XEROX CORP
Form 10-Q
October 30, 2017

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

FORM 10-Q

(Mark One)
x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended: September 30, 2017
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 001-04471

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

New York	16-0468020
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
P.O. Box 4505, 201 Merritt 7 Norwalk, Connecticut	06851-1056
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Class	Outstanding at September 30, 2017
Common Stock, $1 par value	254,586,109 shares

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report contains "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “wil “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect management's current beliefs, assumptions and expectations and are subject to a number of factors that may cause actual results to differ materially. Such factors include, but are not limited to: our ability to address our business challenges in order to reverse revenue declines, reduce costs and increase productivity so that we can invest in and grow our business; changes in economic conditions, political conditions, trade protection measures, licensing requirements and tax laws in the United States and in the foreign countries in which we do business; changes in foreign currency exchange rates; our ability to successfully develop new products, technologies and service offerings and to protect our intellectual property rights; the risk that multi-year contracts with governmental entities could be terminated prior to the end of the contract term and that civil or criminal penalties and administrative sanctions could be imposed on us if we fail to comply with the terms of such contracts and applicable law; the risk that partners, subcontractors and software vendors will not perform in a timely, quality manner; actions of competitors and our ability to promptly and effectively react to changing technologies and customer expectations; our ability to obtain adequate pricing for our products and services and to maintain and improve cost efficiency of operations, including savings from restructuring actions; the risk that individually identifiable information of customers, clients and employees could be inadvertently disclosed or disclosed as a result of a breach of our security systems; reliance on third parties, including subcontractors, for manufacturing of products and provision of services; our ability to manage changes in the printing environment and markets and expand equipment placements; interest rates, cost of borrowing and access to credit markets; funding requirements associated with our employee pension and retiree health benefit plans; the risk that our operations and products may not comply with applicable worldwide regulatory requirements, particularly environmental regulations and directives and anti-corruption laws; the outcome of litigation and regulatory proceedings to which we may be a party; the risk that we do not realize all of the expected strategic and financial benefits from the separation and spin-off of our Business Process Outsourcing (BPO) business; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2017 and June 30, 2017 and our 2016 Annual Report on Form 10-K, as well as our Current Reports on Form 8-K filed with the Securities and Exchange Commission (SEC). Xerox assumes no obligation to update any forward-looking statements as a result of new information or future events or developments, except as required by law.

Fuji Xerox Co., Ltd. (“Fuji Xerox”) is a joint venture between Xerox Corporation and Fujifilm Holdings Corporation (“Fujifilm”) in which Xerox holds a noncontrolling 25% equity interest and Fujifilm holds the remaining equity interest. Given our status as a minority investor, we have limited contractual and other rights to information with respect to Fuji Xerox matters. In April 2017, Fujifilm publicly announced it had formed an independent investigation committee (IIC) to primarily conduct a review of the appropriateness of the accounting practices at Fuji Xerox’s New Zealand subsidiary and at other subsidiaries. Fujifilm publicly announced that the IIC completed its review during the second quarter 2017 and identified aggregate adjustments to Fuji Xerox’s financial statements of approximately JPY 40 billion (approximately $360 million based on the Yen/U.S. Dollar spot exchange rate at March 31, 2017 of 111.89). The adjustments primarily related to misstatements at Fuji Xerox’s New Zealand and Australian subsidiaries, as well as certain other adjustments. We determined that our cumulative share of the revised amount of total adjustments identified as part of the investigation was approximately $90 million and impacted our fiscal years 2009 through 2017. Based on our procedures, as well as those performed by Fuji Xerox and Fujifilm, we concluded that the cumulative correction of the misstatements in our historical financial statements would have had a material effect on our current year consolidated financial statements. Accordingly, we concluded that we should revise our previously issued annual and interim consolidated financial statements for 2014, 2015 and 2016 and the first quarter of 2017 the next time they are filed. The Fujifilm audited financial statements were issued in Japan on July 31, 2017, and our review of this matter has been completed. However, Fujifilm and Fuji Xerox continue to review Fujifilm’s oversight and governance of Fuji Xerox as well as Fuji Xerox’s oversight and governance over its businesses in light of the findings of the IIC. In addition, at this time, we can provide no assurances relative to the outcome of any potential governmental investigations or any consequences thereof that may happen as a result of this matter.

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

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per-share data)	2017	2016	2017	2016
Revenues				
Sales	$981	$1,057	$2,927	$3,186
Services, maintenance and rentals	1,443	1,489	4,368	4,603
Financing	73	83	223	248
Total Revenues	2,497	2,629	7,518	8,037
Costs and Expenses				
Cost of sales	594	647	1,780	1,957
Cost of services, maintenance and rentals	882	913	2,666	2,816
Cost of financing	33	32	99	97
Research, development and engineering expenses	108	118	332	363
Selling, administrative and general expenses	648	664	1,955	2,056
Restructuring and related costs	36	25	196	172
Amortization of intangible assets	12	14	41	44
Other expenses, net	17	50	105	143
Total Costs and Expenses	2,330	2,463	7,174	7,648
Income before Income Taxes and Equity Income	167	166	344	389
Income tax expense	18	28	37	44
Equity in net income of unconsolidated affiliates	30	40	90	100
Income from Continuing Operations	179	178	397	445
Income (loss) from discontinued operations, net of tax	3	8	(3)	(65)
Net Income	182	186	394	380
Less: Net income attributable to noncontrolling interests	3	3	9	8
Net Income Attributable to Xerox	$179	$183	$385	$372
Amounts Attributable to Xerox:				
Net income from continuing operations	$176	$175	$388	$437
Net income (loss) from discontinued operations	3	8	(3)	(65)
Net Income Attributable to Xerox	$179	$183	$385	$372
Basic Earnings (Loss) per Share[(1)]:				
Continuing operations	$0.68	$0.66	$1.49	$1.65
Discontinued operations	0.01	0.03	(0.01)	(0.25)
Total Basic Earnings per Share	$0.69	$0.69	$1.48	$1.40
Diluted Earnings (Loss) per Share[(1)]:				
Continuing operations	$0.67	$0.66	$1.47	$1.64
Discontinued operations	0.01	0.03	(0.01)	(0.26)
Total Diluted Earnings per Share	$0.68	$0.69	$1.46	$1.38

(1) Reflects our one-for-four reverse stock split that became effective on June 14, 2017. Refer to Note 1 - Basis of Presentation for further information.

