be amortized as prior service cost over 24 years (approximately USD $2 per year) through 2019 and future years' Net periodic benefit costs. Although the recorded impact reflects our best estimate, there are several significant uncertainties in our estimate and therefore it is subject to future change and adjustment. In particular, the cost is very sensitive to i) the method of GMP equalization; ii) actuarial assumptions and market conditions; iii) the benefit structure of our plan and operational practices; and iv) the demographic profile of our plan. In addition, we are continuing to evaluate the acceptable methodologies that the High Court has determined, and we still need to discuss and agree upon the appropriate methodology to use with our plan trustees.

Retiree Health Plans:

In December 2018, we amended our Canadian Retiree Health Plan to eliminate coverage for certain future and existing retirees. This negative plan amendment resulted in a reduction in the postretirement benefit obligation of $19, which is expected to be amortized to future net periodic benefit costs as a prior service credit and is expected to reduce 2019 costs by approximately $2. The amendment also resulted in an immaterial curtailment gain and is not expected to have a material impact on 2019 cash contributions from Xerox.

In October 2018, we amended our U.S. Retiree Health Plan effective January 1, 2019, to reduce certain benefits for existing non-union retirees through the reduction or elimination of coverage or cost-sharing subsidies for retiree health care and life insurance costs. This negative plan amendment resulted in a reduction in the postretirement benefit obligation of $283, which consisted of $216 for the plan amendment and an actuarial gain of $67 related to the required plan remeasurement upon amendment. The amount for the plan amendment is expected to be amortized to future net periodic benefit costs as a prior service credit and is expected to reduce 2019 costs by approximately $70 (approximately $15 for the fourth quarter of 2018). The plan amendment is also expected to reduce 2019 cash contributions from Xerox by approximately $20.

Plan Assets

Current Allocation

As of the 2018 and 2017 measurement dates, the global pension plan assets were $8,087 and $9,532, respectively. These assets were invested among several asset classes.

The following tables present the defined benefit plans assets measured at fair value and the basis for that measurement.

| | December 31, 2018 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | U.S. Plans | | | | | Non-U.S. Plans | | | | |
| Asset Class | Level 1 | Level 2 | Level 3 | Assets measured at NAV(1) | Total | Level 1 | Level 2 | Level 3 | Assets measured at NAV(1) | Total |
| Cash and cash equivalents | $1 | $— | $ — | $ — | $1 | $370 | $— | $— | $ — | $370 |
| Equity Securities: | | | | | | | | | | |
| U.S. | 82 | — | — | 35 | 117 | 103 | 42 | — | — | 145 |
| International | 97 | — | — | 52 | 149 | 359 | 111 | — | 112 | 582 |
| Fixed Income Securities: | | | | | | | | | | |
| U.S. treasury securities | — | 248 | — | — | 248 | — | 57 | — | — | 57 |
| Debt security issued by government agency | — | 81 | — | — | 81 | — | 1,861 | — | — | 1,861 |
| Corporate bonds | — | 1,363 | — | — | 1,363 | — | 736 | — | — | 736 |
| Asset backed securities | — | — | — | — | — | — | — | — | — | — |
| Derivatives | — | (26) | — | — | (26) | — | 99 | — | — | 99 |
| Real estate | 19 | — | — | 9 | 28 | — | — | 210 | 157 | 367 |
| Private equity/venture capital | — | — | — | 353 | 353 | — | — | 6 | 1,386 | 1,392 |
| Guaranteed insurance contracts | — | — | — | — | — | — | — | 92 | — | 92 |
| Other(2) | 12 | — | — | 32 | 44 | 5 | 23 | — | — | 28 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Total Fair Value of Plan Assets | $211 | $1,666 | $ — | $ 481 | $2,358 | $837 | $2,929 | $308 | $ 1,655 | $5,729 |

(1) Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(2) Other Level 1 includes net non-financial (liabilities) assets of $12 U.S. and $5 Non-U.S., respectively, such as due to/from broker, interest receivables and accrued expenses.

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| Asset Class | December 31, 2017 U.S. Plans Level 1 | Level 2 | Level 3 | Assets measured at NAV[1] | Total | Non-U.S. Plans Level 1 | Level 2 | Level 3 | Assets measured at NAV[1] | Total |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | $2 | $— | $ — | $ — | $2 | $686 | $— | $— | $ — | $686 |
| Equity Securities: | | | | | | | | | | |
| U.S. | 104 | — | — | 31 | 135 | 310 | 24 | — | — | 334 |
| International | 134 | — | — | 52 | 186 | 441 | 676 | — | 127 | 1,244 |
| Fixed Income Securities: | | | | | | | | | | |
| U.S. treasury securities | — | 384 | — | — | 384 | — | 42 | — | — | 42 |
| Debt security issued by government agency | — | 127 | — | — | 127 | — | 1,938 | — | — | 1,938 |
| Corporate bonds | — | 1,866 | — | — | 1,866 | — | 784 | — | — | 784 |
| Asset backed securities | — | — | — | — | — | — | — | — | — | — |
| Derivatives | — | (20) | — | — | (20) | — | 74 | — | — | 74 |
| Real estate | 24 | — | — | 11 | 35 | — | — | 137 | 176 | 313 |
| Private equity/venture capital | — | — | — | 433 | 433 | — | 58 | 7 | 662 | 727 |
| Guaranteed insurance contracts | — | — | — | — | — | — | — | 100 | — | 100 |
| Other[2] | 33 | — | — | 43 | 76 | 6 | 60 | — | — | 66 |
| Total Fair Value of Plan Assets | $297 | $2,357 | $ — | $ 570 | $3,224 | $1,443 | $3,656 | $244 | $ 965 | $6,308 |

(1) Certain assets that are measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy.

(2) Other Level 1 includes net non-financial (liabilities) assets of $33 U.S. and $15 Non-U.S., respectively, such as due to/from broker, interest receivables and accrued expenses.

The following tables represents a roll-forward of the defined benefit plans assets measured at fair value using significant unobservable inputs (Level 3 assets):

| | U.S. Real Estate | Non-U.S. Real Estate | Private Equity/Venture Capital | Guaranteed Insurance Contracts | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2016 | $ 12 | $121 | $ 6 | $ 104 | $231 |
| Purchases | — | 1 | — | — | 1 |
| Transfers out of Level 3 | (7) | — | — | — | — |
| Sales | (5) | — | — | (2) | (2) |
| Realized losses | (9) | (1) | — | — | (1) |
| Unrealized gains (losses) | 9 | 7 | (16) | (15) | (24) |
| Currency translation | — | 9 | 17 | 13 | 39 |
| Balance at December 31, 2017 | $ — | $137 | $ 7 | $ 100 | $244 |
| Purchases | — | 22 | — | 1 | 23 |
| Sales | — | (1) | — | (6) | (7) |
| Realized losses | (4) | — | — | — | — |
| Unrealized gains (losses) | 4 | 62 | (4) | — | 58 |
| Currency translation | — | (10) | 3 | (3) | (10) |
| Balance at December 31, 2018 | $ — | $210 | $ 6 | $ 92 | $308 |

Level 3 Valuation Method

Our primary Level 3 assets are Real Estate and Private Equity/Venture Capital investments. The fair value of our real estate investment funds are based on the Net Asset Value (NAV) of our ownership interest in the funds. NAV information is received from the investment advisers and is primarily derived from third-party real estate appraisals for the properties owned. The fair value for our private equity/venture capital partnership investments are based on our share of the estimated fair values of the underlying investments held by these partnerships as reported (or expected to be reported) in their audited financial statements. The valuation techniques and inputs for our Level 3 assets have been consistently applied for all periods presented.

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Investment Strategy

The target asset allocations for our worldwide defined benefit pension plans were:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Equity investments | 12% | 13% | 12% | 24% |
| Fixed income investments | 73% | 46% | 73% | 45% |
| Real estate | 3% | 6% | 3% | 5% |
| Private equity/venture capital | 6% | 24% | 6% | 12% |
| Other | 6% | 11% | 6% | 14% |
| Total Investment Strategy | 100% | 100% | 100% | 100% |

We employ a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by exceeding the interest growth in long-term plan liabilities. Risk tolerance is established through careful consideration of plan liabilities, plan funded status and corporate financial condition. This consideration involves the use of long-term measures that address both return and risk. The investment portfolio contains a diversified blend of equity and fixed income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, as well as growth, value and small and large capitalizations. Other assets such as real estate, private equity, and hedge funds are used to improve portfolio diversification. Derivatives may be used to hedge market exposure in an efficient and timely manner; however, derivatives may not be used to leverage the portfolio beyond the market value of the underlying investments. Investment risks and returns are measured and monitored on an ongoing basis through annual liability measurements and quarterly investment portfolio reviews.

Expected Long-term Rate of Return

We employ a "building block" approach in determining the long-term rate of return for plan assets. Historical markets are studied and long-term relationships between equities and fixed income are assessed. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The long-term portfolio return is established giving consideration to investment diversification and rebalancing. Peer data and historical returns are reviewed periodically to assess reasonableness and appropriateness.

Contributions

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

| | Year Ended December 31, | |
|---|---|---|
| | 2018 | Estimated 2019 |
| U.S. Plans | $27 | $ 25 |
| Non-U.S. Plans | 117 | 110 |
| Total | $144 | $ 135 |
| | | |
| Retiree Health | $57 | $ 35 |

The 2018 U.S. pension plan contributions did not include any contributions for our domestic tax-qualified defined benefit plans because none were required to meet the minimum funding requirements. There are no contributions required in 2019 for our U.S. tax-qualified defined benefit plans to meet the minimum funding requirements.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid during the following years:

| | Pension Benefits | | | |
|---|---|---|---|---|
| | U.S. | Non-U.S. | Total | Retiree Health |

| | | | | |
|---|---|---|---|---|
| 2019 | $394 | $ 276 | $670 | $ 35 |
| 2020 | 273 | 281 | 554 | 33 |
| 2021 | 260 | 287 | 547 | 32 |
| 2022 | 267 | 293 | 560 | 31 |
| 2023 | 269 | 301 | 570 | 30 |
| Years 2024-2028 | 1,195 | 1,595 | 2,790 | 130 |

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Assumptions

Weighted-average assumptions used to determine benefit obligations at the plan measurement dates:

| | Pension Benefits | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Discount rate | 4.2% | 2.6 % | 3.6% | 2.3 % | 4.0% | 2.5 % |
| Rate of compensation increase | 0.2% | 2.6 % | 0.2% | 2.6 % | 0.2% | 2.6 % |

| | Retiree Health | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Discount rate | 4.1% | 3.5% | 3.9% |

Weighted-average assumptions used to determine net periodic benefit cost for years ended December 31:

| | Pension Benefits | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2019 | | 2018 | | 2017 | | 2016 | |
| | U.S. | Non-U.S. | U.S. | Non-U.S. | U.S. | Non-U.S. | U.S. | Non-U.S. |
| Discount rate | 4.2% | 2.6 % | 3.6% | 2.3 % | 4.0% | 2.5 % | 4.3% | 3.3 % |
| Expected return on plan assets | 6.0% | 4.0 % | 5.8% | 3.8 % | 7.0% | 4.1 % | 7.5% | 4.8 % |
| Rate of compensation increase | 0.2% | 2.6 % | 0.2% | 2.6 % | 0.2% | 2.6 % | 0.2% | 2.7 % |

| | Retiree Health | | | |
|---|---|---|---|---|
| | 2019 | 2018 | 2017 | 2016 |
| Discount rate | 4.1% | 3.5% | 3.9% | 4.1% |

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Note: Expected return on plan assets is not applicable to retiree health benefits as these plans are not funded. Rate of compensation increase is not applicable to retiree health benefits as compensation levels do not impact earned benefits.

Assumed health care cost trend rates were as follows:

| | December 31, | |
|---|---|---|
| | 2018 | 2017 |
| Health care cost trend rate assumed for next year | 6.3 % | 6.8 % |
| Rate to which the cost trend rate is assumed to decline (the ultimate trend rate) | 4.7 % | 4.8 % |
| Year that the rate reaches the ultimate trend rate | 2025 | 2026 |

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

| | 1% increase | 1% decrease |
|---|---|---|
| Effect on total service and interest cost components | $ 2 | $ (1 ) |
| Effect on post-retirement benefit obligation | 33 | (29 ) |

Defined Contribution Plans

We have post-retirement savings and investment plans in several countries, including the U.S., the U.K. and Canada. In many instances, employees who participated in the defined benefit pension plans that have been amended to freeze future service accruals were transitioned to an enhanced defined contribution plan. In these plans employees are allowed to contribute a portion of their salaries and bonuses to the plans, and we match a portion of the employee contributions. We recorded charges related to our defined contribution plans of $66 in 2018, $67 in 2017 and $74 in 2016. Prior year amounts have been revised to reflect additional cost for previously excluded plans.

