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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2022

OR

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

For the transition period from to

Commission File Number 001-37817

CONDUENT INCORPORATED
(Exact Name of Registrant as specified in its charter)

New York	**81-2983623**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
100 Campus Drive, Suite 200, Florham Park, New Jersey	**07932**
(Address of principal executive offices)	**(Zip Code)**

(844) 663-2638
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	**CNDT**	**NASDAQ Global Select Market**

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 every Interactive Data File required to be submitted 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 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	☒	Accelerated filer	☐	Non-accelerated filer	☐	Small reporting company	☐	Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

Class	Outstanding at October 31, 2022
Common Stock, $0.01 par value	215,920,216

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q (Form 10-Q) and any exhibits to this Form 10-Q may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995 (the "Litigation Reform Act"). The words “anticipate,” “believe,” “estimate,” “expect,” "plan," “intend,” “will,” “aim,” “should,” “could,” “forecast,” “target,” “may,” "continue to," "if," “growing,” “projected,” “potential,” “likely,” and similar expressions, as they relate to us, are intended to identify forward-looking statements, but the absence of these words does not mean that a statement is not forward-looking. In addition, all statements regarding anticipated effects of the novel coronavirus, or COVID-19, pandemic and the responses thereto, including the pandemic’s impact on general economic and market conditions, as well as on our business, customers, and markets, results of operations and financial condition and anticipated actions to be taken by management to sustain our business during the economic uncertainty caused by the pandemic and related governmental and business actions, as well as other statements that are not strictly historical in nature, are forward looking. These statements reflect our current views with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those expressed or implied herein as anticipated, believed, estimated, expected or intended or using other similar expressions.

In accordance with the provisions of the Litigation Reform Act, we are making investors aware that such forward-looking statements, because they relate to future events, are by their very nature subject to many important factors and uncertainties that could cause actual results to differ materially from those contemplated by the forward-looking statements contained in this Form 10-Q, any exhibits to this Form 10-Q and other public statements we make. Our actual results may vary materially from those expressed or implied in our forward-looking statements. These forward-looking statements are also subject to the significant continuing impact of the COVID-19 pandemic on our business, operations, financial results and financial condition, which is dependent on developments which are highly uncertain and cannot be predicted.

Important factors and uncertainties that could cause actual results to differ materially from those in our forward-looking statements include, but are not limited to: the significant continuing effects of the ongoing COVID-19 pandemic on our business, operations, financial results and financial condition, which is dependent on developments which are highly uncertain and cannot be predicted; government appropriations and termination rights contained in our government contracts; our ability to renew commercial and government contracts, including contracts awarded through competitive bidding processes; our ability to recover capital and other investments in connection with our contracts; our reliance on third-party providers; our ability to deliver on our contractual obligations properly and on time; changes in interest in outsourced business process services; risk and impact of geopolitical events (such as the war in the Ukraine), natural disasters and other factors (such as pandemics, including coronavirus) in a particular country or region on our workforce, customers and vendors; claims of infringement of third-party intellectual property rights; our ability to estimate the scope of work or the costs of performance in our contracts; the loss of key senior management and our ability to attract and retain necessary technical personnel and qualified subcontractors; increases in the cost of telephone and data services or significant interruptions in such services; our failure to develop new service offerings and protect our intellectual property rights; our ability to modernize our information technology infrastructure and consolidate data centers; the failure to comply with laws relating to individually identifiable information and personal health information; the failure to comply with laws relating to processing certain financial transactions, including payment card transactions and debit or credit card transactions; breaches of our information systems or security systems or any service interruptions; our ability to comply with data security standards; changes in tax and other laws and regulations; risk and impact of potential goodwill and other asset impairments; our significant indebtedness; our ability to obtain adequate pricing for our services and to improve our cost structure; our ability to collect our receivables, including those for unbilled services; a decline in revenues from, or a loss of, or a reduction in business from or failure of significant clients; fluctuations in our non-recurring revenue; our failure to maintain a satisfactory credit rating; our ability to receive dividends or other payments from our subsidiaries; developments in various contingent liabilities that are not reflected on our balance sheet, including those arising as a result of being involved in a variety of claims, lawsuits, investigations and proceedings; conditions abroad, including local economics, political environments, fluctuating foreign currencies and shifting regulatory schemes; changes in government regulation and economic, strategic, political and social conditions; volatility of our stock price and the risk of litigation following a decline in the price of our stock; economic factors such as inflation, the level of economic activity and labor market conditions, as well as rising interest rates; 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 as well as in our 2021 Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) and any subsequent Quarterly Report on Form 10-Q and Current Report on Form 8-K. Any forward-looking statements made by us in this Quarterly Report on Form 10-Q speak only as of the date on which they are made. We are under no obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether because of new information, subsequent events or otherwise, except as required by law.