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2017	2016	2017	2016
Net income	$182	$186	$394	$380
Less: Net income attributable to noncontrolling interests	3	3	9	8
Net Income Attributable to Xerox	179	183	385	372
Other Comprehensive Income (Loss), Net[1]:				
Translation adjustments, net	154	(21)	491	86
Unrealized gains (losses), net	2	(9)	(4)	24
Changes in defined benefit plans, net	(41)	(15)	(44)	(107)
Other Comprehensive Income (Loss), Net	115	(45)	443	3
Less: Other comprehensive income (loss), net attributable to noncontrolling interests	—	—	1	(1)
Other Comprehensive Income (Loss), Net Attributable to Xerox	115	(45)	442	4
Comprehensive Income, Net	297	141	837	383
Less: Comprehensive income, net attributable to noncontrolling interests	3	3	10	7
Comprehensive Income, Net Attributable to Xerox	$294	$138	$827	$376

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

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

XEROX CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 1,781	$ 2,223
Accounts receivable, net	1,031	961
Billed portion of finance receivables, net	86	90
Finance receivables, net	1,290	1,256
Inventories	1,039	841
Assets of discontinued operations	—	1,002
Other current assets	402	619
Total current assets	5,629	6,992
Finance receivables due after one year, net	2,296	2,398
Equipment on operating leases, net	456	475
Land, buildings and equipment, net	636	660
Investments in affiliates, at equity	1,441	1,294
Intangible assets, net	276	290
Goodwill	3,922	3,787
Deferred tax assets, long-term	1,477	1,472
Other long-term assets	684	683
Total Assets	$ 16,817	$ 18,051
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 763	$ 1,011
Accounts payable	1,183	1,126
Accrued compensation and benefits costs	405	420
Unearned income	191	187
Liabilities of discontinued operations	—	1,002
Other current liabilities	910	908
Total current liabilities	3,452	4,654
Long-term debt	5,235	5,305
Pension and other benefit liabilities	1,674	2,240
Post-retirement medical benefits	674	698
Other long-term liabilities	178	193
Total Liabilities	11,213	13,090
Commitments and Contingencies (See Note 18)		
Convertible Preferred Stock	214	214
Common stock	255	254
Additional paid-in capital	3,880	3,858
Retained earnings	5,116	4,934
Accumulated other comprehensive loss	(3,895)	(4,337)
Xerox shareholders' equity	5,356	4,709
Noncontrolling interests	34	38
Total Equity	5,390	4,747
Total Liabilities and Equity	$ 16,817	$ 18,051
Shares of common stock issued and outstanding	254,586	253,594

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

XEROX CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2017	2016	2017	2016
Cash Flows from Operating Activities:				
Net income	$182	$186	$394	$380
(Income) loss from discontinued operations, net of tax	(3)	(8)	3	65
Income from continuing operations	179	178	397	445
Adjustments required to reconcile net income to cash flows from operating activities:				
Depreciation and amortization	131	140	399	426
Provision for receivables	15	15	38	39
Provision for inventory	9	6	21	21
Net gain on sales of businesses and assets	(13)	(3)	(14)	(20)
Undistributed equity in net income of unconsolidated affiliates	(26)	(37)	(56)	(66)
Stock-based compensation	14	14	39	31
Restructuring and asset impairment charges	35	13	178	154
Payments for restructurings	(42)	(38)	(169)	(83)
Defined benefit pension cost	34	32	133	108
Contributions to defined benefit pension plans	(671)	(34)	(717)	(102)
Increase in accounts receivable and billed portion of finance receivables	(34)	(13)	(174)	(173)
Collections of deferred proceeds from sales of receivables	58	58	157	191
Increase in inventories	(99)	(12)	(187)	(104)
Increase in equipment on operating leases	(53)	(74)	(155)	(204)
Decrease in finance receivables	75	53	209	138
Collections on beneficial interest from sales of finance receivables	2	5	13	20
(Increase) decrease in other current and long-term assets	(3)	20	(46)	29
Decrease in accounts payable and accrued compensation	(4)	(84)	(4)	(250)
Increase (decrease) in other current and long-term liabilities	44	32	47	(82)
Net change in income tax assets and liabilities	—	(151)	(36)	(173)
Net change in derivative assets and liabilities	(9)	49	90	—
Other operating, net	(25)	41	(13)	211
Net cash (used in) provided by operating activities of continuing operations	(383)	210	150	556
Net cash (used in) provided by operating activities of discontinued operations	(2)	160	(97)	(34)
Net cash (used in) provided by operating activities	(385)	370	53	522
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(15)	(19)	(45)	(65)
Proceeds from sales of land, buildings and equipment	1	3	2	23
Cost of additions to internal use software	(8)	(10)	(25)	(34)
Proceeds from sale of businesses	20	—	20	—
Acquisitions, net of cash acquired	—	1	(76)	(17)
Other investing, net	(2)	2	8	6
Net cash used in investing activities of continuing operations	(4)	(23)	(116)	(87)
Net cash used in investing activities of discontinued operations	—	(46)	—	(174)
Net cash used in investing activities	(4)	(69)	(116)	(261)
Cash Flows from Financing Activities:				
Net proceeds on short-term debt	—	2	1	1,000

Proceeds from issuance of long-term debt	1,001	5	1,006	14
Payments on long-term debt	(13)	(8)	(1,343)	(973)
Common stock dividends	(65)	(79)	(210)	(228)
Preferred stock dividends	(3)	(6)	(13)	(18)
Proceeds from issuances of common stock	—	3	—	6
Repurchases related to stock-based compensation	(7)	—	(15)	—
Payments to noncontrolling interests	(5)	(1)	(17)	(13)
Proceeds from Conduent	—	—	161	—
Other financing	—	—	—	(1)
Net cash provided by (used in) financing activities	908	(84)	(430)	(213)
Effect of exchange rate changes on cash and cash equivalents	16	5	51	9
Decrease (increase) in cash of discontinued operations	—	10	—	(10)
Increase (decrease) in cash and cash equivalents	535	232	(442)	47
Cash and cash equivalents at beginning of period	1,246	1,043	2,223	1,228
Cash and Cash Equivalents at End of Period	$1,781	$1,275	$1,781	$1,275

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

XEROX CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
(in millions, except per-share data and where otherwise noted)