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Note 18 - Income and Other Taxes

Income before income taxes and equity income (pre-tax income) from continuing operations was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Domestic income | $380 | $399 | $415 |
| Foreign income | 218 | 171 | 153 |
| Income before Income Taxes and Equity Income | $598 | $570 | $568 |

Provisions for income taxes from continuing operations were as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Federal Income Taxes | | | |
| Current | $45 | $7 | $(15) |
| Deferred | 83 | 411 | (4) |
| Foreign Income Taxes | | | |
| Current | 46 | 62 | 71 |
| Deferred | 57 | (21) | (13) |
| State Income Taxes | | | |
| Current | 31 | 13 | 15 |
| Deferred | (5) | 9 | 8 |
| Total Provision | $257 | $481 | $62 |

A reconciliation of the U.S. federal statutory income tax rate to the consolidated effective income tax rate was as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| U.S. federal statutory income tax rate | 21.0 % | 35.0 % | 35.0 % |
| Nondeductible expenses | 3.4 % | 1.2 % | 2.9 % |
| Effect of tax law changes | 13.3 % | 70.2 % | 1.2 % |
| Change in valuation allowance for deferred tax assets | 0.5 % | 1.0 % | (1.4 )% |
| State taxes, net of federal benefit | 2.4 % | 2.3 % | 3.0 % |
| Audit and other tax return adjustments | (2.0 )% | (8.0 )% | (4.1 )% |
| Tax-exempt income, credits and incentives | (2.0 )% | (2.9 )% | (4.0 )% |
| Foreign rate differential adjusted for U.S. taxation of foreign profits[1] | 4.4 % | (15.2)% | (22.6)% |
| Other | 2.0 % | 0.8 % | 0.9 % |
| Effective Income Tax Rate | 43.0 % | 84.4 % | 10.9 % |

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(1) The "U.S. taxation of foreign profits" represents the U.S. tax, net of foreign tax credits, associated with actual and deemed repatriations of earnings from our non-U.S. subsidiaries.

On a consolidated basis, including discontinued operations, we paid a total of $80, $84 and $130 in income taxes to federal, foreign and state jurisdictions during the three years ended December 31, 2018, respectively.

Total income tax expense (benefit) was allocated to the following items:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Pre-tax income | $257 | $481 | $62 |
| Discontinued operations[1] | — | (12) | (250) |
| Common shareholders' equity: | | | |

| | | | |
|---|---|---|---|
| Changes in defined benefit plans | 131 | 63 | 15 |
| Cash flow hedges | 5 | 5 | (8) |
| Translation adjustments | (9) | 1 | 2 |
| Retained Earnings[2] | 36 | — | — |
| Total Income Tax Expense (Benefit) | $420 | $538 | $(179) |

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(1) Refer to Note 5 - Divestitures for additional information regarding discontinued operations.
(2) Refer to Note 2 - Revenue for additional information regarding our adoption of ASU 2014-09.

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Unrecognized Tax Benefits and Audit Resolutions

We recognize tax liabilities when, despite our belief that our tax return positions are supportable, we believe that certain positions may not be fully sustained upon review by tax authorities. Each period, we assess uncertain tax positions for recognition, measurement and effective settlement. Benefits from uncertain tax positions are measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon settlement - the more-likely-than-not recognition threshold. Where we have determined that our tax return filing position does not satisfy the more likely than not recognition threshold, we have recorded no tax benefits.

We are also subject to ongoing tax examinations in numerous jurisdictions due to the extensive geographical scope of our operations. Our ongoing assessments of the more-likely-than-not outcomes of the examinations and related tax positions require judgment and can increase or decrease our effective tax rate, as well as impact our operating results. The specific timing of when the resolution of each tax position will be reached is uncertain. As of December 31, 2018, we do not believe that there are any positions for which it is reasonably possible that the total amount of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Balance at January 1 | $125 | $165 | $222 |
| Additions (Reductions) related to current year | 2 | 1 | (9) |
| Additions related to prior years positions | 3 | 10 | — |
| Reductions related to prior years positions | (13) | (46) | (31) |
| Settlements with taxing authorities(1) | (6) | (5) | — |
| Reductions related to lapse of statute of limitations | (3) | (3) | (2) |
| Currency | — | 3 | (2) |
| Tax Positions assumed in Conduent Separation | — | — | (13) |
| Balance at December 31 | $108 | $125 | $165 |

(1) The majority of settlements did not result in the utilization of cash.

Included in the balances at December 31, 2018, 2017 and 2016 are $8, $8 and $5, respectively, of tax positions that are highly certain of realizability but for which there is uncertainty about the timing or that they may be reduced through an indirect benefit from other taxing jurisdictions. Because of the impact of deferred tax accounting, other than for the possible incurrence of interest and penalties, the disallowance of these positions would not affect the annual effective tax rate.

Within income tax expense, we recognize interest and penalties accrued on unrecognized tax benefits, as well as interest received from favorable settlements. We had $2, $5 and $10 accrued for the payment of interest and penalties associated with unrecognized tax benefits at December 31, 2018, 2017 and 2016, respectively.

In the U.S., we are no longer subject to U.S. federal income tax examinations for years before 2012. With respect to our major foreign jurisdictions, we are no longer subject to tax examinations by tax authorities for years before 2011.

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 2017, we recorded an estimated non-cash provisional charge of $400 reflecting our provisional estimated impact associated with the provisions of the Tax Act based on currently available information. Our estimated charge incorporated assumptions made based on our interpretation of the Tax Act as well as information available at that time and was subject to change, possibly materially, as we completed our analysis and received additional clarification and implementation guidance. During 2018, we adjusted our provisional estimate by an additional charge of $89 reflecting certain positions taken on our filed 2017 income tax return as well as consideration of additional guidance from the U.S. Treasury and Internal Revenue Service (IRS). The adjustments include changes to the determination of the one-time deemed repatriation tax as well as additional remeasurement of our U.S. deferred tax assets and liabilities to the lower enacted statutory tax rate. The total charge of $489 reflects our current estimate of the impact of the Tax Act and may change in the future based on new guidance being issued or changes in our expected filing positions. The $489 charge included the following components:

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Foreign tax effects: The deemed repatriation tax is based on total post-1986 earnings and profits (E&P) that have previously been deferred from U.S. income taxes. We recorded an estimated charge for our deemed repatriation tax of $195. We expect to utilize our existing foreign tax credit carryforwards to settle the estimated deemed repatriation tax. Our estimated charge for the Tax Act also included a charge of $99 for other tax liabilities and adjustments resulting from our estimate of the actual and anticipated distributions of our net accumulated foreign E&P. As a consequence of the Tax Act, we now no longer consider our post 1986 E&P indefinitely reinvested. On January 15, 2019, the IRS finalized regulations that govern the repatriation tax. We are in the process of analyzing the impacts of these regulations on our financial statements.

Deferred tax assets and liabilities: We remeasured certain deferred tax assets and liabilities based on the new statutory income tax rate of 25%, inclusive of estimated state taxes. We recorded an estimated amount related to the remeasurement of our deferred tax balance of approximately $195.

In addition, effective January 1, 2018, we became subject to various 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). Accordingly, our 2018 effective tax rate includes the impacts for these items, which was approximately $15 on a full year basis. 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 receive additional clarification and implementation guidance.

Deferred Income Taxes

We completed our analysis of the impacts of U.S. tax reform in the fourth quarter of 2018. Accordingly, we have recognized the tax consequences of our estimated deemed repatriated foreign earnings based on post-1986 E&P and management has no specific plans to indefinitely reinvest these foreign earnings as of the balance sheet date. However, we have not provided deferred taxes on our undistributed pre-1987 E&P of approximately $1.5 billion as such undistributed earnings have been determined to be indefinitely reinvested and we currently do not plan to initiate any action that would precipitate a deferred tax impact. Additionally, we have also not provided deferred taxes on the outside basis differences in our investments in foreign subsidiaries that are unrelated to undistributed earnings. These basis differences are also indefinitely reinvested. A determination of the unrecognized deferred taxes related to these components is not practicable.

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The tax effects of temporary differences that give rise to significant portions of the deferred taxes were as follows:

| | December 31, 2018 | 2017 |
|---|---|---|
| Deferred Tax Assets | | |
| Research and development | $252 | $143 |
| Post-retirement medical benefits | 99 | 183 |
| Net operating losses | 389 | 432 |
| Operating reserves, accruals and deferrals | 138 | 128 |
| Tax credit carryforwards | 254 | 646 |
| Deferred and share-based compensation | 32 | 43 |
| Pension | 266 | 308 |
| Depreciation | 90 | 106 |
| Other | 46 | 62 |
| Subtotal | 1,566 | 2,051 |
| Valuation allowance | (397 ) | (435 ) |
| Total | $1,169 | $1,616 |
| | | |
| Deferred Tax Liabilities | | |
| Unearned income and installment sales | $291 | $344 |
| Intangibles and goodwill | 129 | 134 |
| Unremitted earnings of foreign subsidiaries | 59 | 140 |
| Other | 1 | 14 |
| Total | $480 | $632 |
| | | |
| Total Deferred Taxes, Net | $689 | $984 |
| | | |
| Reconciliation to the Consolidated Balance Sheets | | |
| Deferred tax assets | $740 | $1,026 |
| Deferred tax liabilities[1] | (51 ) | (42 ) |
| Total Deferred Taxes, Net | $689 | $984 |

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(1) Represents the deferred tax liabilities recorded in Other long-term liabilities - refer to Note 13 - Supplementary Financial Information.

The deferred tax assets for the respective periods were assessed for recoverability and, where applicable, a valuation allowance was recorded to reduce the total deferred tax asset to an amount that will, more-likely-than-not, be realized in the future. The net change in the total valuation allowance for the years ended December 31, 2018, 2017 and 2016 was a decrease of $38, an increase of $19 and an increase of $33, respectively. The valuation allowance relates primarily to certain net operating loss carryforwards, tax credit carryforwards and deductible temporary differences for which we have concluded it is more-likely-than-not that these items will not be realized in the ordinary course of operations.

Although realization is not assured, we have concluded that it is more-likely-than-not that the deferred tax assets, for which a valuation allowance was determined to be unnecessary, will be realized in the ordinary course of operations based on the available positive and negative evidence, including scheduling of deferred tax liabilities and projected income from operating activities. The amount of the net deferred tax assets considered realizable, however, could be reduced in the near term if actual future income or income tax rates are lower than estimated, or if there are differences in the timing or amount of future reversals of existing taxable or deductible temporary differences.

At December 31, 2018, we had tax credit carryforwards of $254 available to offset future income taxes, of which $1 are available to carryforward indefinitely while the remaining $253 will expire 2019 through 2039 if not utilized. We also had net operating loss carryforwards for income tax purposes of $517 that will expire 2019 through 2039, if not utilized, and $1.7 billion available to offset future taxable income indefinitely.

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Note 19 – Contingencies and Litigation

As more fully discussed below, 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.

Additionally, guarantees, indemnifications and claims arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates, as well as through divestitures and sales of businesses, when the Company undertakes an obligation to guarantee the performance of others if specified triggering events occur. Nonperformance under a contract could trigger an obligation of the Company. These potential claims include actions based upon alleged exposures to products, real estate, intellectual property such as patents, environmental matters, and other indemnifications. The ultimate effect on future financial results is not subject to reasonable estimation because considerable uncertainty exists as to the final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the Company's consolidated financial position or liquidity. As of December 31, 2018, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

Brazil Contingencies

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

As of December 31, 2018, the total amounts related to the unreserved portion of the tax contingencies, inclusive of related interest, amounted to approximately $500 with the decrease from the December 31, 2017 balance of approximately $585, primarily related to currency and closed cases partially offset by interest. With respect to the unreserved balance of approximately $500, 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 December 31, 2018, we had $58 of escrow cash deposits for the tax matters we are disputing and additional letters of credit and surety bonds of $104 and $106, respectively, which include associated indexation. There were no liens on Brazilian assets as of December 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 are also involved in certain disputes with contract and former employees. Exposures related to labor matters are not material to the financial statements as of December 31, 2018. We routinely assess all these matters as to probability of ultimately incurring a liability against our Brazilian operations and record our best estimate of the ultimate loss in situations where we assess the likelihood of an ultimate loss as probable.

Litigation Against the Company

Pending Litigation Relating to the Fuji Transaction:

1.