CONDUENT INCORPORATED

FORM 10-Q

September 30, 2022

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

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PART I — FINANCIAL INFORMATION

ITEM 1 — FINANCIAL STATEMENTS (UNAUDITED)

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME (LOSS) (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per share data)	2022	2021	2022	2021
Revenue	$ 977	$ 1,038	$ 2,872	$ 3,092
Operating Costs and Expenses				
Cost of services (excluding depreciation and amortization)	754	776	2,236	2,335
Selling, general and administrative (excluding depreciation and amortization)	117	131	332	382
Research and development (excluding depreciation and amortization)	2	2	5	3
Depreciation and amortization	54	84	168	265
Restructuring and related costs	4	10	24	31
Interest expense	22	12	59	38
(Gain) loss on divestitures and transaction costs	1	—	(159)	1
Litigation settlements (recoveries), net	—	—	(31)	2
Loss on extinguishment of debt	—	—	—	2
Other (income) expenses, net	—	4	—	4
Total Operating Costs and Expenses	954	1,019	2,634	3,063
Income (Loss) Before Income Taxes	23	19	238	29
Income tax expense (benefit)	8	8	87	17
Net Income (Loss)	$ 15	$ 11	$ 151	$ 12
Net Income (Loss) per Share:				
Basic	$ 0.06	$ 0.04	$ 0.67	$ 0.02
Diluted	$ 0.06	$ 0.04	$ 0.66	$ 0.02

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

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

(in millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Net Income (Loss)	$ 15	$ 11	$ 151	$ 12
Other Comprehensive Income (Loss), Net[1]				
Currency translation adjustments, net	(37)	(16)	(82)	(23)
Unrecognized gains (losses), net	(1)	—	(2)	(1)
Changes in benefit plans, net	—	—	—	(1)
Other Comprehensive Income (Loss), Net	(38)	(16)	(84)	(25)
Comprehensive Income (Loss), Net	$ (23)	$ (5)	$ 67	$ (13)

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(1) All amounts are net of tax. Tax effects were immaterial.

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

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 577	$ 415
Accounts receivable, net	653	699
Assets held for sale	—	184
Contract assets	161	154
Other current assets	250	228
Total current assets	1,641	1,680
Land, buildings and equipment, net	262	281
Operating lease right-of-use assets	205	231
Intangible assets, net	41	52
Goodwill	1,286	1,339
Other long-term assets	486	453
Total Assets	$ 3,921	$ 4,036
Liabilities and Equity		
Current portion of long-term debt	$ 33	$ 30
Accounts payable	203	198
Accrued compensation and benefits costs	227	243
Unearned income	75	82
Liabilities held for sale	—	29
Other current liabilities	395	443
Total current liabilities	933	1,025
Long-term debt	1,272	1,383
Deferred taxes	117	75
Operating lease liabilities	167	184
Other long-term liabilities	84	95
Total Liabilities	2,573	2,762
Contingencies (See Note 13)		
Series A convertible preferred stock	142	142
Common stock	2	2
Additional paid-in capital	3,924	3,910
Retained earnings (deficit)	(2,207)	(2,351)
Accumulated other comprehensive loss	(513)	(429)
Total Equity	1,206	1,132
Total Liabilities and Equity	$ 3,921	$ 4,036
Shares of common stock issued and outstanding	215,803	215,381
Shares of series A convertible preferred stock issued and outstanding	120	120