Note 1 – Basis of Presentation
References herein to “we,” “us,” “our,” the “company” and “Xerox” refer to Xerox Corporation and its consolidated subsidiaries unless the context suggests otherwise.
We have prepared the accompanying unaudited Condensed Consolidated Financial Statements in accordance with the accounting policies described in our 2016 Annual Report on Form 10-K (2016 Annual Report), and the interim reporting requirements of Form 10-Q. Accordingly, certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted. You should read these Condensed Consolidated Financial Statements in conjunction with the Consolidated Financial Statements included in our 2016 Annual Report.
In our opinion, all adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. These adjustments consist of normal recurring items. Interim results of operations are not necessarily indicative of the results of the full year.
For convenience and ease of reference, we refer to the financial statement caption “Income before Income Taxes and Equity Income” as “pre-tax income.”
Overview
On December 31, 2016, Xerox Corporation completed the Separation of its Business Process Outsourcing (BPO) business from its Document Technology and Document Outsourcing (DT/DO) business (the “Separation”). The Separation was accomplished through the transfer of the BPO business into a new legal entity, Conduent Incorporated ("Conduent"), and then distributing one hundred percent (100%) of the outstanding common stock of Conduent to Xerox Corporation stockholders (the “Distribution”). The Separation and Distribution were structured to be tax-free for Xerox Corporation stockholders for federal income tax purposes. Conduent is now an independent public company trading on the New York Stock Exchange (“NYSE”) under the symbol “CNDT”. After the Separation, Xerox retained the DT/DO businesses and Xerox does not beneficially own any shares of Conduent common stock.
As a result of the Separation and Distribution, the financial position and results of operations of the BPO business are presented as discontinued operations and, as such, have been excluded from continuing operations for all periods presented. The accompanying Notes to the Condensed Consolidated Financial Statements have all been revised to reflect the effect of the Separation and Distribution and all prior year balances have been revised accordingly to reflect continuing operations only. The historical statements of Comprehensive Income (Loss) and Shareholders' Equity have not been revised to reflect the Separation and instead reflect the Separation and Distribution as a final adjustment to the balances at December 31, 2016. Refer to Note 5 - Divestitures for additional information regarding discontinued operations.
In connection with the Separation, Xerox entered into several agreements with Conduent to (1) effect the legal and structural separation of Xerox and Conduent, (2) govern the relationship between Xerox and Conduent up to and after the completion of the Separation and (3) allocate between Xerox and Conduent various assets, liabilities and obligations, including, among other things, employee benefits and tax-related assets and liabilities. The agreements entered into included a separation and distribution agreement, a transition service agreement, a tax matters agreement, an employee matters agreement, an intellectual property agreement and a trademark license agreement.
Segment Discussion
Following the separation of the BPO business, we realigned our operations to better manage the business and serve our customers and the markets in which we operate. In 2017 we transitioned to a geographic focus 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 transition and change in 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 are largely based upon an analysis of Xerox at the consolidated level, including assessments related to the company's incentive compensation plan, as well as operating decisions at the Board level.

Reverse Stock Split

On May 23, 2017, the Board of Directors authorized a reverse stock split of the issued and outstanding Xerox common stock at a ratio of one-for-four shares, together with the proportionate reduction in the authorized shares of its common stock from 1,750,000,000 shares to 437,500,000 shares. Shareholder approval for the reverse stock split was obtained at the company's Annual Shareholder Meeting on May 23, 2017 and the reverse stock split became effective on June 14, 2017. At the effective time, every four shares of the company's common stock that were issued and outstanding were automatically combined into one issued and outstanding share, without any change in par value of such shares. Accordingly, we reclassified $760 from Common stock to Additional paid-in capital. The reverse stock split also correspondingly affected all outstanding Xerox equity awards and outstanding convertible securities.

All authorized, issued and outstanding stock and per share amounts contained in the accompanying Condensed Consolidated Financial Statements have been adjusted to reflect this reverse stock split for all prior periods presented.

Note 2 – Correction of Fuji Xerox Misstatement in Prior Period Financial Statements

Fuji Xerox is a joint venture between Xerox Corporation and Fujifilm Holdings Corporation ("Fujifilm") in which Xerox holds a noncontrolling 25% equity interest and Fujifilm holds the remaining equity interest. On April 20, 2017, Fujifilm publicly announced it had formed an independent investigation committee (IIC) to conduct a review of the appropriateness of the accounting practices at Fuji Xerox's New Zealand subsidiary related to the recovery of receivables associated with certain bundled leasing transactions that occurred in, or prior to, Fuji Xerox's fiscal year ending March 31, 2016.

The IIC's review, completed during the second quarter 2017, subsequently identified total aggregate adjustments to Fuji Xerox's financial statements of approximately JPY 40 billion (approximately $360 based on the Yen/U.S. Dollar spot exchange rate at March 31, 2017 of 111.89). The adjustments identified by the IIC primarily related to misstatements at Fuji Xerox's New Zealand subsidiary as well as their Australian subsidiary and certain other adjustments. We determined that our cumulative share of the revised amount of total adjustments identified as part of the investigation was approximately $90[1] and impacted our fiscal years 2009 through 2017.

In the second quarter 2017, we determined that the misstatements to our Equity in net income of unconsolidated affiliates in prior years and the first quarter of 2017 identified through the IIC's review were immaterial to our previously issued financial statements. However, we concluded that the cumulative correction of these misstatements would have had a material effect on our current year consolidated financial statements. Accordingly, we will revise our previously issued annual and interim consolidated financial statements for 2014, 2015 and 2016 and the first quarter of 2017 the next time they are filed. Certain of the corrections discussed above affected periods prior to fiscal year 2014, and this effect was reflected as a cumulative, net of tax adjustment to reduce retained earnings as of January 1, 2014 by $69. The effect of the revision on our previously issued financial statements is provided in the tables below. Amounts throughout the consolidated financial statements and notes thereto have been adjusted to incorporate the revised amounts, where applicable.

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(1) The difference between the aggregate revision to retained earnings and the $90 impact at March 31, 2017 is primarily due to currency and the impact of adjustments recorded directly by Xerox in the first quarter 2017.