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

In February 2018, five complaints (the "Fuji Transaction Shareholder Lawsuits"), 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 (the "Court") in connection with the proposed transaction to combine Xerox and Fuji Xerox (the “Fuji Transaction”) (refer to Note 25 - Fuji Xerox Transaction). 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

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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 Fuji Transaction Shareholder Lawsuits seek injunctive relief preventing the previously proposed transactions, and/or additional disclosures by Xerox’s directors, unspecified damages from Xerox’s directors, costs and attorneys’ fees, as well as other relief.

One of the Fuji Transaction Shareholder Lawsuits was brought by Darwin Deason, a Xerox shareholder ("Deason I"). Another complaint was filed by Mr. Deason against Xerox and its directors in the same Court on March 2, 2018 ("Deason II") alleging 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. In Deason II, Mr. Deason sought to enjoin Xerox and its directors from enforcing Xerox’s advance notice by-laws, thereby allowing Mr. Deason to proceed with the nominations, as well as costs, fees, and other relief.

On April 27, 2018, the Court issued decisions and orders granting plaintiffs’ preliminary injunction motions, which (i) enjoined 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) enjoined 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) required 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 “Initial Settlement Agreement”) with Mr. Deason and Carl C. Icahn and certain of his affiliates who were also Xerox shareholders (the "Icahn Group"), among others, that would have resolved Deason I, Deason II and the pending proxy contest in connection with Xerox’s 2018 Annual Meeting of Shareholders. The Initial Settlement Agreement expired by its terms on May 3, 2018 without becoming effective.

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

On May 13, 2018, a second Director Appointment, Nomination and Settlement Agreement (the "Final Settlement Agreement") with respect to Deason I, Deason II and the pending proxy contest in connection with Xerox's 2018 Annual Meeting of Shareholders that was initiated by the Icahn Group was signed on behalf of Mr. Deason, the Icahn Group and all defendants except Fujifilm, and a memorandum of understanding regarding settlement of the putative class case was signed by all defendants except Fujifilm. Pursuant to the settlements, the settling defendants withdrew their appeal and motion to stay in Deason I and Deason II. The settling defendants also withdrew their motion to stay in the putative class case. The Court entered a stipulation of discontinuance as to the settling parties in Deason II on May 14, 2018, and agreed on June 22, 2018 to do the same in Deason I.

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

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

On June 22, 2018, the Court entered an order denying a joint motion by the putative class plaintiffs and the settling defendants to dissolve the injunction in the putative class case as against the settling defendants, and entered an order denying Fujifilm's motion to dissolve the injunctions in the putative class case and Deason I in their entirety.
On July 16, 2018, the Court held a hearing concerning the putative class plaintiffs' motion for preliminary approval of the settlement in the putative class case. The Court indicated that it was not inclined to consider motions for approval of the settlement prior to considering whether the putative class should be certified.

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On August 2, 2018, the Appellate Division entered orders recognizing the Xerox defendants’ withdrawal of their appeal in the Deason cases and denying all appellants’ motions to stay pending determination of appeals in the Deason and putative class cases.

On August 2, 2018, the Appellate Division entered orders (i) at their request, deeming withdrawn the Xerox defendants’ appeal and motion to stay in the Deason cases; (ii) upon their request, deeming withdrawn the Xerox defendants’ motion to stay, pending determination of appeal, the putative class case; and (iii) denying Fujifilm’s motion to stay pending determination of its appeals in the Deason and putative case cases.

On September 21, 2018, putative class plaintiffs filed a motion for certification of a settlement class and a motion to transmit notice of the proposed settlement to the proposed class. On October 17, 2018, derivative plaintiff Carmen Ribbe and Fujifilm filed oppositions to the putative class plaintiffs’ motion to transmit notice to the proposed class. The class has not yet been certified, and preliminary approval has not been granted.

The Appellate Division heard oral argument on September 25, 2018 on Fujifilm’s appeal of the Court’s decision. On October 16, 2018, the Appellate Division entered a decision and order reversing the Court’s rulings, ordering that the claims brought against Fujifilm in the cases by Mr. Deason and the purported class be dismissed, and further ordering that the preliminary injunction of the proposed Fuji Transaction be dissolved (the “Appellate Decision and Order”).

On November 15, 2018, the putative class plaintiffs filed with the Appellate Division a motion seeking the opportunity to reargue Fujifilm’s appeal or, in the alternative, for leave to appeal the Appellate Decision and Order to the New York State Court of Appeals.

On December 6, 2018, pursuant to the Appellate Decision and Order, the Court entered a judgment dismissing the complaints against Fujifilm in Deason I and the putative class case. The Court further issued orders denying the putative class plaintiffs’ motion for class certification, without prejudice to renewing the motion after the outcome of any appeals of the Appellate Decision and Order.

On January 8, 2019, the Court entered an order staying all further proceedings in Deason I and the putative class case until thirty days after exhaustion of appeals, including any appeals to the New York State Court of Appeals, of the Appellate Decision and Order. On January 9, 2019, the Court entered an order denying the putative class plaintiffs’ motion to transmit notice to the proposed class, without prejudice to renewal of their motion at a later time.

On October 31, 2018 and January 3, 2019, respectively, Xerox and the Xerox director defendants in the putative class case filed with the Appellate Division a request and motion seeking an extension, until after any decision regarding approval of settlement of the putative class action, of the deadline by which to perfect their appeal of the Court’s April 27, 2018 decision and order.

On February 21, 2019, the Appellate Division issued an order denying the putative class plaintiffs’ motion seeking to reargue Fujifilm’s appeal or, in the alternative, for leave to appeal the Appellate Decision and Order to the New York State Court of Appeals.

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

2. Ribbe v. Jacobson, et al.:

On May 24, 2018, a shareholder derivative complaint was filed with the Court by Carmen Ribbe against all defendants in the putative class action described above, as well as Centerview Partners, LLC ("Centerview"). Plaintiff made no pre-complaint demand. The Ribbe complaint contains allegations of breaches of fiduciary duty similar to those in the Fuji Transaction Shareholder Lawsuits, and further alleges that, among other things, Fujifilm and Centerview aided and abetted those breaches, and that the directors breached their fiduciary duties and wasted corporate assets by, among other things, agreeing to releases of claims against them and allowing certain alleged payments in the Initial Settlement Agreement and the Final Settlement Agreement. It seeks unspecified damages for Xerox, rescission or reformation of the Final Settlement Agreement, restitution of funds allegedly paid to the directors, injunctive relief against wrongful practices, costs and attorneys’ fees, as well as other relief.

On August 13, 2018, the Xerox defendants and Fujifilm filed motions to dismiss or stay the complaint.
On or about August 10, 2018, the parties filed a stipulated proposed order of discontinuance without prejudice as to Centerview in light of a recent agreement between Centerview and Xerox. On August 27, 2018, the Court declined to

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so-order the discontinuance absent Xerox's providing notice thereof to shareholders, and ordered the parties to confer regarding notice publication.

On December 6, 2018, the Court granted the Xerox defendants' motion to dismiss and dismissed the complaint without prejudice.

3. Fujifilm Holdings Corp. v. Xerox Corporation:

On June 18, 2018, Fujifilm filed a complaint against Xerox in the U.S. District Court for the Southern District of New York, relating to the Fuji Transaction agreements. The complaint alleges that Xerox: (1) willfully breached the Fuji Transaction agreements by purporting to terminate them to appease Messrs. Icahn and Deason and using as a pretext issues with Fujifilm's untimely submitted financials, and by settling Deason I and Deason II without notice to or consent by Fujifilm; (2) willfully breached the implied covenant of good faith and fair dealing by failing to support and use best efforts to conclude the Fuji Transaction, thus depriving Fujifilm of the benefit of its bargain; and (3) effected a change in Xerox's recommendation regarding the Fuji Transaction, entitling Fujifilm to terminate the Fuji Transaction agreements and to receive from Xerox a $183 termination fee. Fujifilm seeks a judgment for damages to be determined at trial in an amount in excess of $1.0 billion plus punitive damages; a declaration regarding the alleged change in recommendation such that Fujifilm may terminate the transaction and Xerox must pay the $183 termination fee and other remedies; costs and attorneys' fees; and other relief the court may deem appropriate.

At a conference on September 24, 2018, the Court stayed all discovery pending resolution of Xerox's motion to dismiss. Xerox filed its motion to dismiss on October 1, 2018. On February 22, 2019, following oral argument, the Court denied the motion to dismiss.

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

State of Texas v. Xerox Corporation, Xerox State Healthcare, LLC, and ACS State Healthcare, LLC: On May 9, 2014, the State of Texas, via the Texas Office of Attorney General (the "State"), filed a lawsuit in the 53rd Judicial District Court of Travis County, Texas. The lawsuit alleged that Xerox Corporation, Xerox State Healthcare, LLC and ACS State Healthcare (collectively "the Defendants") violated the Texas Medicaid Fraud Prevention Act in the administration of ACS State Healthcare's contract with the Texas Department of Health and Human Services ("HHSC"). Xerox Corporation provided a guaranty of contractual performance with respect to the ACS State Healthcare contract. The State alleged 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 sought recovery of actual damages, two times the amount of any overpayments made as a result of alleged unlawful acts, civil penalties, pre- and post-judgment interest and all costs and attorneys' fees. The State referenced 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 made substantially similar allegations and sought similar remedies as the original lawsuit. On October 23, 2017, Xerox Corporation filed a Motion for Summary Judgment seeking judgment in Xerox's favor on all claims against it. On July 2, 2018, the Court denied the State of Texas' motion for a determination of the adequacy of its pleadings as to Xerox or in the alternative, seeking leave to amend its petition to bring additional claims against Xerox.

On February 15, 2019, The State filed, without opposition, its Third Amended Petition against Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), Conduent State Healthcare, LLC (f/k/a Xerox State Healthcare, LLC, f/k/a ACS State Healthcare, LLC) and Conduent Incorporated (collectively, the "Conduent Entities") and Xerox Corporation to add claims for breach of contract and negligence. On February 18, 2019, Xerox and the Conduent Entities entered into a Settlement Agreement and Release ("Agreement") with the State and the HHSC to settle all claims arising from alleged failures by the defendants or Texas Medicaid & Healthcare Partnership to comply with obligations under two contracts between Conduent State Healthcare, LLC and the HHSC entered into in 2003 and 2010. Xerox is not required to make any payment under the Agreement. Pursuant to the terms of the Agreement, the

Conduent Entities will pay the State $235.9 payable in installments through no later than July 31, 2021. Also pursuant to the Agreement, all proceedings in the lawsuit are suspended, as confirmed by an order issued by the Court on February 19, 2018, and the State and the HHSC will dismiss the lawsuit with prejudice and release all of the defendants from all of the State's claims after the settlement amount has been paid in full. No defendant made any admission of liability or wrongdoing in entering into the Agreement.

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This matter is a “Conduent Liability”, as defined in the Separation and Distribution Agreement dated as of December 31, 2016 between Xerox Corporation and Conduent Incorporated, for which Conduent is required to indemnify Xerox. Conduent is entitled to direct the defense of this matter.

Oklahoma Firefighters Pension and Retirement System v. Xerox Corporation, Ursula M. Burns, Luca Maestri, Kathryn A. Mikells, Lynn R. Blodgett, Robert K. Zapfel, David H. Bywater and Mary Scanlon: On October 21, 2016, the Oklahoma Firefighters Pension and Retirement System (“plaintiff”) filed a purported securities class action complaint against Xerox Corporation, Ursula Burns, Luca Maestri, Kathryn Mikells, Lynn Blodgett and Robert Zapfel (collectively, “defendants”) in the U.S. District Court for the Southern District of New York on behalf of the plaintiff and certain purchasers or acquirers of Xerox common stock. The complaint alleged that defendants made false and misleading statements, in violation of Sections 10(b) and 20(a) of the Securities Exchange Act and SEC Rule 10b-5, relating to the operations and prospects of Xerox’s Health Enterprise business. Plaintiff sought, among other things, unspecified monetary damages and attorneys’ fees. Other, similar lawsuits may follow. On December 28, 2016, the Court entered a stipulated order setting out a schedule for amendment of the complaint and for defendants’ response to that complaint following the Court’s appointment of lead plaintiff under the Private Securities Litigation Reform Act. On February 28, 2017, the Court issued an opinion and order appointing the Arkansas Public Employees Retirement System ("APERS") as lead plaintiff. On May 1, 2017, APERS filed an amended complaint, alleging substantially similar claims and seeking substantially similar relief, but adding David Bywater and Mary Scanlon as defendants. On June 30, 2017, defendants moved to dismiss the amended complaint, and the motions were fully briefed on October 13, 2017. On March 20, 2018, the Court entered an opinion and order granting the motions, and on March 23, 2018, the Court entered a judgment of dismissal and closed the case. On April 20, 2018, plaintiffs filed a notice of appeal in the U.S. Court of Appeals for the Second Circuit, and the appeal was fully briefed as of November 28, 2018. 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.