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

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
(in millions)	2022	2021
Cash Flows from Operating Activities:		
Net income (loss)	$ 151	$ 12
Adjustments required to reconcile net income (loss) to cash flows from operating activities:		
Depreciation and amortization	168	265
Contract inducement amortization	2	1
Deferred income taxes	43	(7)
(Gain) loss from investments	—	5
Amortization of debt financing costs	3	5
Loss on extinguishment of debt	—	2
(Gain) loss on divestitures and sales of fixed assets, net	(166)	1
Stock-based compensation	15	14
Allowance for credit losses	—	(1)
Changes in operating assets and liabilities:		
Accounts receivable	24	(34)
Other current and long-term assets	(116)	(59)
Accounts payable and accrued compensation and benefits costs	6	5
Other current and long-term liabilities	(33)	(57)
Net change in income tax assets and liabilities	(4)	6
Net cash provided by (used in) operating activities	93	158
Cash Flows from Investing Activities:		
Cost of additions to land, buildings and equipment	(62)	(52)
Cost of additions to internal use software	(48)	(49)
Proceeds from divestitures	326	4
Net cash provided by (used in) investing activities	216	(97)
Cash Flows from Financing Activities:		
Payments on revolving credit facility	(100)	—
Payments on debt	(24)	(102)
Premium on debt redemption	—	(2)
Taxes paid for settlement of stock-based compensation	(1)	(1)
Dividends paid on preferred stock	(7)	(7)
Net cash provided by (used in) financing activities	(132)	(112)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(10)	(7)
Increase (decrease) in cash, cash equivalents and restricted cash	167	(58)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period	420	458
Cash, Cash Equivalents and Restricted Cash at End of period[(1)]	$ 587	$ 400

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(1) *Includes $10 million and $6 million of restricted cash as of September 30, 2022 and 2021, respectively, that were included in Other current assets on their respective Condensed Consolidated Balance Sheets.*

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

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (UNAUDITED)

	Three Months Ended September 30, 2022				
(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	AOCL[(1)]	Shareholders' Equity
Balance at June 30, 2022	$ 2	$ 3,918	$ (2,220)	$ (475)	$ 1,225
Dividends - preferred stock, $20/share	—	—	(2)	—	(2)
Stock incentive plans, net	—	6	—	—	6
Comprehensive Income (Loss):					
Net Income (Loss)	—	—	15	—	15
Other comprehensive income (loss), net	—	—	—	(38)	(38)
Total Comprehensive Income (Loss), Net	—	—	15	(38)	(23)
Balance at September 30, 2022	$ 2	$ 3,924	$ (2,207)	$ (513)	$ 1,206

	Three Months Ended September 30, 2021				
(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	AOCL[(1)]	Shareholders' Equity
Balance at June 30, 2021	$ 2	$ 3,907	$ (2,317)	$ (407)	$ 1,185
Dividends - preferred stock, $20/share	—	—	(2)	—	(2)
Stock incentive plans, net	—	5	—	—	5
Comprehensive Income (Loss):					
Net Income (Loss)	—	—	11	—	11
Other comprehensive income (loss), net	—	—	—	(16)	(16)
Total Comprehensive Income (Loss), Net	—	—	11	(16)	(5)
Balance at September 30, 2021	$ 2	$ 3,912	$ (2,308)	$ (423)	$ 1,183

	Nine Months Ended September 30, 2022				
(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	AOCL[(1)]	Shareholders' Equity
Balance at December 31, 2021	$ 2	$ 3,910	$ (2,351)	$ (429)	$ 1,132
Dividends - preferred stock, $60/share	—	—	(7)	—	(7)
Stock incentive plans, net	—	14	—	—	14
Comprehensive Income (Loss):					
Net Income (Loss)	—	—	151	—	151
Other comprehensive income (loss), net	—	—	—	(84)	(84)
Total Comprehensive Income (Loss), Net	—	—	151	(84)	67
Balance at September 30, 2022	$ 2	$ 3,924	$ (2,207)	$ (513)	$ 1,206

	Nine Months Ended September 30, 2021				
(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	AOCL[(1)]	Shareholders' Equity
Balance at December 31, 2020	$ 2	$ 3,899	$ (2,313)	$ (398)	$ 1,190
Dividends - preferred stock, $60/share	—	—	(7)	—	(7)
Stock incentive plans, net	—	13	—	—	13
Comprehensive Income (Loss):					
Net Income (Loss)	—	—	12	—	12
Other comprehensive income (loss), net	—	—	—	(25)	(25)
Total Comprehensive Income (Loss), Net	—	—	12	(25)	(13)
Balance at September 30, 2021	$ 2	$ 3,912	$ (2,308)	$ (423)	$ 1,183

(1) AOCL - Accumulated other comprehensive loss. Refer to Note 12 – Accumulated Other Comprehensive Loss for the components of AOCL.