Revised Annual Consolidated Statements of Income

The following tables reconcile selected lines from the company's first quarter of 2017 and fiscal years of 2016, 2015 and 2014 Consolidated Statements of Income (Loss) from the previously reported amounts to the revised amounts:

	Three Months Ended March 31, 2017			Year Ended December 31, 2016		
	As Reported	Adjustment[(1)]	As Revised	As Reported	Adjustment	As Revised
Equity in net income of unconsolidated affiliates	$16	$ 24	$ 40	$121	$ 6	$127
Income from Continuing Operations	24	24	48	627	6	633
Net Income (Loss)	18	24	42	(466)	6	(460)
Net Income (Loss) Attributable to Xerox	16	24	40	(477)	6	(471)
Net income from continuing operations attributable to Xerox	$22	$ 24	$ 46	$616	$ 6	$622
Basic Earnings (Loss) per Share:						
Continuing operations	$0.07	$ 0.10	$ 0.17	$2.33	$ 0.03	$2.36
Total	$0.05	$ 0.09	$ 0.14	$(1.98)	$ 0.03	$(1.95)
Diluted Earnings (Loss) per Share:						
Continuing operations	$0.07	$ 0.09	$ 0.16	$2.31	$ 0.02	$2.33
Total	$0.05	$ 0.09	$ 0.14	$(1.96)	$ 0.03	$(1.93)

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Equity in net income of unconsolidated affiliates	$135	$ (26)	$ 109	$160	$ (18)	$ 142
Income from Continuing Operations	866	(26)	840	1,052	(18)	1,034
Net Income	492	(26)	466	1,036	(18)	1,018
Net Income Attributable to Xerox	474	(26)	448	1,013	(18)	995
Net income from continuing operations attributable to Xerox	$848	$ (26)	$ 822	$1,029	$ (18)	$ 1,011
Basic Earnings per Share:						
Continuing operations	$3.10	$ (0.10)	$ 3.00	$3.48	$ (0.06)	$ 3.42
Total	$1.69	$ (0.10)	$ 1.59	$3.43	$ (0.06)	$ 3.37
Diluted Earnings per Share:						
Continuing operations	$3.06	$ (0.09)	$ 2.97	$3.43	$ (0.06)	$ 3.37
Total	$1.67	$ (0.09)	$ 1.58	$3.38	$ (0.06)	$ 3.32

Note: 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.

Revised Consolidated Statements of Comprehensive Income (Loss)

The following tables reconcile selected lines from the company's first quarter of 2017 and fiscal years of 2016, 2015 and 2014 Consolidated Statements of Comprehensive Income (Loss) from the previously reported amounts to the revised amounts:

	Three Months Ended March 31, 2017			Year Ended December 31, 2016		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Net Income (Loss)	$ 18	$ 24	$ 42	$ (466)	$ 6	$ (460)
Net Income (Loss) Attributable to Xerox	16	24	40	(477)	6	(471)
Translation adjustments, net	$ 136	$ (3)	$ 133	$ (346)	$ (1)	$ (347)
Other Comprehensive Income (Loss), Net	170	(3)	167	(235)	(1)	(236)
Other Comprehensive Income (Loss), Net Attributable to Xerox	169	(3)	166	(232)	(1)	(233)
Comprehensive Income (Loss), Net	$ 188	$ 21	$ 209	$ (701)	$ 5	$ (696)
Comprehensive Income (Loss), Net Attributable to Xerox	185	21	206	(709)	5	(704)

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Net Income	$ 492	$ (26)	$ 466	$ 1,036	$ (18)	$ 1,018
Net Income Attributable to Xerox	474	(26)	448	1,013	(18)	995
Translation adjustments, net	$ (660)	$ 9	$ (651)	$ (734)	$ 6	$ (728)
Other Comprehensive Loss, Net	(484)	9	(475)	(1,381)	6	(1,375)
Other Comprehensive Loss, Net Attributable to Xerox	(483)	9	(474)	(1,380)	6	(1,374)
Comprehensive Income (Loss), Net	$ 8	$ (17)	$ (9)	$ (345)	$ (12)	$ (357)
Comprehensive Loss, Net Attributable to Xerox	(9)	(17)	(26)	(367)	(12)	(379)

Revised Consolidated Balance Sheets

The following table reconciles selected lines from the company's Consolidated Balance Sheet at March 31, 2017 and December 31, 2016 and 2015 from the previously reported amounts to the revised amounts:

	As of March 31, 2017			As of December 31, 2016			As of December 31, 2015		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Investments in affiliates, at equity	$ 1,477	$ (73)	$ 1,404	$ 1,388	$ (94)	$ 1,294	$ 1,382	$ (99)	$ 1,283
Total Assets	15,916	(73)	15,843	18,145	(94)	18,051	25,541	(99)	25,442
Retained earnings	$ 4,987	$ (81)	$ 4,906	$ 5,039	$ (105)	$ 4,934	$ 9,686	$ (111)	$ 9,575
Accumulated other comprehensive loss	(4,179)	8	(4,171)	(4,348)	11	(4,337)	(4,642)	12	(4,630)
Xerox shareholders' equity	4,926	(73)	4,853	4,803	(94)	4,709	9,074	(99)	8,975
Total Equity	4,966	(73)	4,893	4,841	(94)	4,747	9,117	(99)	9,018
Total Liabilities and Equity	15,916	(73)	15,843	18,145	(94)	18,051	25,541	(99)	25,442

Revised Consolidated Statements of Cash Flows from Operations

The revision did not have an impact on the company's operating cash flows. The following table reconciles selected lines from the company's first quarter of 2017 and fiscal years of 2016, 2015 and 2014 Consolidated Statements of Cash Flows from the previously reported amounts to the revised amounts:

	Three Months Ended March 31, 2017			Year Ended December 31, 2016		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Cash Flows from Operating Activities:						
Net Income (Loss)	$ 18	$ 24	$ 42	$ (466)	$ 6	$ (460)
Income from Continuing Operations	24	24	48	627	6	633
Undistributed equity in net income of unconsolidated affiliates	$ (16)	$ (24)	$ (40)	$ (69)	$ (6)	$ (75)

	Year Ended December 31, 2015			Year Ended December 31, 2014		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Cash Flows from Operating Activities:						
Net Income	$ 492	$ (26)	$ 466	$ 1,036	$ (18)	$ 1,018
Income from Continuing Operations	866	(26)	840	1,052	(18)	1,034
Undistributed equity in net income of unconsolidated affiliates	$ (79)	$ 26	$ (53)	$ (91)	$ 18	$ (73)

Revised Quarterly Results of Operations

The following tables reconcile selected lines from the company's 2016 and 2015 quarterly Consolidated Statements of Income (Loss) from the previously reported amounts to the revised amounts:

	Three Months Ended March 31, 2016			Three Months Ended June 30, 2016		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Equity in net income of unconsolidated affiliates	$ 37	$ (3)	$ 34	$ 22	$ 4	$ 26
Income from Continuing Operations	71	(3)	68	195	4	199
Net Income	36	(3)	33	157	4	161
Net Income Attributable to Xerox	34	(3)	31	154	4	158
Basic Earnings per Share:						
Continuing operations	$ 0.25	$ (0.01)	$ 0.24	$ 0.74	$ 0.01	$ 0.75
Total	$ 0.11	$ (0.01)	$ 0.10	$ 0.59	$ 0.01	$ 0.60
Diluted Earnings per Share:						
Continuing operations	$ 0.24	$ (0.01)	$ 0.23	$ 0.73	$ 0.02	$ 0.75
Total	$ 0.11	$ (0.01)	$ 0.10	$ 0.58	$ 0.02	$ 0.60

	Three Months Ended September 30, 2016			Three Months Ended December 31, 2016		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Equity in net income of unconsolidated affiliates	$39	$ 1	$ 40	$23	$ 4	$27
Income from Continuing Operations	177	1	178	184	4	188
Net Income (Loss)	185	1	186	(844)	4	(840)
Net Income (Loss) Attributable to Xerox	182	1	183	(847)	4	(843)
Basic Earnings (Loss) per Share:						
Continuing operations	$0.66	$ —	$ 0.66	$0.69	$ 0.02	$0.71
Total	$0.69	$ —	$ 0.69	$(3.37)	$ 0.02	$(3.35)
Diluted Earnings (Loss) per Share:						
Continuing operations	$0.65	$ 0.01	$ 0.66	$0.68	$ 0.02	$0.70
Total	$0.68	$ 0.01	$ 0.69	$(3.32)	$ 0.02	$(3.30)

	Three Months Ended March 31, 2015			Three Months Ended June 30, 2015		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Equity in net income of unconsolidated affiliates	$34	$ (18)	$ 16	$29	$ (4)	$ 25
Income from Continuing Operations	189	(18)	171	210	(4)	206
Net Income	230	(18)	212	17	(4)	13
Net Income Attributable to Xerox	225	(18)	207	12	(4)	8
Basic Earnings per Share:						
Continuing operations	$0.64	$ (0.06)	$ 0.58	$0.73	$ (0.01)	$ 0.72
Total	$0.79	$ (0.07)	$ 0.72	$0.02	$ (0.01)	$ 0.01
Diluted Earnings per Share:						
Continuing operations	$0.63	$ (0.06)	$ 0.57	$0.72	$ (0.01)	$ 0.71
Total	$0.78	$ (0.07)	$ 0.71	$0.02	$ (0.01)	$ 0.01

	Three Months Ended September 30, 2015			Three Months Ended December 31, 2015		
	As Reported	Adjustment	As Revised	As Reported	Adjustment	As Revised
Equity in net income of unconsolidated affiliates	$40	$ —	$40	$32	$ (4)	$ 28
Income from Continuing Operations	206	—	206	261	(4)	257
Net (Loss) Income	(31)	—	(31)	276	(4)	272
Net (Loss) Income Attributable to Xerox	(34)	—	(34)	271	(4)	267
Basic (Loss) Earnings per Share:						
Continuing operations	$0.75	$ —	$0.75	$0.99	$ (0.02)	$ 0.97
Total	$(0.16)	$ —	$(0.16)	$1.05	$ (0.02)	$ 1.03
Diluted (Loss) Earnings per Share:						
Continuing operations	$0.75	$ —	$0.75	$0.98	$ (0.02)	$ 0.96
Total	$(0.16)	$ —	$(0.16)	$1.04	$ (0.02)	$ 1.02

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Note: 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.

Note 3 – Recent Accounting Pronouncements

Revenue Recognition

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

We will adopt this standard beginning January 1, 2018 and expect to use the modified retrospective method of adoption. Under current revenue recognition guidance, a significant majority of our revenue is recorded when we invoice customers, as that is normally the point at which all the revenue recognition criteria are met. Under ASU 2014-09, based on the nature of our contracts, we expect to continue to recognize revenue upon invoicing the customer for the large majority of our revenue. Additionally, we expect the unit of accounting, that is, the identification of performance obligations, will be consistent with current revenue guidance. Accordingly, the adoption of this standard is not expected to 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 expected to be impacted by the adoption of ASU 2014-09. We have substantially completed the review of certain contracts that are either more complex or where the revenue recognition criteria are not directly aligned with invoicing to the customer, to determine their treatment under ASU 2014-09. Based on this review we do not expect a material change in our pattern of revenue recognition. We expect to continue to evaluate the impact of our pending adoption of ASU 2014-09 on our consolidated financial statements throughout the remainder of 2017. Additionally, we are continuing to assess the impacts of the additional disclosures and the cost deferral guidance required by ASU 2014-09 as the new standard requires an increased level of disclosures as well as cost deferrals. Deferred costs are minimal under our current practices as most costs to obtain a contract and fulfill a contract are expensed as incurred. However, based on an initial assessment of the contract cost guidance included in the new standard, we expect to record a transition asset upon adoption of \$150 to \$200 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. This amount is expected to be amortized over its estimated period of benefit, which we currently estimate to be approximately four years. The amount of the adjustment is subject to change based on activity for the remainder of 2017. We do not expect the post-adoption deferral and amortization of these costs to have a material impact on the Consolidated Statements of Income.

Leases

In February 2016, the FASB issued ASU 2016-02, Leases. This update requires the recognition of leased assets and lease obligations by lessees for those leases currently classified as operating leases under existing lease guidance. Short term leases with a term of 12 months or less are not required to be recognized. The update also requires disclosure of key information about leasing arrangements to increase transparency and comparability among organizations. The accounting for lessors does not fundamentally change except for changes to conform and align guidance to the lessee guidance as well as to the new revenue recognition guidance in ASU 2014-09. This update is effective for our fiscal year beginning January 1, 2019. We are currently evaluating the impact of the adoption of ASU 2016-02 on our consolidated financial statements. The aggregate undiscounted value of our operating lease commitments at December 31, 2016 was approximately \$450.

Cash Flows

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments. This update provides specific guidance on eight cash flow classification issues where current GAAP is either unclear or does not include specific guidance. This update is effective for our fiscal year beginning January 1, 2018. This update includes specific guidance which requires cash collected on beneficial interests received in a sale of receivables be classified as inflows from investing activities. Currently, those collections are reported in operating cash flows. We reported $270 and $305 of collections on beneficial interests as operating cash inflows on the Statement of Cash Flows for the years ended December 31, 2016 and 2015, respectively. The other seven issues noted in this update are not expected to have a material impact on our financial condition, results of operations or cash flows.