Guarantees, Indemnifications and Warranty Liabilities

Indemnifications Provided as Part of Contracts and Agreements

Acquisitions/Divestitures:

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. In addition, we customarily agree to hold the other party harmless against losses arising from a breach of representations and covenants, including such matters as adequate title to assets sold, intellectual property rights, specified environmental matters and certain income taxes arising prior to the date of acquisition. Where appropriate, an obligation for such indemnifications is recorded as a liability at the time of the acquisition or divestiture. 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.

Other Agreements:

We are also party to the following types of agreements pursuant to which we may be obligated to indemnify the other party with respect to certain matters:

- Guarantees on behalf of our subsidiaries with respect to real estate leases. These lease guarantees may remain in effect subsequent to the sale of the subsidiary.

- Agreements to indemnify various service providers, trustees and bank agents from any third-party claims related to their performance on our behalf, with the exception of claims that result from a third-party's own willful misconduct or gross negligence.
- Guarantees of our performance in certain sales and services contracts to our customers and indirectly the performance of third parties with whom we have subcontracted for their services. This includes indemnifications to customers for losses that may be sustained as a result of the use of our equipment at a customer's location.

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In each of these circumstances, our payment is conditioned on the other party making a claim pursuant to the procedures specified in the particular contract and such procedures also typically allow us to challenge the other party's claims. In the case of lease guarantees, we may contest the liabilities asserted under the lease. Further, our obligations under these agreements and guarantees may be limited in terms of time and/or amount, and in some instances, we may have recourse against third parties for certain payments we made.

Patent Indemnifications

In most sales transactions to resellers of our products, we indemnify against possible claims of patent infringement caused by our products or solutions. In addition, we indemnify certain software providers against claims that may arise as a result of our use or our subsidiaries', customers' or resellers' use of their software in our products and solutions. These indemnities usually do not include limits on the claims, provided the claim is made pursuant to the procedures required in the sales contract.

Indemnification of Officers and Directors

Our corporate by-laws require that, except to the extent expressly prohibited by law, we must indemnify Xerox Corporation's officers and directors against judgments, fines, penalties and amounts paid in settlement, including legal fees and all appeals, incurred in connection with civil or criminal action or proceedings, as it relates to their services to Xerox Corporation and our subsidiaries. Although the by-laws provide no limit on the amount of indemnification, we may have recourse against our insurance carriers for certain payments made by us. However, certain indemnification payments (such as those related to "clawback" provisions in certain compensation arrangements) may not be covered under our directors' and officers' insurance coverage. We also indemnify certain fiduciaries of our employee benefit plans for liabilities incurred in their service as fiduciary whether or not they are officers of the Company. Finally, in connection with our acquisition of businesses, we may become contractually obligated to indemnify certain former and current directors, officers and employees of those businesses in accordance with pre-acquisition by-laws and/or indemnification agreements and/or applicable state law.

Product Warranty Liabilities

In connection with our normal sales of equipment, including those under sales-type leases, we generally do not issue product warranties. Our arrangements typically involve a separate full service maintenance agreement with the customer. The agreements generally extend over a period equivalent to the lease term or the expected useful life of the equipment under a cash sale. The service agreements involve the payment of fees in return for our performance of repairs and maintenance. As a consequence, we do not have any significant product warranty obligations, including any obligations under customer satisfaction programs. In a few circumstances, particularly in certain cash sales, we may issue a limited product warranty if negotiated by the customer. We also issue warranties for certain of our entry level products, where full service maintenance agreements are not available. In these instances, we record warranty obligations at the time of the sale. Aggregate product warranty liability expenses for the three years ended December 31, 2018 were $14, $15 and $15, respectively. Total product warranty liabilities as of December 31, 2018 and 2017 were $6 and $7, respectively.

Guarantees

We have issued or provided approximately $334 of guarantees as of December 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 (see "Brazil Contingencies); and iii) support certain contracts, primarily with public sector customers, which require us to provide a surety bond as a guarantee of our performance of contractual obligations.

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

Note 20 - Preferred Stock

Series B Convertible Perpetual Preferred Stock

As of December 31, 2018, we had one class of preferred stock outstanding. We have issued 180,000 shares of Series B Convertible Perpetual Preferred Stock that have an aggregate liquidation value of $180 and a carrying value of $214.

The Series B Convertible Preferred Stock pays quarterly cash dividends at a rate of 8% per year ($14 per year). Each share of Preferred Stock is convertible at any time, at the option of the holder, into 37.4532 shares of common stock for a total of 6,742 thousand shares (reflecting an initial conversion price of approximately $26.70 per share of common stock), subject to customary anti-dilution adjustments.

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If the closing price of our common stock exceeds $39.00 or 146.1% of the initial conversion price of $26.70 per share of common stock for 20 out of 30 consecutive trading days, we have the right to cause any or all of the Series B Convertible Perpetual Preferred Stock to be converted into shares of common stock at the then applicable conversion rate. The Preferred Stock is also convertible, at the option of the holder, upon a change in control, at the applicable conversion rate plus an additional number of shares determined by reference to the price paid for our common stock upon such change in control. In addition, upon the occurrence of certain fundamental change events, including a change in control or the delisting of Xerox's common stock, the holder of convertible preferred stock has the right to require us to redeem any or all of the convertible preferred stock in cash at a redemption price per share equal to the liquidation preference and any accrued and unpaid dividends up to, but not including, the redemption date. The convertible preferred stock is classified as temporary equity (i.e., apart from permanent equity) as a result of the contingent redemption feature.

Note 21 – Shareholders' Equity

Preferred Stock

We are authorized to issue approximately 22 million shares of cumulative preferred stock, $1.00 par value per share. Refer to Note 20 - Preferred Stock for additional information.

Common Stock

We have 437.5 million authorized shares of common stock, $1.00 par value per share. At December 31, 2018, 23 million shares were reserved for issuance under our incentive compensation plans, 12 million shares were reserved for debt to equity exchanges and 7 million shares were reserved for conversion of the Series B convertible perpetual preferred stock.

Treasury Stock

We account for the repurchased common stock under the cost method and include such treasury stock as a component of our common shareholders' equity. Retirement of treasury stock is recorded as a reduction of Common stock and Additional paid-in capital at the time such retirement is approved by our Board of Directors.

In July 2018, the Board of Directors authorized a $1.0 billion share repurchase program (exclusive of any commissions and other transaction fees and costs). The program replaced the $245 of authority remaining under the Company's previously authorized share repurchase program. In January 2019, the Board of Directors authorized an incremental $1.0 billion share repurchase program (exclusive of any commissions and other transaction fees and costs).

The following provides cumulative information relating to our share repurchase program from its inception in July 2018 through December 31, 2018 (shares in thousands):

| | |
|---|---|
| Authorized share repurchase program | $1,000 |
| Share repurchase cost | $700 |
| Share repurchase fees | $— |
| Number of shares repurchased | 26,093 |

Of the $1.0 billion of share repurchase granted in 2018 by our Board of Directors, approximately $300 of that authority remained available as of December 31, 2018.

The following table reflects the changes in Common and Treasury stock shares (shares in thousands):

| | Common Stock Shares | Treasury Stock Shares |
|---|---|---|
| Balance at December 31, 2015 | 253,209 | — |
| Stock based compensation plans, net | 385 | — |
| Balance at December 31, 2016 | 253,594 | — |
| Stock based compensation plans, net | 1,019 | — |
| Balance at December 31, 2017 | 254,613 | — |
| Stock based compensation plans, net | 1,103 | — |

| | | |
|---|---|---|
| Acquisition of Treasury stock | — | 26,093 |
| Cancellation of Treasury stock | (24,026 ) | (24,026 ) |
| Balance at December 31, 2018 | 231,690 | 2,067 |

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Note 22 – Stock-Based Compensation
(shares in thousands)
We have a long-term incentive plan whereby eligible employees may be granted restricted stock units (RSUs), performance shares (PSs) and stock options (SOs). We grant stock-based compensation awards in order to continue to attract and retain qualified employees and to better align employees' interests with those of our shareholders. We grant RSUs and PSs to officers, selected executives and middle managers, and SOs to officers and selected executives only. Each of these awards is subject to settlement with newly issued shares of our common stock. At December 31, 2018 and 2017, 14 million and 16 million shares, respectively, were available for grant of awards.
Stock-based compensation expense was as follows:

| | Year Ended December 31, 2018 | 2017 | 2016 |
|---|---|---|---|
| Stock-based compensation expense, pre-tax | $57 | $ 52 | $ 50 |
| Income tax benefit recognized in earnings | 14 | 20 | 19 |

In 2018, the timing of our annual grant of awards was changed from July to April to better align our grant date with the underlying performance period related to PSs.
Restricted Stock Units: Compensation expense for RSUs is based upon the grant date market price and is recognized on a straight-line basis over the vesting period, based on management's estimate of the number of shares expected to vest. The 2018 grant vests as follows: 25% after one year of service, 25% after two years of service and 50% after three years of service from the date of grant. Prior to the 2018 grant, RSUs vested on a three-year cliff basis from the date of grant. Shares awarded to employees who are retirement-eligible at the date of grant, become retirement-eligible during the vesting period, or are terminated not-for-cause (e.g. as part of a restructuring initiative), vest based on service provided from the date of grant to the date of separation.
Performance Shares: PS awards granted in 2018 were comprised of the following components: a performance-based component that included metrics for Revenue Growth and Free Cash Flow and a market-based component that included a Total Shareholder Return (TSR) metric. The metrics are equally weighted; accordingly, each PS grant is two-thirds performance-based (revenue and free cash flow) and one-third market-based (TSR). The performance metrics are independent of each other and depending on the achievement of these metrics, a recipient of a PS award is entitled to receive a number of shares equal to a percentage, ranging from 0% to 200% of the PS award granted. PSs vest on a three-year cliff basis from the date of grant. Prior to the 2018 grant, PSs were exclusively performance based and included metrics for Revenue Growth, Earnings per Share and Cash Flow from Operations, typically over a three-year performance period.
Performance-Based Component: PSs vest contingent upon meeting pre-determined cumulative performance metrics. The fair value of our PSs is based upon the grant-date market price. Compensation expense is recognized on a straight-line basis over the vesting period, based on management's estimate of the number of shares expected to vest. If the cumulative three-year actual results exceed the stated targets, all plan participants have the potential to earn additional shares of common stock up to a maximum overachievement of 100% of the original grant. If the stated targets are not met, any recognized compensation cost would be reversed.
As a result of the change in management in the second quarter 2018, the Board did not finalize the performance measures and corresponding weightings for the 2018 PS grant and therefore the plan remained discretionary through November 2018. Accordingly, we determined that the criteria needed to establish a grant date had not been met and therefore the fair value of the 2018 PS grant was revalued based on the period-end stock price for each subsequent reporting period. In December 2018, the Board approved and modified the performance-based metrics to a one-year performance period (2018), and a two-year time-based requirement (2019 and 2020). As a result of this action, we determined that the grant date criteria was met in December 2018, and the fair value of the award was finalized.
Market-Based Component: The TSR metric, included as part of the 2018 PS grant, was based on the percentage change in the Company’s stock price plus the dividends paid over the three-year measurement period. Payout for this portion of the PS was to be determined based on Xerox’s percentage change compared to the shareholder returns of the

peer group of companies approved by the compensation committee of the Board (as disclosed in the 2018 annual proxy statement). Since the TSR portion of the PS award represents a market condition, a Monte Carlo simulation was used to determine the grant-date fair value. In conjunction with the Board's approval to modify the performance-based metrics of the 2018 PS grant, the Board also approved a modification to the market-based metric of the award to a one-year performance period (2018), and a two-year time-based requirement (2019 and 2020). A summary of the key valuation input assumptions used in the Monte Carlo simulation relative to PS awards granted were as follows:

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| | 2018 Award |
|---|---|
| Term | 3 years |
| Risk-free interest rate[1] | 2.39 % |
| Dividend yield[2] | 3.24 % |
| Xerox's historical volatility[3] | 29.12 % |
| Weighted average fair value[4] | $32.01 |

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

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

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

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

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

| Percentile | Payout as a Percent of Target[1] |
|---|---|
| $80^{th}$ and above | 200 % |
| $50^{th}$ | 100 % |
| $25^{th}$ | 35 % |
| Below $25^{th}$ | 0 % |

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

Compensation expense is recognized on a straight-line basis over the vesting period based on the fair value determined by the Monte Carlo simulation and, except in cases of employee forfeiture, cannot be reversed regardless of performance. There was no impact to compensation expense as a result of the Board's approval to modify the 2018 TSR metric to a one-year performance period (2018) and a two-year time-based requirement (2019 and 2020).