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

Note 1 – Basis of Presentation

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

Description of Business

As one of the largest diversified business process services companies in the world, Conduent delivers mission-critical solutions and services on behalf of businesses and governments – creating exceptional outcomes for its clients and the millions of people who count on them. Through its dedicated people, processes and technologies, Conduent's services and solutions enhance customer experience, increase efficiencies, reduce costs and improve performance for most Fortune 100 companies and more than 500 government entities.

Basis of Presentation

The unaudited interim Condensed Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP) on a basis consistent with reporting interim financial information in accordance with instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission (SEC). Accordingly, they do not include all of the information and notes required by U.S. GAAP for complete financial statements. The year-end Condensed Consolidated Balance Sheet was derived from the audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021. Certain reclassifications have been made to prior year information to conform to current year presentation. Intercompany balances and transactions have been eliminated. In the opinion of management, all adjustments necessary for a fair statement of the financial position, results of operations and cash flows have been made. These adjustments consist of normal recurring items. The interim results of operations are not necessarily indicative of the results of the full year. These financial statements should be read in conjunction with the Company’s Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

The Company has evaluated subsequent events through November 1, 2022 and no material subsequent events were identified.

Use of Estimates

Preparation of financial statements in conformity with U.S. GAAP requires the Company to make estimates and assumptions that affect the amounts reported and disclosed in the financial statements and the accompanying notes. Actual results could differ materially from these estimates. On an ongoing basis, the Company evaluates its estimates, including those related to fair values of financial instruments, goodwill and intangible assets, income taxes and contingent liabilities, among others. The Company bases its estimates on assumptions, both historical and forward looking, that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities.

As of September 30, 2022, the effects of global macroeconomic and geopolitical uncertainty, including COVID-19 pandemic related factors, on the Company's business, results of operations and financial condition continue to evolve. As a result, many of the Company's estimates and assumptions continue to require increased judgment and carry a higher degree of variability and volatility. As events continue to evolve and additional information becomes available, the Company's estimates may change materially in the future.

Contingencies and Litigation

The Company is currently involved in various claims and legal proceedings. At least quarterly, it reviews the status of each significant matter and assesses its potential financial exposure considering all available information including, but not limited to, the impact of negotiations, settlements, rulings, advice of legal counsel and other updated information and events pertaining to a particular matter. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. The estimated losses are recorded within Litigation settlements (recoveries), net in the Company's income statement. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, the Company reassesses the potential liability related to pending claims and litigation and may revise its estimates. These revisions in the estimates of the potential liabilities could have a material impact on the results of operations and financial position. The Company's policy is to expense legal defense costs related to such matters as incurred. These costs are recorded within Selling, general and administrative expenses in the Company's income statement. Any insurance recoveries for litigation settlements and defense costs are recorded when such recoveries are deemed probable and collectability is reasonably assured. Such recoveries are recorded in the same financial statement line as the related costs to which the recoveries relate.

Refer to Note 13 – Contingencies and Litigation to the Condensed Consolidated Financial Statements for additional information regarding loss contingencies.

Goodwill

For acquired businesses, the Company records the acquired assets and assumed liabilities based on their relative fair values at the date of acquisitions (commonly referred to as the purchase price allocation). Goodwill represents the excess of the purchase price paid in excess of the fair value of net tangible and intangible assets acquired. For the Company’s business acquisitions, the purchase price is allocated to identifiable intangible assets separate from goodwill if they are from contractual or other legal rights, or if they could be separated from the acquired business and sold, transferred, licensed, rented or exchanged.

The Company tests goodwill for impairment annually or more frequently if an event or change in circumstances indicate the asset may be impaired. Impairment testing for goodwill is done at the reporting unit level.

As of January 1, 2022, the Company underwent an internal reorganization in its Commercial reportable segment resulting in the previous four Commercial operating segments being combined into one single operating segment and reporting unit, led by a single segment manager.