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 held $138 and $179 of restricted cash, currently reported in other current or long-term assets at September 30, 2017 and December 31, 2016, respectively. This update is effective for our fiscal year beginning January 1, 2018. We are currently evaluating the impact, if any, that the adoption of ASU 2016-18 may have on our statements of cash flows in future reporting periods.

Stock Compensation

In March 2016, the FASB issued ASU 2016-09, Compensation - Stock Compensation, Improvements to Employee Share-Based Payment Accounting (Topic 718). This update includes provisions to simplify certain aspects related to the accounting for share-based awards and the related financial statement presentation. The update also requires that excess tax benefits and deficiencies be recorded in the income statement when the awards vest or are settled as compared to equity as allowed under certain conditions by current US GAAP. This change is required to be adopted prospectively in the period of adoption. In addition, the ASU modifies the classification of certain share-based payment activities within the statements of cash flows and these changes are required to be applied retrospectively to all periods presented. We adopted ASU 2016-09 effective for our fiscal year beginning January 1, 2017. The adoption of ASU No. 2016-09 did not have a material impact on our financial condition, results of operations or cash flows. However, the impacts may vary and may add volatility to our income tax expense in future periods depending upon, among other things, the level of tax expense and the price of the company's common stock at the date of vesting for share-based awards. For the three and nine months ended September 30, 2017, we recognized $1 and $3, respectively, of additional tax expense related to the application of this update.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, Income Taxes - Intra-Entity Transfers of Assets Other than Inventory. This update requires recognition of the income-tax consequences of an intra-entity transfer of assets other than inventory when the transfer occurs. Under current GAAP, recognition of the income tax consequences for asset transfers other than inventory could not be recognized until the asset was sold to a third party. This update is effective for our fiscal year beginning January 1, 2018 and should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. We are currently evaluating the impact of the adoption of ASU 2016-16 on our consolidated financial statements.

Financial Instruments - Credit Losses

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

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 the net periodic benefit cost 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 pertinent 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. The amendment also allows only the service cost component to be eligible for capitalization, when applicable. This update is effective for us beginning January 1, 2018. The amendment will be applied retrospectively for the presentation requirements and prospectively for the capitalization of the service cost component requirements. The adoption of this update is not expected to have a material impact on our financial condition, results of operations or cash flows. Refer to Note 14 - Employee Benefit Plans for the service cost component and other components of net retirement benefit cost.

Derivatives

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

Other Updates

In 2017, 2016 and 2015, the FASB also issued the following Accounting Standards Updates which did not have or are not expected to have a material impact on our financial condition, results of operations or cash flows upon adoption. Those updates are as follows:

- Service Concession Arrangements: ASU 2017-10, (Topic 853) Determining the Customer of the Operation Services (a consensus of the FASB Emerging Issues Task Force). This update is effective for our fiscal year beginning January 1, 2018.
- Compensation - Stock Compensation: ASU 2017-09, (Topic 718) Scope of Modification Accounting. This update is effective for our fiscal year beginning January 1, 2018.
- Other Income - Gains and Losses from the Derecognition of Nonfinancial Assets: ASU 2017-05, (Subtopic 610-20) Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. This update is effective for our fiscal year beginning January 1, 2018.
- Intangibles - Goodwill and Other: ASU 2017-04, Simplifying the Goodwill Impairment Test. This update is effective for our fiscal year beginning January 1, 2020, with early adoption permitted.
- Business Combinations: ASU 2017-01, Business Combinations (Topic 805) Clarifying the Definition of a Business. This update is effective for our fiscal year beginning January 1, 2018.
- Equity Method Accounting: ASU 2016-07, Equity Method and Joint Venture Accounting (Topic 353), Simplifying the Transition to the Equity Method of Accounting. This update was effective for our fiscal year beginning January 1, 2017.
- Financial Instruments - Classification and Measurement: ASU 2016-01, Financial Instruments - Recognition and Measurement of Financial Instruments and Financial Liabilities. This update is effective for our fiscal year beginning January 1, 2018.
- Inventory: ASU 2015-11, Simplifying the Subsequent Measurement of Inventory, which was effective for our fiscal year beginning January 1, 2017.

Note 4 – Acquisitions

Xerox is focused on increasing its Small and Mid-sized (SMB) coverage through resellers and partners (including multi-brand dealers) and continued distribution acquisitions. During 2017, distribution acquisitions totaled $76 and included the acquisition of MT Business Technologies, Inc. (MT Business), an Ohio-based multi-brand dealer, and one smaller multi-brand dealer in Iowa. MT Business provides office equipment, productivity solutions and managed print services to organizations throughout Ohio and south eastern Michigan. The acquisition of MT Business opens new market opportunities in Ohio, including large metropolitan areas such as Cleveland and Columbus.

The operating results of these acquisitions are not material to our financial statements and are included within our results from the acquisition dates. The purchase prices were all cash and were primarily allocated to intangible assets and goodwill based on management’s estimates which included, in certain situations, third-party valuations.

Note 5 – Divestitures
Business Process Outsourcing (BPO)
As previously disclosed, on December 31, 2016, Xerox completed the Separation of its BPO business through the Distribution of all of the issued and outstanding stock of Conduent to Xerox Corporation stockholders. As a result of the Separation and Distribution, the financial position and results of operations of the BPO Business are presented as discontinued operations and, as such, have been excluded from continuing operations for all periods presented.
Separation costs are included in Income (Loss) from discontinued operations, net of tax, in the accompanying Condensed Consolidated Statements of Income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Separation costs	$ 1	$ 39	$ 9	$ 75

Separation costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services related to the Separation transaction as well as costs associated with the operational separation of the two companies, such as those related to human resources, brand management, real estate and information management to the extent they were not capitalized. Separation costs also include the costs associated with bonuses and restricted stock grants awarded to employees for retention through the Separation.
Income from discontinued operations, net of tax, for the three months ended September 30, 2017 of $3 was primarily related to changes in estimates. Summarized financial information for our Discontinued Operations is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Revenues	$—	$1,587	$—	$4,855
Cost of services	—	1,317	—	4,069
Other expenses[1]	1	286	9	897
Total costs and expenses	1	1,603	9	4,966
Net loss before income taxes	(1)	(16)	(9)	(111)
Income tax benefit	4	24	6	46
Income (loss) from discontinued operations, net of tax	$3	$8	$(3)	$(65)