Stock Options: The Board approved the granting of SOs as part of the 2018 plan design. Except for the conversion of options relating to our acquisition of Affiliated Computer Systems in 2010, we had not issued any SOs since 2004. Compensation expense associated with SOs is based upon the grant date fair value determined by utilizing the Black-Scholes (BS) option-pricing model and is recognized on a straight-line basis over the vesting period, based on management's estimate of the number of SOs expected to vest. The 2018 SOs have a contractual term of 10 years from the date of grant and vest as follows: 25% after one year of service, 25% after two years of service, and 50% after three years of service from the date of grant. Similar to RSUs, SOs awarded to employees who are retirement-eligible at the date of grant, become retirement-eligible during the vesting period, or are terminated not-for-cause (e.g. as part of a restructuring action), vest based on service provided from the date of grant to the date of separation.

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

| | 2018 Award |
|---|---|
| Expected term[1] | 6.13 years |
| Expected volatility[2] | 27.25 % |
| Expected dividend yield[3] | 3.25 % |
| Risk-free interest rate[4] | 2.63 % |

| | |
|---|---|
| Weighted average fair value[5] | $5.71 |

(1) Since these SO grants are effectively part of a new program, the expected term was calculated using the "Simplified Method" under the SEC guidance based on the SOs vesting schedule and contractual term. We did not have sufficient historical exercise data to provide a reasonable basis to estimate an expected term.

(2) The expected volatility was calculated based on a combination of Xerox's term-matched historical volatility and implied volatility from traded options.

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

(4) The risk-free interest rate was based on the zero-coupon U.S. Treasury yield curve with a maturity matched to the expected term of the SOs.

(5) The weighted average of fair values used to record compensation expense as determined by the BS option-pricing model.

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

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Summary of Stock-based Compensation Activity

| | 2018 | | 2017 | | 2016 | |
|---|---|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value[2] | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value[2] |
| Restricted Stock Units[1] | | | | | | |
| Outstanding at January 1 | 2,856 | $ 30.65 | 1,807 | $ 30.10 | 598 | $ 44.20 |
| Granted | 1,595 | 27.82 | 1,436 | 31.39 | 1,793 | 38.28 |
| Vested | (214 ) | 30.39 | (117 ) | 36.99 | (79 ) | 38.48 |
| Cancelled | (678 ) | 30.04 | (270 ) | 29.03 | (137 ) | 40.48 |
| Separation of Conduent | — | — | — | — | (786 ) | 40.28 |
| Shares granted in equity conversion | — | — | — | — | 418 | 30.10 |
| Outstanding at December 31 | 3,559 | 29.51 | 2,856 | 30.65 | 1,807 | 30.10 |
| | | | | | | |
| Performance Shares | | | | | | |
| Outstanding at January 1 | 3,117 | $ 31.54 | 5,054 | $ 33.98 | 5,802 | $ 46.68 |
| Granted | 1,060 | 27.36 | 1,349 | 32.80 | 1,320 | 37.40 |
| Vested | (853 ) | 32.59 | (1,413) | 37.44 | (8 ) | 45.32 |
| Cancelled | (862 ) | 30.26 | (1,873) | 34.59 | (1,234) | 47.36 |
| Separation of Conduent | — | — | — | — | (1,974) | 44.36 |
| Shares granted in equity conversion | — | — | — | — | 1,148 | 33.98 |
| Outstanding at December 31 | 2,462 | 29.83 | 3,117 | 31.54 | 5,054 | 33.98 |
| | | | | | | |
| Stock Options | | | | | | |
| Outstanding at January 1 | — | $ — | — | $ — | 780 | $ 27.48 |
| Granted | 1,414 | 27.88 | — | — | — | — |
| Canceled/expired | (392 ) | 27.98 | — | — | (98 ) | 27.96 |
| Exercised | — | — | — | — | (306 ) | 28.12 |
| Separation of Conduent | — | — | — | — | (376 ) | 26.80 |
| Outstanding at December 31 | 1,022 | 27.84 | — | — | — | — |
| Exercisable at December 31 | 39 | 27.98 | — | — | — | — |

(1) Includes a Restricted Stock Award (RSA) of 351 shares with a corresponding grant date fair value of $28.51.
(2) Exercise price for stock options.

Unrecognized compensation cost related to non-vested stock-based awards at December 31, 2018 was as follows:

| Awards | Unrecognized Compensation | Remaining Weighted-Average Vesting Period (Years) |
|---|---|---|
| Restricted Stock Units[1] | $ 37 | 1.7 |
| Performance Shares | 29 | 1.8 |
| Stock Options | 4 | 2.3 |
| Total | $ 70 | |

The aggregate intrinsic value of outstanding RSU and PS awards was as follows:

| Awards | December 31, 2018 |
|---|---|
| Restricted Stock Units[1] | $ 70 |
| Performance Shares | 49 |

Explanation of Responses: 

(1) Includes a RSA of 351 shares with a corresponding grant date fair value of $28.51.

The intrinsic value and actual tax benefit realized for all vested and exercised stock-based awards was as follows:

| | December 31, 2018 | | | December 31, 2017 | | | December 31, 2016 | | |
|---|---|---|---|---|---|---|---|---|---|
| Awards | Total Intrinsic Value | Cash Received | Tax Benefit | Total Intrinsic Value | Cash Received | Tax Benefit | Total Intrinsic Value | Cash Received | Tax Benefit |
| Restricted Stock Units | $ 6 | $ — | $ 2 | $ 3 | $ — | $ 1 | $ 3 | $ — | $ 1 |
| Performance Shares | 21 | — | 4 | 40 | — | 12 | — | — | — |
| Stock Options | — | — | — | — | — | — | 3 | 9 | 1 |

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Note 23 – Other Comprehensive Income (Loss)

The historical statement of Comprehensive Loss has not been revised to reflect the Separation and instead reflects the Separation as a final adjustment to the balances at December 31, 2016. Refer to Note 5 - Divestitures for additional information regarding the Separation.

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

| | Year Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | 2017 | | 2016 | |
| | Pre-tax | Net of Tax | Pre-tax | Net of Tax | Pre-tax | Net of Tax |
| Translation Adjustments (Losses) Gains | $(251) | $(242) | $484 | $483 | $(345) | $(347) |
| Unrealized Gains (Losses) | | | | | | |
| Changes in fair value of cash flow hedges gains (losses) | 9 | 8 | (28) | (23) | 18 | 14 |
| Changes in cash flow hedges reclassed to earnings(1) | 14 | 10 | 35 | 25 | (40) | (28) |
| Other losses | (2) | (2) | (1) | (1) | (1) | (1) |
| Net Unrealized Gains (Losses) | 21 | 16 | 6 | 1 | (23) | (15) |
| Defined Benefit Plans Gains (Losses) | | | | | | |
| Net actuarial/prior service gains (losses) | 273 | 198 | 52 | 64 | (118) | (87) |
| Prior service amortization/curtailment(2) | (26) | (20) | (10) | (7) | (10) | (6) |
| Actuarial loss amortization/settlement(2) | 252 | 190 | 236 | 158 | 160 | 109 |
| Fuji Xerox changes in defined benefit plans, net(3) | (25) | (25) | 29 | 29 | (93) | (93) |
| Other gains (losses)(4) | 66 | 66 | (138) | (138) | 202 | 203 |
| Changes in Defined Benefit Plans Gains | 540 | 409 | 169 | 106 | 141 | 126 |
| Other Comprehensive Income (Loss) | 310 | 183 | 659 | 590 | (227) | (236) |
| Less: Other comprehensive income (loss) attributable to noncontrolling interests | — | — | 1 | 1 | (3) | (3) |
| Other Comprehensive Income (Loss) Attributable to Xerox | $310 | $183 | $658 | $589 | $(224) | $(233) |

(1) Reclassified to Cost of sales - refer to Note 15 - Financial Instruments for additional information regarding our cash flow hedges.

(2) Reclassified to Total Net Periodic Benefit Cost - refer to Note 17 - 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:

| | December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Cumulative translation adjustments | $(2,023) | $(1,781) | $(2,263) |
| Other unrealized gains (losses), net | 4 | (12) | (13) |
| Benefit plans net actuarial losses and prior service credits(1) | (1,546) | (1,955) | (2,061) |
| Total Accumulated Other Comprehensive Loss Attributable to Xerox | $(3,565) | $(3,748) | $(4,337) |

(1) Includes our share of Fuji Xerox.

Explanation of Responses:

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Note 24 – Earnings (Loss) per Share

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2018 | 2017 | 2016 |
| Basic Earnings (Loss) per Share: | | | |
| Net Income from continuing operations attributable to Xerox | $361 | $192 | $622 |
| Accrued dividends on preferred stock | (14) | (14) | (24) |
| Adjusted Net income from continuing operations available to common shareholders | 347 | 178 | 598 |
| Income (loss) from discontinued operations attributable to Xerox, net of tax | — | 3 | (1,093) |
| Adjusted Net income (loss) available to common shareholders | $347 | $181 | $(495) |
| Weighted-average common shares outstanding | 248,707 | 254,341 | 253,391 |
| Basic Earnings (Loss) per Share: | | | |
| Continuing operations | $1.40 | $0.70 | $2.36 |
| Discontinued operations | — | 0.01 | (4.31) |
| Basic Earnings (Loss) per Share | $1.40 | $0.71 | $(1.95) |
| | | | |
| Diluted Earnings (Loss) per Share: | | | |
| Net Income from continuing operations attributable to Xerox | $361 | $192 | $622 |
| Accrued dividends on preferred stock | (14) | (14) | (24) |
| Adjusted Net income from continuing operations available to common shareholders | 347 | 178 | 598 |
| Income (loss) from discontinued operations attributable to Xerox, net of tax | — | 3 | (1,093) |
| Adjusted Net income (loss) available to common shareholders | $347 | $181 | $(495) |
| Weighted-average common shares outstanding | 248,707 | 254,341 | 253,391 |
| Common shares issuable with respect to: | | | |
| Stock options | — | — | 174 |
| Restricted stock and performance shares | 2,953 | 2,229 | 2,430 |
| Adjusted Weighted average common shares outstanding | 251,660 | 256,570 | 255,995 |
| | | | |
| Diluted Earnings (Loss) per Share: | | | |
| Continuing operations | $1.38 | $0.70 | $2.33 |
| Discontinued operations | — | 0.01 | (4.26) |
| Diluted Earnings (Loss) per Share | $1.38 | $0.71 | $(1.93) |

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 (shares in thousands):

| | | | |
|---|---|---|---|
| Stock options | 1,022 | — | 202 |
| Restricted stock and performance shares | 3,068 | 3,706 | 5,430 |
| Convertible preferred stock | 6,742 | 6,742 | 6,742 |
| Total Anti-Dilutive Securities | 10,832 | 10,448 | 12,374 |
| | | | |
| Dividends per Common Share | $1.00 | $1.00 | $1.24 |

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Note 25 – Fuji Xerox Transaction
Pending Litigation Relating to the Fuji Transaction
Refer to Note 19 - Contingencies and Litigation for discussion of the Pending Litigation Relating to the Fuji Xerox Transaction.
Fuji Xerox Transaction Overview and Termination of Agreement
On January 31, 2018, Xerox entered into (i) a Redemption Agreement with FUJIFILM Holdings Corporation, a Japanese company ("Fujifilm"), and Fuji Xerox Co., Ltd., a Japanese company, in which Xerox indirectly holds a 25% equity interest while Fujifilm holds the remaining 75% equity interest ("Fuji Xerox"), and (ii) a Subscription Agreement with Fujifilm (collectively, the "Transaction Agreements"). Under the terms of the Transaction Agreements, Fuji Xerox would have become a wholly-owned subsidiary of Xerox, Xerox shareholders would have received a $2.5 billion special cash dividend and Xerox would have become owned 49.9% by Xerox's shareholders as of the closing date for the transaction and 50.1% by Fujifilm.
The terms of the Subscription Agreement provided the Company with certain terminations rights, including (a) if the audited financial statements of FX deviated in any material respect from the unaudited financial statements of FX and its subsidiaries provided to the Company prior to the date of the Subscription Agreement and (b) if Fujifilm or FX failed to perform any covenant or agreement set forth in the Subscription Agreement that would cause certain conditions to the consummation of the transactions contemplated by the Subscription Agreement not to be satisfied, which breach or failure to perform could not be cured or, if capable of cure, had not been cured by the earlier of 30 days following written notice thereof from the Company to Fujifilm.
As a result of the failure by Fujifilm to deliver the audited financial statements of FX by April 15, 2018 and the material deviations reflected in the audited financial statements of FX, when delivered, the Company determined that it was in the best interest of the Company and its shareholders to terminate the Subscription Agreement in accordance with the termination rights set forth therein, taking into account other circumstances limiting the ability of the Company, Fujifilm and FX to consummate a transaction. On May 13, 2018, prior to entry into the Settlement Agreement discussed in Note 19 - Contingencies and Litigation, the Company delivered written notice of termination of the Subscription Agreement to Fujifilm. By virtue of the termination of the Subscription Agreement, the Redemption Agreement terminated automatically. The Company's termination of the Transaction Agreements is the subject of pending litigation.
The Company continues to maintain existing commercial relationships with FX and Fujifilm, including, as part of the following agreements: (i) the Joint Enterprise Contract, between the Company and Fujifilm, dated March 30, 2001, (ii) the Technology Agreement, dated April 1, 2006, by and between the Company and FX and (iii) the Master Program Agreement made and entered into as of September 9, 2013 by and between the Company and FX. On June 25, 2018, the Company disclosed to Fujifilm that it does not currently plan to renew the Technology Agreement when it expires in 2021. Xerox's goals include sourcing products, parts and supplies from the most competitive suppliers to support the needs of its customers.
Bridge Facility Termination
On January 31, 2018, Xerox entered into a Commitment Letter with Citigroup Global Markets Inc. and Morgan Stanley Senior Funding, Inc., which provided a commitment for a $2.5 billion unsecured bridge loan facility that would have been available for Xerox to pay the special one-time cash dividend of $2.5 billion to existing shareholders of Xerox in connection with the Transaction Agreements, as described above.
Concurrent with the termination of the Transaction Agreements, the commitment to provide the unsecured bridge loan facility was terminated in the second quarter 2018 and, as a result, the remaining unamortized debt issuance costs of $16 were written-off.