The Company considered the reorganization in the first quarter of 2022 a triggering event and performed an interim qualitative goodwill impairment assessment of the reporting units before and after the reorganization and concluded no impairment existed at the time of the change.

Additionally, as part of the reorganization in the first quarter of 2022, certain clients were reassigned from the Government Services reportable segment to the Commercial reportable segment (refer to Note 4 – Segment Reporting to the Condensed Consolidated Financial Statements for additional information). This change resulted in less than 1% of goodwill being reallocated between the reporting units within the two reportable segments.

Note 2 – Recent Accounting Pronouncements

The Company's significant accounting policies are described in Note 1–Basis of Presentation and Summary of Significant Accounting Policies in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

New Accounting Standards Adopted

The Company has not adopted any new accounting standards in 2022 that had a material impact on its Consolidated Financial Statements.

New Accounting Standards To Be Adopted

The Company has considered all recent accounting standards issued, but not yet effective, and does not expect any to have a material impact on its Consolidated Financial Statements.

Note 3 – Revenue

Disaggregation of Revenue

During the first quarter of 2022, certain clients were reclassified from the Government Services segment to the Commercial segment. Additionally, revenue for the Midas business divested in the first quarter of 2022 has been reclassified from the Commercial segment to the Divestitures segment. These changes have no impact on the timing of revenue recognition. All prior periods presented have been revised to reflect these changes.

The following table provides information about disaggregated revenue by major service offering, the timing of revenue recognition and a reconciliation of the disaggregated revenue by reportable segment. Refer to Note 4 – Segment Reporting for additional information on the Company's reportable segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2022	2021	2022	2021
Commercial:				
Customer experience management	$ 162	$ 152	$ 468	$ 459
Business operations solutions	138	139	415	418
Commercial healthcare solutions	100	91	278	277
Human resource and learning services	104	111	325	339
Total Commercial	504	493	1,486	1,493
Government Services:				
Government healthcare solutions	150	143	438	432
Government services solutions	141	203	418	564
Total Government Services	291	346	856	996
Transportation:				
Roadway charging & management services	87	79	244	237
Transit solutions	55	60	161	194
Curbside management solutions	22	22	63	60
Public safety solutions	16	17	49	52
Commercial vehicles	2	2	6	6
Total Transportation	182	180	523	549
Divestitures	—	19	7	54
Total Consolidated Revenue	$ 977	$ 1,038	$ 2,872	$ 3,092
Timing of Revenue Recognition:				
Point in time	$ 37	$ 26	$ 82	$ 83
Over time	940	1,012	2,790	3,009
Total Revenue	$ 977	$ 1,038	$ 2,872	$ 3,092

Contract Balances

The Company receives payments from customers based upon contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets are the Company’s rights to consideration for services provided when the right is conditioned on something other than passage of time (for example, meeting a milestone for the right to bill under the cost-to-cost measure of progress). Contract assets are transferred to Accounts receivable, net when the rights to consideration become unconditional. Unearned income includes payments received in advance of performance under the contract, which are realized when the associated revenue is recognized under the contract.

The following table provides information about the balances of the Company's contract assets, unearned income and receivables from contracts with customers:

(in millions)	September 30, 2022	December 31, 2021
Contract Assets (Unearned Income)		
Current contract assets	$ 161	$ 154
Long-term contract assets[1]	15	8
Current unearned income	(75)	(82)
Long-term unearned income[2]	(44)	(48)
Net Contract Assets	$ 57	$ 32
Accounts receivable, net	$ 653	$ 699

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(1) *Presented in Other long-term assets in the Condensed Consolidated Balance Sheets.*

(2) *Presented in Other long-term liabilities in the Condensed Consolidated Balance Sheets.*

Revenues of $14 million and $67 million were recognized during the three and nine months ended September 30, 2022, respectively, related to the Company's unearned income at December 31, 2021. Additionally, the Company recognized $7 million of revenue related to the unearned income of the divested Midas business for the nine months ended September 30, 2022. Such amount was included in Liabilities Held for Sale on the December 31, 2021 consolidated balance sheet.

Revenues of $11 million and $99 million were recognized during the three and nine months ended September 30, 2021 related to the Company's unearned income at December 31, 2020.