(1) The three and nine months ended September 30, 2016 include $6 and $13, respectively, of interest on the $1.0 billion Senior Unsecured Term Facility, which was required to be repaid upon completion of the Separation and therefore was reported in the Income (loss) from discontinued operations.
Refer to Note 11 - Debt for additional information regarding the Separation Debt Activity.
In January 2017, as provided for in the Separation Agreement, we received a distribution from Conduent of $161 representing the final adjustment required to set Conduent's cash balance at $225 as of the Separation. This amount was recorded as a receivable from Conduent included in Other Current Assets at December 31, 2016. The cash receipt was reported in Cash Flows from Financing Activities in the Condensed Consolidated Statements of Cash Flows as it represented an adjustment to our Distribution of Conduent.
Other Divestitures

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 pretax gain of $13 ($4 after-tax), which is included in Other expenses, net in the Condensed Consolidated Statements of Income for the three and nine months ended September 30, 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:

	September 30, 2017	December 31, 2016
Invoiced	$ 731	$ 651
Accrued	357	374
Allowance for doubtful accounts	(57)	(64)
Accounts Receivable, Net	$ 1,031	$ 961

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

We have facilities in the U.S., Canada and several countries in Europe that enable us to sell certain accounts receivable, without recourse, to third-parties. The accounts receivable sold are generally short-term trade receivables with payment due dates of less than 60 days. In connection with the efforts of our Strategic Transformation Program to reduce costs and simplify our business processes, we have decided to terminate all accounts receivable sales arrangements in North America and most arrangements in Europe during the fourth quarter 2017.

All of our arrangements involve the sale of our entire interest in groups of accounts receivable for cash. In most instances, a portion of the sales proceeds are held back by the purchaser and payment is deferred until collection of the related receivables sold. Such holdbacks are not considered legal securities nor are they certificated. We report collections on such receivables as operating cash flows in the Condensed Consolidated Statements of Cash Flows because such receivables are the result of an operating activity and the associated interest rate risk is de minimis due to their short-term nature. Our risk of loss following the sales of accounts receivable is limited to the outstanding deferred purchase price receivable. These receivables are included in Other current assets in the accompanying Consolidated Balance Sheets and were $56 and $48 at September 30, 2017 and December 31, 2016, respectively.

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

Of the accounts receivable sold and derecognized from our balance sheet, $476 and $531 remained uncollected as of September 30, 2017 and December 31, 2016, respectively.

Accounts receivable sales were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Accounts receivable sales	$520	$516	$1,598	$1,690
Deferred proceeds	56	55	164	185
Loss on sales of accounts receivable	3	4	9	12
Estimated decrease to operating cash flows[1]	(77)	(58)	(83)	(42)

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

Note 7 - Finance Receivables, Net

Finance Receivables – Allowance for Credit Losses and Credit Quality

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

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

Allowance for Credit Losses:	United States	Canada	Europe	Other[2]	Total
Balance at December 31, 2016	$ 55	$ 16	$ 37	$ 2	$ 110
Provision	4	—	5	—	9
Charge-offs	(6)	(2)	(2)	—	(10)
Recoveries and other[3]	—	2	—	—	2
Balance at March 31, 2017	$ 53	$ 16	$ 40	$ 2	$ 111
Provision	4	1	1	—	6
Charge-offs	(10)	(1)	(3)	—	(14)
Recoveries and other[3]	1	—	4	—	5
Balance at June 30, 2017	$ 48	$ 16	$ 42	$ 2	$ 108
Provision	1	—	3	—	4
Charge-offs	(2)	(1)	(3)	—	(6)
Recoveries and other[3]	8	1	1	—	10
Balance at September 30, 2017	$ 55	$ 16	$ 43	$ 2	$ 116
Finance receivables as of September 30, 2017 collectively evaluated for impairment [4]	$ 1,992	$ 391	$ 1,339	$ 66	$ 3,788
Balance at December 31, 2015[1]	$ 54	$ 17	$ 45	$ 2	$ 118
Provision	4	1	5	—	10
Charge-offs	(2)	(2)	(2)	—	(6)
Recoveries and other[3]	1	2	1	—	4
Balance at March 31, 2016	$ 57	$ 18	$ 49	$ 2	$ 126
Provision	—	1	7	—	8
Charge-offs	(3)	(2)	(3)	—	(8)
Recoveries and other[3]	—	1	(2)	—	(1)
Balance at June 30, 2016	$ 54	$ 18	$ 51	$ 2	$ 125
Provision	$ 3	$ 1	$ 5	$ —	$ 9
Charge-offs	(1)	(2)	(3)	—	(6)
Recoveries and other[3]	1	—	—	—	1
Balance at September 30, 2016	$ 57	$ 17	$ 53	$ 2	$ 129
Finance receivables as of September 30, 2016 collectively evaluated for impairment[4]	$ 2,139	$ 377	$ 1,382	$ 66	$ 3,964

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

(2) Includes developing market countries and smaller units.

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

(4)

Total Finance receivables exclude the allowance for credit losses of $116 and $129 at September 30, 2017 and 2016, respectively.

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

- Investment grade: This rating includes accounts with excellent to good business credit, asset quality and capacity to meet financial obligations. These customers are less susceptible to adverse effects due to shifts in economic conditions or changes in circumstance. The rating generally equates to a Standard & Poor's (S&P) rating of BBB- or better. Loss rates in this category are normally less than 1%.
- Non-investment grade: This rating includes accounts with average credit risk that are more susceptible to loss in the event of adverse business or economic conditions. This rating generally equates to a BB S&P rating. Although we experience higher loss rates associated with this customer class, we believe the risk is somewhat mitigated by the fact that our leases are fairly well dispersed across a large and diverse customer base. In addition, the higher loss rates are largely offset by the higher rates of return we obtain with such leases. Loss rates in this category are generally in the range of 2% to 4%.
- Substandard: This rating includes accounts that have marginal credit risk such that the customer's ability to make repayment is impaired or may likely become impaired. We use numerous strategies to mitigate risk including higher rates of interest, prepayments, personal guarantees, etc. Accounts in this category include customers who were downgraded during the term of the lease from investment and non-investment grade 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 approximately 10%.