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Quarterly Results of Operations (Unaudited)

| (in millions, except per-share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | Full Year |
|---|---|---|---|---|---|
| 2018 | | | | | |
| Revenues | $2,435 | $2,510 | $2,352 | $2,533 | $9,830 |
| Costs and Expenses | 2,301 | 2,377 | 2,160 | 2,394 | 9,232 |
| Income before Income Taxes and Equity Income | 134 | 133 | 192 | 139 | 598 |
| Income tax expense | 40 | 38 | 142 | 37 | 257 |
| Equity in net (loss) income of unconsolidated affiliates(1) | (68) | 19 | 43 | 39 | 33 |
| Income from Continuing Operations | 26 | 114 | 93 | 141 | 374 |
| (Loss) income from discontinued operations, net of tax | — | — | — | — | — |
| Net Income | 26 | 114 | 93 | 141 | 374 |
| Less: Net income - noncontrolling interests | 3 | 2 | 4 | 4 | 13 |
| Net Income Attributable to Xerox | $23 | $112 | $89 | $137 | $361 |
| | | | | | |
| Basic Earnings per Share(2): | | | | | |
| Continuing operations | $0.08 | $0.42 | $0.34 | $0.56 | $1.40 |
| Discontinued operations | — | — | — | — | — |
| Total Basic Earnings per Share | $0.08 | $0.42 | $0.34 | $0.56 | $1.40 |
| | | | | | |
| Diluted Earnings (Loss) per Share(2): | | | | | |
| Continuing operations | $0.08 | $0.42 | $0.34 | $0.56 | $1.38 |
| Discontinued operations | — | — | — | — | — |
| Total Diluted Earnings per Share | $0.08 | $0.42 | $0.34 | $0.56 | $1.38 |
| | | | | | |
| 2017 | | | | | |
| Revenues | $2,454 | $2,567 | $2,497 | $2,747 | $10,265 |
| Costs and Expenses | 2,470 | 2,374 | 2,330 | 2,521 | 9,695 |
| (Loss) Income before Income Taxes and Equity Income | (16) | 193 | 167 | 226 | 570 |
| Income tax (benefit) expense | (24) | 43 | 18 | 444 | 481 |
| Equity in net income of unconsolidated affiliates | 40 | 20 | 30 | 25 | 115 |
| Income (Loss) from Continuing Operations | 48 | 170 | 179 | (193) | 204 |
| (Loss) income from discontinued operations, net of tax | (6) | — | 3 | 6 | 3 |
| Net Income (Loss) | 42 | 170 | 182 | (187) | 207 |
| Less: Net income - noncontrolling interests | 2 | 4 | 3 | 3 | 12 |
| Net Income (Loss) Attributable to Xerox | $40 | $166 | $179 | $(190) | $195 |
| | | | | | |
| Basic Earnings (Loss) per Share(2): | | | | | |
| Continuing operations | $0.17 | $0.64 | $0.68 | $(0.78) | $0.70 |
| Discontinued operations | (0.03) | — | 0.01 | 0.02 | 0.01 |
| Total Basic Earnings (Loss) per Share | $0.14 | $0.64 | $0.69 | $(0.76) | $0.71 |
| | | | | | |
| Diluted Earnings (Loss) per Share(2): | | | | | |
| Continuing operations | $0.16 | $0.63 | $0.67 | $(0.78) | $0.70 |
| Discontinued operations | (0.02) | — | 0.01 | 0.02 | 0.01 |
| Total Diluted Earnings (Loss) per Share | $0.14 | $0.63 | $0.68 | $(0.76) | $0.71 |

(1)

First quarter 2018 included an out-of-period charge of approximately $28 million related to our investment in Fuji Xerox. Refer to Note 10 - Investment in Affiliates, at Equity in the Consolidated Financial Statements for additional information.

(2) The sum of quarterly earnings per share may differ from the full-year amounts due to rounding, or in the case of diluted earnings per share, because securities that are anti-dilutive in certain quarters may not be anti-dilutive on a full-year basis.

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Item 9. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure
None.
Item 9A. Controls and Procedures
Management's Responsibility for Financial Statements
Our management is responsible for the integrity and objectivity of all information presented in this annual report. The Consolidated Financial Statements were prepared in conformity with accounting principles generally accepted in the United States of America and include amounts based on management's best estimates and judgments. Management believes the Consolidated Financial Statements fairly reflect the form and substance of transactions and that the financial statements fairly represent the Company's financial position and results of operations.
The Audit Committee of the Board of Directors, which is composed solely of independent directors, meets regularly with the independent auditors, PricewaterhouseCoopers LLP, the internal auditors and representatives of management to review accounting, financial reporting, internal control and audit matters, as well as the nature and extent of the audit effort. The Audit Committee is responsible for the engagement of the independent auditors. The independent auditors and internal auditors have access to the Audit Committee.
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.
Management's Report on Internal Control over Financial Reporting
Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in the rules promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive, financial and accounting officers, we have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in “Internal Control - Integrated Framework (2013)” issued by the Committee of Sponsoring Organizations of the Treadway Commission.
Based on the above evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2018.
The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears in Part II, Item 8 of this Form 10-K.
Changes in Internal Control over Financial Reporting
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.

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Item 9B. Other Information

Board of Directors

On February 20, 2019, Gregory Q. Brown and Sara Martinez Tucker informed the Board of Directors that they would not stand for election as directors at the Company's 2019 annual meeting of shareholders, currently scheduled to be held on May 21, 2019. Their respective decisions not to stand for election were not due to any disagreement with respect to the operations, policies or practices of the Company. The Company thanks them for their many significant contributions over the years.

The size of the Company's Board of Directors has been reduced from nine to seven effective the day of the Company's 2019 annual meeting of shareholders.

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Part III

Item 10. Directors, Executive Officers and Corporate Governance

The information regarding directors is incorporated herein by reference to the section entitled “Proposal 1 - Election of Directors” in our definitive Proxy Statement (2019 Proxy Statement) to be filed pursuant to Regulation 14A of the Securities Exchange Act of 1934, as amended, in connection with our Annual Meeting of Stockholders. The Proxy Statement will be filed within 120 days after the end of our fiscal year ended December 31, 2018.

The information regarding compliance with Section 16(a) of the Securities and Exchange Act of 1934 is incorporated herein by reference to the section entitled “Section 16(a) Beneficial Ownership Reporting Compliance” of our 2019 Proxy Statement.

The information regarding the Audit Committee, its members and the Audit Committee financial experts is incorporated by reference herein from the subsection entitled “Committee Functions, Membership and Meetings” in the section entitled “Proposal 1 - Election of Directors” in our 2019 Proxy Statement.

We have adopted a code of ethics applicable to our principal executive officer, principal financial officer and principal accounting officer. The Finance Code of Conduct can be found on our website at: http://www.xerox.com/investor and then clicking on Corporate Governance. Information concerning our Finance Code of Conduct can be found under "Corporate Governance" in our 2019 definitive Proxy Statement and is incorporated here by reference.

Executive Officers of Xerox

The following is a list of the executive officers of Xerox, their current ages, their present positions and the year appointed to their present positions. Each officer is elected to hold office until the meeting of the Board of Directors held on the day of the next annual meeting of shareholders, subject to the provisions of the By-Laws.

| Name | Age | Present Position | Year Appointed to Present Position | Xerox Officer Since |
|---|---|---|---|---|
| Giovanni (John) Visentin | 56 | Vice Chairman and Chief Executive Officer | 2018 | 2018 |
| Steven J. Bandrowczak | 58 | President and Chief Operations Officer | 2018 | 2018 |
| Michael Feldman | 52 | Executive Vice President, President Americas Operations | 2017 | 2013 |
| Suzan Morno-Wade | 51 | Executive Vice President, Chief Human Resources Officer | 2018 | 2018 |
| William F. Osbourn, Jr. | 54 | Executive Vice President, Chief Financial Officer | 2017 | 2017 |
| Louis J. Pastor | 34 | Executive Vice President, General Counsel | 2018 | 2018 |
| Herve N. Tessler | 55 | Executive Vice President, President EMEA Operations | 2017 | 2010 |
| Stephen P. Hoover | 58 | Senior Vice President, Chief Technology Officer | 2017 | 2017 |
| Joseph H. Mancini, Jr. | 60 | Vice President, Chief Accounting Officer | 2013 | 2010 |

Of the officers named above, Messrs. Feldman, Hoover, Mancini, Jr., and Tessler have been officers or executives of Xerox, or its subsidiaries, for at least the past five years.

Mr. Visentin joined Xerox as Vice Chairman and CEO in May 2018. Prior to joining Xerox, Mr. Visentin served as a senior advisor to the chairman of Exela Technologies from August 2017 to May 2018, an operating partner for Advent International from September 2017 to May 2018 and a consultant to Icahn Capital in connection with a proxy contest at Xerox from March 2018 to May 2018. From 2013 to 2017, he served as the executive chairman and chief executive officer of Novitex Enterprise Solutions and as an advisor with Apollo Global Management. Mr. Visentin was also a director and chairman of the board of Presidio, Inc. from 2015 to 2017. From 2011 to 2012, he served as executive vice president and general manager of Hewlett Packard Company's enterprise services business. From 2007 to 2011, Mr. Visentin served as general manager of integrated technology services for IBM.

Mr. Bandrowczak joined Xerox in 2018 after 2 years at Alight Solutions, a spin-out of AON, where he was the chief operating officer and chief information officer, responsible for the application portfolio and technical infrastructure of the organization. Prior to his experience at Alight Solutions, Mr. Bandrowczak was the president of Telecommunication Media and Technology at Sutherland Global Services for 6 months. He previously served as the senior vice president for Global Business Services at Hewlett-Packard Enterprises for 4 years. He has also held senior positions at Avaya, Nortel, Lenovo, DHL and Avnet.

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Ms. Morno-Wade joined Xerox in 2016 after 11 years as vice president, compensation, benefits and HR information systems at Hess Corporation. She has also held senior HR positions at Quantum, Mitsubishi, General Electric and Quaker Oats.

Mr. Osbourn joined Xerox in 2016 following 13 years at Time Warner Cable Inc. (TWC). After serving in a variety of roles, including controller and chief accounting officer for eight years, he was co-chief financial officer of TWC. Prior, he spent two years as executive director for External Financial Reporting and Accounting Policy at Time Warner Inc. Before Time Warner, he spent 14 years at PricewaterhouseCoopers LLP in roles of increasing responsibility and was admitted to partnership in 2000.

Mr. Pastor joined Xerox in 2018 after 5 years at Icahn Enterprises L.P., where he was most recently the deputy general counsel, responsible for, among other things, numerous long-term strategic initiatives, including the acquisitions and dispositions of various operating companies, and investments in and engagements with various public and private companies. Prior to Icahn Enterprises, Mr. Pastor was an associate at Simpson, Thacher & Bartlett LLP, where he advised public companies on mergers and acquisitions, securities offerings, corporate governance and other general corporate matters.