The Company had no material asset impairment charges related to contract assets for the three and nine months ended September 30, 2022 or 2021.

Transaction Price Allocated to the Remaining Performance Obligations

Estimated revenue expected to be recognized in the future related to performance obligations that are unsatisfied or partially satisfied at September 30, 2022 was approximately $950 million. The Company expects to recognize approximately 73% of this revenue over the next two years and the remainder thereafter.

Note 4 – Segment Reporting

The Company's reportable segments correspond to how it organizes and manages the business, as defined by the Company's Chief Executive Officer, who is also the Company's Chief Operating Decision Maker (CODM). The Company's segments involve the delivery of business process services and include service arrangements where it manages a customer's business activity or process.

In the first quarter of 2022, the Company realigned certain clients between reportable segments to reflect how the Company currently manages its business. Certain clients were reclassified from the Government Services reportable segment to the Commercial reportable segment to align with a product view of the business. Additionally, in the first quarter of 2022, in order to provide greater visibility into the profitability of the Company's segments, certain real estate costs that were previously included in Unallocated Costs have been allocated to each of the reportable segments.

As described in Note 5 – Assets/Liabilities Held for Sale and Divestiture, the Company sold its Midas Suite of patient safety, quality and advanced analytics solutions to a third party in the first quarter of 2022. Accordingly, the results of this disposed business, which had previously been reported in the Commercial segment have been reclassified to the Divestitures segment. All prior periods presented have been recast to reflect these changes.

The Company's financial performance is based on Segment Profit/(Loss) for its three reportable segments (Commercial, Government Services and Transportation), Divestitures and Unallocated Costs. The Company's CODM does not evaluate operating segments using discrete asset information.

Commercial: The Commercial segment provides business process services and customized solutions to clients in a variety of industries. Across the Commercial segment, the Company operates on its clients' behalf to deliver mission-critical solutions and services to reduce costs, improve efficiencies and enable revenue growth for the Company's clients and their consumers and employees.

Government Services: The Government Services segment provides government-centric business process services to U.S. federal, state and local and foreign governments for public assistance, health services, program administration, transaction processing and payment services. The solutions in this segment help governments respond to changing rules for eligibility and increasing citizen expectations.

Transportation: The Transportation segment provides systems and support, as well as revenue-generating services, to government clients. On behalf of government agencies and authorities in the transportation industry, the Company delivers mission-critical mobility and payment solutions that improve automation, interoperability and decision-making to streamline operations, increase revenue and reduce congestion while creating safer communities and seamless travel experiences for consumers.

Divestitures includes the Company's Midas Suite of patient safety, quality and advanced analytics solutions which it sold to a third party in the first quarter of 2022. Refer to Note 5 – Assets/Liabilities Held for Sale and Divestiture for additional information.

Unallocated Costs includes IT infrastructure costs that are shared by multiple reportable segments, enterprise application costs and certain corporate overhead expenses not directly attributable or allocated to the reportable segments.

Selected financial information for the Company's reportable segments was as follows:

	Three Months Ended September 30,					
(in millions)	Commercial	Government Services	Transportation	Divestitures	Unallocated Costs	Total
2022						
Revenue	$ 504	$ 291	$ 182	$ —	$ —	$ 977
Segment profit (loss)	$ 44	$ 79	$ 16	$ —	$ (87)	$ 52
2021						
Revenue	$ 493	$ 346	$ 180	$ 19	$ —	$ 1,038
Segment profit (loss)	$ 16	$ 125	$ 13	$ 11	$ (89)	$ 76

	Nine Months Ended September 30,					
(in millions)	Commercial	Government Services	Transportation	Divestitures	Unallocated Costs	Total
2022						
Revenue	$ 1,486	$ 856	$ 523	$ 7	$ —	$ 2,872
Segment profit (loss)	$ 94	$ 224	$ 40	$ 2	$ (218)	$ 142
2021						
Revenue	$ 1,493	$ 996	$ 549	$ 54	$ —	$ 3,092
Segment profit (loss)	$ 59	$ 320	$ 51	$ 27	$ (247)	$ 210

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
Segment Profit (Loss) Reconciliation to Pre-tax Income (Loss)	2022	2021	2022	2021
Income (Loss) Before Income Taxes	$ 23	$ 19	$ 238	$ 29
Reconciling items:				
Amortization of acquired intangible assets	2	31	11	103
Restructuring and related costs	4	10	24	31
Interest expense	22	12	59	38
(Gain) loss on divestitures and transaction costs	1	—	(159)	1
Litigation settlements (recoveries), net	—	—	(31)	2
Loss on extinguishment of debt	—	—	—	2
Other (income) expenses, net	—	4	—	4
Segment Pre-tax Income (Loss)	$ 52	$ 76	$ 142	$ 210

Refer to Note 3 – Revenue for additional information on disaggregated revenues of the reportable segments.