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

	September 30, 2017				December 31, 2016			
	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables	Investment Grade	Non-investment Grade	Substandard	Total Finance Receivables
Finance and other services(4)	$188	$ 339	$ 66	$ 593	$215	$ 343	$ 60	$ 618
Government and education(4)	480	58	15	553	535	56	17	608
Graphic arts(4)	115	101	98	314	135	106	106	347
Industrial(4)	84	80	13	177	88	82	14	184
Healthcare(4)	89	42	11	142	92	39	12	143
Other(4)	73	100	40	213	90	106	42	238
Total United States(4)	1,029	720	243	1,992	1,155	732	251	2,138
Finance and other services	54	42	25	121	54	43	15	112
Government and education	48	5	4	57	52	6	2	60
Graphic arts	35	34	28	97	39	37	24	100
Industrial	20	12	10	42	21	13	6	40
Other	34	26	14	74	33	25	8	66
Total Canada	191	119	81	391	199	124	55	378
France	192	228	52	472	181	222	51	454
U.K./Ireland(4)	97	155	11	263	95	148	10	253
Central(1)	185	145	18	348	182	148	19	349
Southern(2)	42	145	16	203	36	131	14	181
Nordics(3)	31	21	1	53	26	22	1	49
Total Europe	547	694	98	1,339	520	671	95	1,286
Other	37	25	4	66	35	15	2	52

Total	$1,804	$ 1,558	$ 426	$ 3,788	$1,909	$ 1,542	$ 403	$ 3,854

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(1) Switzerland, Germany, Austria, Belgium and Holland.
(2) Italy, Greece, Spain and Portugal.
(3) Sweden, Norway, Denmark and Finland.
(4) The December 31, 2016 amounts have been revised to conform to 2017 presentation.

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

	September 30, 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	$ 12	$ 1	$ 1	$ 14	$ 579	$ 593	$ 9
Government and education	15	1	3	19	534	553	20
Graphic arts	12	1	—	13	301	314	5
Industrial	4	—	1	5	172	177	5
Healthcare	4	—	1	5	137	142	5
Other	6	1	1	8	205	213	3
Total United States	53	4	7	64	1,928	1,992	47
Canada	4	1	—	5	386	391	13
France	3	—	—	3	469	472	15
U.K./Ireland	3	—	—	3	260	263	—
Central(1)	3	1	—	4	344	348	6
Southern(2)	3	1	2	6	197	203	7
Nordics(3)	—	—	—	—	53	53	—
Total Europe	12	2	2	16	1,323	1,339	28
Other	3	—	—	3	63	66	—
Total	$ 72	$ 7	$ 9	$ 88	$ 3,700	$ 3,788	$ 88

	December 31, 2016						
	Current	31-90 Days Past Due	>90 Days Past Due	Total Billed	Unbilled	Total Finance Receivables	>90 Days and Accruing
Finance and other services	$ 13	$ 3	$ 1	$ 17	$ 601	$ 618	$ 11
Government and education	10	4	3	17	591	608	25
Graphic arts	13	1	—	14	333	347	5
Industrial	4	1	1	6	178	184	5
Healthcare	3	1	1	5	138	143	5
Other	9	2	1	12	226	238	5
Total United States	52	12	7	71	2,067	2,138	56
Canada	3	—	—	3	375	378	8
France	3	—	—	3	451	454	20
U.K./Ireland	2	1	—	3	250	253	1
Central(1)	2	1	—	3	346	349	5
Southern(2)	5	1	1	7	174	181	6
Nordics(3)	1	—	—	1	48	49	1
Total Europe	13	3	1	17	1,269	1,286	33
Other	3	—	—	3	49	52	—
Total	$ 71	$ 15	$ 8	$ 94	$ 3,760	$ 3,854	$ 97

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

Note 8 – Inventories

The following is a summary of Inventories by major category:

	September 30, 2017	December 31, 2016
Finished goods	$ 880	$ 713
Work-in-process	55	47
Raw materials	104	81
Total Inventories	$ 1,039	$ 841

Note 9 – Investment in Affiliates, at Equity

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Fuji Xerox	$ 26	$ 36	$ 81	$ 89
Other investments	4	4	9	11
Total Equity in Net Income of Unconsolidated Affiliates	$ 30	$ 40	$ 90	$ 100

Fuji Xerox

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

Refer to Note 2 - Correction of Fuji Xerox Misstatement in Prior Period Financial Statements for additional information regarding the results of a review of accounting practices at Fuji Xerox and the associated impact of adjustments from that review on previously reported Equity in net income of unconsolidated affiliates. The summarized financial data below for Fuji Xerox has likewise been revised accordingly to reflect the impact of those adjustments:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Summary of Operations:				
Revenues	$ 2,508	$ 2,701	$ 7,392	$ 7,793
Costs and expenses	2,383	2,480	6,926	7,252
Income before income taxes	125	221	466	541
Income tax expense	41	68	117	159
Net Income	84	153	349	382
Less: Net income – noncontrolling interests	1	2	3	6
Net Income – Fuji Xerox	$ 83	$ 151	$ 346	$ 376
Weighted Average Exchange Rate(1)	110.90	102.44	111.92	108.64

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

Note 10 – Restructuring Programs

During the nine months ended September 30, 2017, we recorded net restructuring and asset impairment charges of $178, which included approximately $200 of severance costs related to headcount reductions of approximately 2,100 employees worldwide and $3 of lease cancellation costs. These costs were partially offset by $25 of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives.

We also recorded $18 of costs during the nine months ended September 30, 2017, primarily related to professional support services associated with the implementation of the Strategic Transformation program.

Information related to restructuring program activity is outlined below:

	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments[2]	Total
Balance at December 31, 2016	$ 104	$ 23	$ —	$ 127
Provision	110	2	—	112
Reversals	(2)	—	—	(2)
Net current period charges[1]	108	2	—	110
Charges against reserve and currency	(58)	(1)	—	(59)
Balance at March 31, 2017	$ 154	$ 24	$ —	$ 178
Provision	50	1	—	51
Reversals	(13)	(5)	—	(18)
Net current period charges[1]	37	(4)	—	33
Charges against reserve and currency	(43)	(17)	—	(60)
Balance at June 30, 2017	$ 148	$ 3	$ —	$ 151
Provision	40	—	—	40
Reversals	(5)	—	—	(5)
Net current period charges[1]	35	—	—	35
Charges against reserve and currency	(36)	(3)	—	(39)
Balance at September 30, 2017	$ 147	$ —	$ —	$ 147

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

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

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