Item 11. Executive Compensation

The information included under the following captions under “Proposal 1-Election of Directors” in our 2019 definitive Proxy Statement is incorporated herein by reference: “Compensation Discussion and Analysis”, “Summary Compensation Table”, “Grants of Plan-Based Awards in 2018”, “Outstanding Equity Awards at 2018 Fiscal Year-End”, “Option Exercises and Stock Vested in 2018”, “Pension Benefits for the 2018 Fiscal Year”, “Nonqualified Deferred Compensation for the 2018 Fiscal Year”, “Potential Payments upon Termination or Change in Control”, "CEO Pay Ratio", “Summary of Director Annual Compensation", "Compensation Committee Interlocks and Insider Participation” and “Compensation Committee”. The information included under the heading “Compensation Committee Report” in our 2019 definitive Proxy Statement is incorporated herein by reference; however, this information shall not be deemed to be “soliciting material” or to be “filed” with the Commission or subject to Regulation 14A or 14C, or to the liabilities of Section 18 of the Exchange Act of 1934, as amended.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information regarding security ownership of certain beneficial owners and management and securities authorized for issuance under equity compensation plans is incorporated herein by reference to the subsections entitled “Ownership of Company Securities,” and “Equity Compensation Plan Information” under “Proposal 1- Election of Directors” in our 2019 definitive Proxy Statement.

Item 13. Certain Relationships, Related Transactions and Director Independence

Information regarding certain relationships and related transactions is incorporated herein by reference to the subsection entitled “Certain Relationships and Related Person Transactions” under “Proposal 1- Election of Directors” in our 2019 definitive Proxy Statement. The information regarding director independence is incorporated herein by reference to the subsections entitled “Corporate Governance” and “Director Independence” in the section entitled “Proposal 1 - Election of Directors” in our 2019 definitive Proxy Statement.

Item 14. Principal Auditor Fees and Services

The information regarding principal auditor fees and services is incorporated herein by reference to the section entitled “Proposal 2 - Ratification of Election of Independent Registered Public Accounting Firm” in our 2019 definitive Proxy Statement.

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Part IV

Item 15. Exhibits and Financial Statements Schedules

(a)(1) Index to Financial Statements filed as part of this report:

Report of Independent Registered Public Accounting Firm;
Consolidated Statements of Income (Loss) for each of the years in the three-year period ended December 31, 2018;
Consolidated Statements of Comprehensive Income (Loss) for each of the three years in the period ended December 31, 2018;
Consolidated Balance Sheets as of December 31, 2018 and 2017;
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2018;
Consolidated Statements of Shareholders' Equity for each of the three years in the period ended December 31, 2018;
Notes to the Consolidated Financial Statements; and

All other schedules are omitted as they are not applicable, or the information required is included in the financial statements or notes thereto.

(2) Financial Statement Schedule:

Schedule II - Valuation and Qualifying Accounts for each of the three years in the period ended December 31, 2018.

(3) The exhibits filed herewith are set forth in the Index of Exhibits included herein.

(b) The management contracts or compensatory plans or arrangements listed in the “Index of Exhibits” that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2019 Proxy Statement or to our directors are preceded by an asterisk (*).

Item 16. Form 10-K Summary

None

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Pursuant to the requirements of Section 13 or 15(d) 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
/s/ GIOVANNI VISENTIN
Giovanni Visentin
Vice Chairman and Chief Executive Officer
February 25, 2019

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.
February 25, 2019

| Signature | Title |
|---|---|
| Principal Executive Officer: | |
| /S/ GIOVANNI VISENTIN | Vice Chairman, Chief Executive Officer and Director |
| Giovanni Visentin | |
| Principal Financial Officer: | |
| /S/ WILLIAM F. OSBOURN, JR. | Executive Vice President and Chief Financial Officer |
| William F. Osbourn, Jr. | |
| Principal Accounting Officer: | |
| /S/ JOSEPH H. MANCINI, JR. | Vice President and Chief Accounting Officer |
| Joseph H. Mancini, Jr. | |
| Directors: | |
| /S/ KEITH COZZA | Chairman and Director |
| Keith Cozza | |
| /S/ GREGORY Q. BROWN | Director |
| Gregory Q. Brown | |
| /S/ JONATHAN CHRISTODORO | Director |
| Jonathan Christodoro | |
| /S/ JOSEPH J. ECHEVARRIA | Director |
| Joseph J. Echevarria | |
| /S/ NICHOLAS GRAZIANO | Director |
| Nicholas Graziano | |
| /S/ CHERYL GORDON KRONGARD | Director |
| Cheryl Gordon Krongard | |
| /S/ A. SCOTT LETIER | Director |
| A. Scott Letier | |
| /S/ SARA MARTINEZ TUCKER | Director |
| Sara Martinez Tucker | |

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Schedule II
Valuation and Qualifying Accounts
For the three years ended December 31, 2018

| (in millions) | Balance at beginning of period | Additions charged to bad debt provision [1] | Amounts (credited) charged to other income statement accounts [1] | Deductions and other, net of recoveries [2] | Balance at end of period |
|---|---|---|---|---|---|
| 2018 Allowance for Losses: | | | | | |
| Accounts Receivable | $ 59 | $ 12 | $ 2 | $ (17) | $ 56 |
| Finance Receivables | 108 | 24 | 2 | (42) | 92 |
| | $ 167 | $ 36 | $ 4 | $ (59) | $ 148 |
| 2017 Allowance for Losses: | | | | | |
| Accounts Receivable | $ 64 | $ 16 | $ (2) | $ (19) | $ 59 |
| Finance Receivables | 110 | 17 | 15 | (34) | 108 |
| | $ 174 | $ 33 | $ 13 | $ (53) | $ 167 |
| 2016 Allowance for Losses: | | | | | |
| Accounts Receivable | $ 74 | $ 13 | $ 2 | $ (25) | $ 64 |
| Finance Receivables | 118 | 24 | 4 | (36) | 110 |
| | $ 192 | $ 37 | $ 6 | $ (61) | $ 174 |

(1) Bad debt provisions relate to estimated losses due to credit and similar collectability issues. Other charges (credits) relate to adjustments to reserves necessary to reflect events of non-payment such as customer accommodations and contract terminations.

(2) Deductions and other, net of recoveries primarily relates to receivable write-offs, but also includes the impact of foreign currency translation adjustments and recoveries of previously written off receivables.

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Index of Exhibits
Document and Location

| | |
|---|---|
| 2.3 | Separation and Distribution Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated. |
| | Incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471. |
| 3(a) | Restated Certificate of Incorporation of Registrant filed with the Department of State of New York on August 20, 2018. |
| | Incorporated by reference to Exhibit 3.1(B) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2018. See SEC File Number 001-04471. |
| 3(b) | By-Laws of Registrant as amended through May 14, 2018. |
| | Incorporated by reference to Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2018. See SEC File Number 001-04471. |
| 4(a)(1) | Indenture, dated as of June 25, 2003, between Registrant and Wells Fargo, as trustee, relating to unlimited amounts of debt securities which may be issued from time to time by Registrant when and as authorized by or pursuant to a resolution of Registrant's Board of Directors (the “June 25, 2003 Indenture”). |
| | Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated June 25, 2003. See SEC File Number 001-04471. |
| 4(a)(2) | Form of Third Supplemental Indenture, dated as of March 20, 2006, to the June 25, 2003 Indenture. |
| | Incorporated by reference to Exhibit 4(b)(6) to Registrant's Current Report on Form 8-K dated March 20, 2006. See SEC File Number 001-04471. |
| 4(a)(3) | Form of Fourth Supplemental Indenture, dated as of August 18, 2006, to the June 25, 2003 Indenture. |
| | Incorporated by reference to Exhibit 4(b)(7) to Registrant's Current Report on Form 8-K dated August 18, 2006. See SEC File Number 001-04471. |
| 4(a)(4) | Form of Sixth Supplemental Indenture, dated as of May 17, 2007 to the June 25, 2003 Indenture. |
| | Incorporated by reference to Exhibit 4(b)(2) to Registrant's Registration Statement No. 333-142900. See SEC File Number 001-04471. |
| 4(b)(1) | Form of Amended and Restated Credit Agreement dated as of August 9, 2017 between Registrant and the Initial Lenders named therein, Citibank, N.A., as Administrative Agent, and Citigroup Global Markets Inc., J.P. Morgan Chase Bank. N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, BNP Paribas Securities Corp., Mizuho Bank, Ltd. and The Bank of Tokyo-Mitsubishi UFJ, Ltd., as Joint Lead Arrangers and Joint Bookrunners. |
| | Incorporated by reference to Exhibit 4(b) to Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2017. See SEC File Number 001-04471. |
| 4(b)(2) | Amendment No. 1 to Credit Agreement, dated as of February 15, 2018, among Xerox Corporation, certain Lenders signatory thereto, Citibank, N.A., as administrative agent. |
| | Incorporated by reference to Exhibit 10.1 to Registrant’s Current Report on Form 8-K dated February 20, 2018. See SEC File Number 001-04471. |
| 4(c) | Form of Indenture dated as of December 4, 2009 between Registrant and the Bank of New York Mellon, as trustee, relating to an unlimited amount of senior debt securities. |
| | Incorporated by reference to Exhibit 4(b)(5) to Post-Effective Amendment No. 1 to Registrant's Registration Statement No. 333-142900. See SEC File Number 001-04471. |
| 4(d) | Instruments with respect to long-term debt where the total amount of securities authorized thereunder does not exceed 10 percent of the total assets of Registrant and its subsidiaries on a consolidated basis have not been filed. Registrant agrees to furnish to the Commission a copy of each such instrument upon request. |
| 10 | The management contracts or compensatory plans or arrangements listed below that are applicable to the executive officers named in the Summary Compensation Table which appears in Registrant's 2019 Proxy Statement or to our directors are preceded by an asterisk (*). |

Explanation of Responses:

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| *10(a)(1) | Registrant's Form of Separation Agreement (with salary continuance) - February 2010. Incorporated by reference to Exhibit 10(a)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471. |
| *10(a)(2) | Registrant's Form of Separation Agreement (without salary continuance) - February 2010. Incorporated by reference to Exhibit 10(a)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. See SEC File Number 001-04471. |
| *10(a)(3) | Registrant’s Executive Salary Continuance Program effective March 1, 2017. Incorporated by reference to paragraph 10(a)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471. |
| *10(a)(4) | Officer Severance Program, effective July 18, 2018. Incorporated by reference to Exhibit 10.8 to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2018. See SEC File Number 001-04471. |
| *10(b) | Letter Agreement dated May 14, 2018 between Registrant and Giovanni (John) Visentin. Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K for the dated May 13, 2018. See SEC File Number 001-04471. |
| 10(c) | Letter Agreement dated May 20, 2016 between Registrant and Ursula M. Burns. Incorporated by reference to Exhibit 10(c) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471. |
| *10(d)(1) | Registrant's 2004 Equity Compensation Plan for Non-Employee Directors, as amended and restated as of May 21, 2013 (“2004 ECPNED”). Incorporated by reference to Exhibit 10(d)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471. |
| *10(d)(2) | Form of Agreement under 2004 ECPNED. Incorporated by reference to Exhibit 10(d)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471. |
| *10(d)(3) | Form of Grant Summary under 2004 ECPNED. Incorporated by reference to Exhibit 10(d)(3) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471. |
| *10(d)(4) | Form of DSU Deferral under 2004 ECPNED. Incorporated by reference to Exhibit 10(d)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2005. See SEC File Number 001-04471. |
| *10(d)(5) | Amendment No.1 dated as of February 21, 2019 to 2004 ECPNED. |
| *10(e)(1) | Registrant's 2004 Performance Incentive Plan, as amended and restated as of May 24, 2012 ("2012 PIP"). Incorporated by reference to Exhibit 10(e)(26) to Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2012. See SEC File Number 001-04471. |
| *10(e)(2) | Amendment No. 1 dated as of December 11, 2013 to 2012 PIP. Incorporated by reference to Exhibit 10(e)(23) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2013. See SEC File Number 001-04471. |
| *10(e)(7) | Annual Performance Incentive Plan for 2016 (“2016 APIP”). Incorporated by reference to Exhibit 10(e)(13) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File number 001-04471. |
| *10(e)(8) | Performance Elements for 2016 Executive Long-Term Incentive Program Incorporated by reference to Exhibit 10(e)(20) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471. |
| *10(e)(9) | Form of Award Agreement under 2016 ELTIP (Performance Shares) Incorporated by reference to Exhibit 10(e)(21) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471. |
| *10(e)(10) | Form of Award Agreement under 2016 ELTIP (Restricted Stock Units) |

Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471.