Note 5 – Assets/Liabilities Held for Sale and Divestiture

Assets/Liabilities Held for Sale

As of December 31, 2021, the sale of the Midas Suite of patient safety, quality and advanced analytics solutions to Symplr Software, Inc. had not yet closed. Accordingly, the assets and liabilities of this portfolio, collectively referred to as the Disposal Group, were reclassified as held for sale and measured at the lower of carrying value or fair value less costs to sell. As described below, the sale closed in the first quarter of 2022 and the assets and liabilities held for sale have been removed from the Company's Condensed Consolidated Balance Sheet.

Divestiture

On February 8, 2022, the Company completed the sale of its Midas Suite of patient safety, quality and advanced analytics solutions to Symplr Software, Inc. The Company received $321 million of cash consideration for this divestiture, subject to customary working capital adjustments. The working capital adjustments were settled during the second quarter of 2022 and were not material. The divestiture generated a pre-tax gain of $166 million, which is included in (Gain) loss on divestitures and transaction costs. The Company recorded approximately $62 million of income taxes in connection with the divestiture. The revenue generated by this business was $7 million for the nine months ended September 30, 2022 and $19 million and $54 million, respectively, for the three and nine months ended September 30, 2021. There was no revenue generated by this business for the three months ended September 30, 2022.

Note 6 – Goodwill

The following table presents the changes in the carrying amount of goodwill, by reportable segment:

(in millions)	Commercial	Government Services	Transportation	Total
Balance at December 31, 2021	$ 661	$ 617	$ 61	$ 1,339
Foreign currency translation	(33)	(7)	(13)	(53)
Balance at September 30, 2022	$ 628	$ 610	$ 48	$ 1,286
Gross goodwill	$ 2,181	$ 1,364	$ 628	$ 4,173
Accumulated impairment	(1,553)	(754)	(580)	(2,887)
Balance at September 30, 2022	$ 628	$ 610	$ 48	$ 1,286

In the third quarter of 2022, the Company performed its ongoing assessment to consider whether events or circumstances had occurred that could more likely than not reduce the fair value of a reporting unit below its carrying value. After evaluating and weighing all relevant events and circumstances, the Company concluded that it is not more likely than not that the fair values of any of its reporting units were less than their carrying values. Consequently, the Company determined that it was not necessary to perform an interim impairment test for any of its reporting units.

To the extent that: (i) the COVID-19 pandemic or a potential recession disrupts the economic environment, such as a decline in the performance of the reporting units or loss of a significant contract or multiple significant contracts, or (ii) interest rates continue to rise in response to persistent inflation, the fair value of one or more of the reporting units could fall below their carrying value, resulting in a goodwill impairment charge.

Note 7 – Restructuring Programs and Related Costs

The Company engages in a series of restructuring programs related to downsizing its employee base, exiting certain activities, outsourcing certain internal functions and engaging in other actions designed to reduce its cost structure and improve productivity. The implementation of the Company's operational efficiency improvement initiatives has reduced the Company's real estate footprint across all geographies and segments resulting in lease right-of-use asset impairments and other related costs. Also included in Restructuring and related costs are incremental, non-recurring costs related to the consolidation of the Company's data centers, which totaled $2 million and $4 million for the three months ended September 30, 2022 and 2021, respectively, and $9 million and $19 million for the nine months ended September 30, 2022 and 2021, respectively. Management continues to evaluate the Company's businesses, and in the future, there may be additional provisions for new plan initiatives and/or changes in previously recorded estimates as payments are made, or actions are completed.