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| *10(e)(11) | Form of Award Agreement under 2016 ELTIP (Retention Restricted Stock Units).<br>Incorporated by reference to Exhibit 10(e)(23) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471. |
| *10(e)(12) | Form of Award Agreement under 2016 ELTIP (Performance Shares and Restricted Stock Units).<br>Incorporated by reference to Exhibit 10(e)(24) to Registrant’s Annual Report on Form 10-K for the fiscal year ended December 31, 2015. See SEC File number 001-04471. |
| *10(e)(13) | Amendment No. 2 dated as of February 24, 2016 to 2012 APIP.<br>Incorporated by reference to Exhibit 10(e)(25) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2016. See SEC File Number 001-04471. |
| *10(e)(14) | Form of Award Agreement under 2016 ELTIP (Performance Shares and Restricted Stock Units - CEO).<br>Incorporated by reference to Exhibit 10(e)(26) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended March 31, 2016. See SEC File Number 001-04471. |
| *10(e)(15) | Registrant’s 2004 Performance Incentive Plan, as amended and restated effective as of May 20, 2016.<br>Incorporated by reference to Exhibit 10(e)(27) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471. |
| *10(e)(16) | Registrant's 2004 Performance Incentive Plan, as amended and restated as of June 30, 2017 ("2017 PIP").<br>Incorporated by reference to Exhibit 10(e)(1) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2017. See SEC File Number 001-04471. |
| *10(e)(17) | Performance Elements for 2017 Executive Long-Term Incentive Program.<br>Incorporated by reference to Exhibit 10(e)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2017. See SEC File Number 001-04471. |
| *10(e)(18) | Amendment No. 1 dated February 1, 2018 to 2017 PIP.<br>Incorporated by reference to Exhibit 10(e)(18) to Registrant’s Annual Report on Form 10-K for the year ended December 31, 2017. See SEC File Number 001-04471. |
| *10(e)(19) | Amendment to Certain Restricted Stock Unit award agreements under Registrant’s 2004 Performance Incentive Plan, as amended to date.<br>Incorporated by reference to Exhibit 10(e)(28) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471. |
| *10(e)(20) | 2016 CEO Executive Long-Term Incentive Program Award Agreement (Performance Shares and Restricted Stock Units).<br>Incorporated by reference to Exhibit 10(e)(29) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471. |
| *10(e)(21) | 2017 CEO Executive Long-Term Incentive Program Award Agreement (Restricted Stock Units).<br>Incorporated by reference to Exhibit 10(e)(30) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2016. See SEC File Number 001-04471. |
| *10(e)(22) | Annual Performance Incentive Plan for 2017 ("2017 APIP").<br>Incorporated by reference to Exhibit 10(e)(22) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471. |
| *10(e)(23) | Form of Omnibus Award Agreement under ELTIP (1-year graded Restricted Stock Units).<br>Incorporated by reference to Exhibit 10(e)(27) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471. |
| *10(e)(24) | Form of Omnibus Award Agreement under ELTIP (2-year graded Restricted Stock Units).<br>Incorporated by reference to Exhibit 10(e)(28) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471. |
| *10(e)(25) | Form of Omnibus Award Agreement under ELTIP (3-year graded Restricted Stock Units).<br>Incorporated by reference to Exhibit 10(e)(29) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471. |
| *10(e)(26) | Form of Omnibus Award Agreement under ELTIP (Restricted Stock Units). |

Incorporated by reference to Exhibit 10(e)(30) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471.

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*10(e)(27) Form of Omnibus Award Agreement under ELTIP (Retention Restricted Stock Units).
Incorporated by reference to Exhibit 10(e)(31) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471.
*10(e)(28) Form of Omnibus Award Agreement under ELTIP (Performance Shares).
Incorporated by reference to Exhibit 10(e)(32) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471.
*10(e)(29) Form of Omnibus Award Agreement under ELTIP (Performance Shares and Restricted Stock Units).
Incorporated by reference to Exhibit 10(e)(33) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2016. See SEC File Number 001-04471.
*10(e)(30) Annual Performance Incentive Plan for 2018 ("2018 APIP").
*10(e)(31) Performance Elements for 2018 Executive Long-Term Incentive Program ("2018 ELTIP").
Incorporated by reference to Exhibit 10(e)(31) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471.
*10(e)(32) Form of Omnibus Award Agreement under PIP; ELTIP; PSU & RSU (ratable).
Incorporated by reference to Exhibit 10(e)(32) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471.
*10(e)(33) Form of Award Summary Under PIP; ELTIP; PSU & RSU (ratable).
Incorporated by reference to Exhibit 10(e)(33) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471.
*10(e)(34) Form of Omnibus Award Agreement under PIP; ELTIP; RSU (ratable).
Incorporated by reference to Exhibit 10(e)(34) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471.
*10(e)(35) Form of Award Summary Under PIP; ELTIP; RSU (ratable).
Incorporated by reference to Exhibit 10(e)(35) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471.
*10(e)(36) Form of Omnibus Award Agreement under PIP; ELTIP: Stock Options.
Incorporated by reference to Exhibit 10(e)(36) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471.
*10(e)(37) Form of Award Summary under PIP; ELTIP: Stock Options.
Incorporated by reference to Exhibit 10(e)(37) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2017. See SEC File Number 001-04471.
*10(e)(38) Amendment No. 2 dated May 14, 2018 to 2017 PIP.
Incorporated by reference to Exhibit 10.5 to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2018. See SEC File Number 001-04471.
*10(e)(39) Form of CEO Restricted Stock Award Agreement.
Incorporated by reference to Exhibit 10.6 to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2018. See SEC File Number 001-04471.
*10(e)(40) Amendment to CEO Option and Performance Share / Restricted Stock Unit Award Agreements.
Incorporated by reference to Exhibit 10.7 to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2018. See SEC File Number 001-04471.
*10(e)(41) Form of Restricted Stock Award Agreement.
Incorporated by reference to Exhibit 10.1 to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2018. See SEC File Number 001-04471.
*10(e)(42) Amendment No. 3 dated January 14, 2019 to 2017 PIP.
*10(e)(43) Annual Performance Incentive Plan for 2019 (“2019 APIP”).
*10(e)(44) Performance Elements for 2019 Executive Long-Term Incentive Program (“2019 ELTIP”).
*10(e)(45) Form of Omnibus Award Agreement under PIP; ELTIP; PSU & RSU (ratable).
*10(e)(46) Form of Omnibus Award Agreement under PIP; ELTIP; RSU (ratable).

*10(e)(47) Form of Omnibus Award Agreement under PIP; ELTIP; Stock Options.

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| 10(f) | Director Appointment, Nomination and Settlement Agreement dated as of May 13, 2018 by and among Registrant, Darwin Deason, the persons and entities listed on Schedule A thereto, William Curt Hunter, Jeffrey Jacobson, Robert J. Keegan, Charles Prince, Ann N. Reese, Stephen H. Rusckowski, Sara Martinez Tucker, Gregory Q. Brown, Joseph J. Echevarria and Cheryl Gordon Krongard. |
| | Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated May 13, 2018. See SEC File Number 001-04471. |
| *10(g)(1) | 2004 Restatement of Registrant's Unfunded Supplemental Executive Retirement Plan, as amended and restated December 4, 2007 (“2007 USERP”). |
| | Incorporated by reference to Exhibit 10(g)(1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471. |
| *10(g)(2) | Amendment dated December 4, 2007 to Registrant's 2007 USERP. |
| | Incorporated by reference to Exhibit 10(g)(2) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2007. See SEC File Number 001-04471. |
| *10(g)(3) | Amendment No. 1 dated December 11, 2008 to Registrant's 2007 USERP. |
| | Incorporated by reference to Exhibit 10(g)(3) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471. |
| *10(g)(4) | Amendment No. 2 dated April 28, 2011 to Registrant's 2007 USERP. |
| | Incorporated by reference to Exhibit 10(g)(4) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471. |
| *10(g)(5) | Amendment No. 3 dated December 7, 2011 to Registrant's 2007 USERP. |
| | Incorporated by reference to Exhibit 10(g)(5) to Registrant's Current Report on Form 8-K dated December 7, 2011. See SEC File Number 001-04471. |
| *10(g)(6) | Modification to vesting under Registrant’s 2007 USERP. |
| | Incorporated by reference to paragraph (B) in Registrant's Current Report on Form 8-K dated March 25, 2016. See SEC File Number 001-04471. |
| *10(h) | 1996 Amendment and Restatement of Registrant's Restricted Stock Plan for Directors, as amended through February 4, 2002. |
| | Incorporated by reference to Exhibit 10(h) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2004. See SEC File Number 001-04471. |
| *10(i) | Letter Agreement dated June 8, 2018 between Registrant and Steven J. Bandrowczak. |
| *10(j)(1) | Registrant's Universal Life Plan as amended and restated as of August 26, 2013. |
| | Incorporated by reference to Exhibit 10(j)(1) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2013. See SEC File Number 001-00471. |
| *10(j)(2) | Participant Agreement for Registrant's Universal Life Plan. |
| | Incorporated by reference to Exhibit 10(j)(2) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2013. See SEC File Number 001-00471. |
| *10(k) | Registrant's Deferred Compensation Plan for Executives, 2004 Restatement, as amended through August 11, 2004. |
| | Incorporated by reference to Exhibit 10(l) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended September 30, 2004. See SEC File Number 001-04471. |
| 10(l) | Separation Agreement dated May 11, 2000 between Registrant and G. Richard Thoman, former President and Chief Executive Officer of Registrant. |
| | Incorporated by reference to Exhibit 10(n) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2005. See SEC File Number 001-04471. |
| *10(m) | Uniform Rule dated December 17, 2008 for all Deferred Compensation Promised by Registrant. |
| | Incorporated by reference to Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. See SEC File Number 001-04471. |
| *10(n) | Form of Severance Agreement entered into with various executive officers, effective October 2010. |

Incorporated by reference to Exhibit 10(t) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2010. See SEC File Number 001-04471.

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| *10(o) | Letter Agreement dated November 21, 2016 between Registrant and William F. Osbourn, Jr.<br>Incorporated by reference to Exhibit 10(v) to Registrant's Current Report on Form 8-K dated December 2, 2016. See SEC File Number 001-04471. |
| *10(p) | Master Plan Amendment dated May 2, 2011 to Registrant-Sponsored Benefit Plans.<br>Incorporated by reference to Exhibit 10(bb) to Registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 2011. See SEC File Number 001-04471. |
| 10(q) | 2001 Joint Enterprise Contract dated as of March 30, 2001 by and between Registrant and Fuji Photo Film Co., Ltd.<br>Incorporated by reference to Exhibit 99.1 to Registrant's Current Report on Form 8-K dated January 31, 2018. See SEC File Number 001-04471. |
| 10(r) | Side Letter dated March 30, 2001 by and between Registrant and Fuji Photo Film Co., Ltd.<br>Incorporated by reference to Exhibit 99.2 to Registrant's Current Report on Form 8-K dated January 31, 2018. See SEC File Number 001-04471. |
| 10(s) | Amendment No. 1 dated January 2, 2002 to 2001 Joint Venture Contract by and between Registrant and Fuji Photo Film Co., Ltd.<br>Incorporated by reference to Exhibit 99.3 to Registrant's Current Report on Form 8-K dated January 31, 2018. See SEC File Number 001-04471. |
| 10(t) | 2006 Technology Agreement dated as of April 1, 2006 by and between Registrant and Fuji Xerox Co., Ltd.<br>Incorporated by reference to Exhibit 99.4 to Registrant's Current Report on Form 8-K dated January 31, 2018. See SEC File Number 001-04471. |
| 10(u) | Master Program Agreement dated as of September 9, 2013 by and between Registrant and Fuji Xerox Co., Ltd.<br>Incorporated by reference to Exhibit 99.5 to Registrant's Current Report on Form 8-K dated January 31, 2018. See SEC File Number 001-04471. |
| 10(v) | Transition Services Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.<br>Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471. |
| 10(w) | Tax Matters Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.<br>Incorporated by reference to Exhibit 10.2 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471. |
| 10(x) | Employee Matters Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.<br>Incorporated by reference to Exhibit 10.3 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471. |
| 10(y) | Intellectual Property Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.<br>Incorporated by reference to Exhibit 10.4 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471. |
| 10(z) | Trademark License Agreement dated as of December 30, 2016 by and between Registrant and Conduent Incorporated.<br>Incorporated by reference to Exhibit 10.5 to Registrant's Current Report on Form 8-K dated December 30, 2016. See SEC File Number 001-04471. |
| 21 | Subsidiaries of Registrant. |
| 23 | Consent of PricewaterhouseCoopers LLP. |
| 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). |

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| 32 | Certification of CEO and CFO pursuant to 18 U.S.C. §1350 as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase. |

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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.