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. In those geographies where the Company has either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, it recognizes employee severance costs when they are both probable and reasonably estimable. Asset impairment costs related to the reduction of our real estate footprint include impairment of operating lease right-of-use (ROU) assets and associated leasehold improvements.

A summary of the Company's restructuring program activity during the nine months ended September 30, 2022 and 2021 is as follows:

(in millions)	Severance and Related Costs	Termination and Other Costs	Asset Impairments	Total
Accrued Balance at December 31, 2021	$ 5	$ 1	$ —	$ 6
Provision	4	13	6	23
Changes in estimates	(1)	—	—	(1)
Total Net Current Period Charges[(1)]	3	13	6	22
Charges against reserve and currency	(7)	(14)	(6)	(27)
Accrued Balance at September 30, 2022	$ 1	$ —	$ —	$ 1

(in millions)	Severance and Related Costs	Termination and Other Costs	Asset Impairments	Total
Accrued Balance at December 31, 2020	$ 3	$ 3	$ —	$ 6
Provision	2	23	7	32
Changes in estimates	—	(4)	—	(4)
Total Net Current Period Charges[(1)]	2	19	7	28
Charges against reserve and currency	(4)	(21)	(7)	(32)
Accrued Balance at September 30, 2021	$ 1	$ 1	$ —	$ 2

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(1) Represents amounts recognized within the Consolidated Statements of Income (Loss) for the years shown.

In addition, the Company recorded professional support costs associated with the implementation of certain strategic transformation programs of $1 million for the three months ended September 30, 2021, and $2 million and $3 million for the nine months ended September 30, 2022 and 2021, respectively. The Company did not record any such costs for the three months ended September 30, 2022.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2022	2021	2022	2021
Commercial	$ 1	$ 1	$ 2	$ 3
Government Services	—	—	—	—
Transportation	—	—	—	—
Divestitures	—	—	—	—
Unallocated Costs[(1)]	3	8	20	25
Total Net Restructuring Charges	$ 4	$ 9	$ 22	$ 28

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(1) Represents costs related to the consolidation of the Company's data centers, operating lease ROU assets impairment, termination and other costs not allocated to the segments.

Note 8 – Debt

Long-term debt was as follows:

(in millions)	September 30, 2022	December 31, 2021
2021 Term loan A due 2026	$ 255	$ 265
2021 Term loan B due 2028	511	515
2021 Senior notes due 2029	520	520
2021 Revolving credit facility maturing 2026	—	100
Finance lease obligations	21	16
Other	22	24
Principal debt balance	1,329	1,440
Debt issuance costs and unamortized discounts	(24)	(27)
Less: current maturities	(33)	(30)
Total Long-term Debt	$ 1,272	$ 1,383

During the first quarter of 2022, the Company repaid $100 million that was outstanding as of December 31, 2021 under its 2021 Revolving Credit Facility maturing in 2026 (Revolver). As of September 30, 2022, the Company had no outstanding borrowings under its Revolver. However, the Company utilized $2 million of the Revolver to issue letters of credit as of September 30, 2022. The net Revolver available to be drawn upon as of September 30, 2022 was $548 million.

At September 30, 2022, the Company was in compliance with all debt covenants related to the borrowings in the table above.

Note 9 – Financial Instruments

The Company is a global company that is exposed to foreign currency exchange rate fluctuations in the normal course of its business. As a part of the Company's foreign exchange risk management strategy, the Company uses derivative instruments, primarily forward contracts, to hedge the funding of foreign entities which have a non-dollar functional currency, thereby reducing volatility of earnings or protecting fair values of assets and liabilities.

At September 30, 2022 and December 31, 2021, the Company had outstanding forward exchange contracts with gross notional values of $105 million and $150 million, respectively. At September 30, 2022, approximately 66% of these contracts mature within three months, 13% in three to six months, 16% in six to twelve months and 5% in greater than twelve months. Most of these foreign currency derivative contracts are designated as cash flow hedges and did not have a material impact on the Company's balance sheet, income statement or cash flows for the periods presented.

Refer to Note 10 – Fair Value of Financial Assets and Liabilities for additional information regarding the fair value of the Company's foreign exchange forward contracts.

Note 10 – Fair Value of Financial Assets and Liabilities

Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. U.S. GAAP established a hierarchy framework to classify the fair value based on the observability of significant inputs to the measurement. The levels of the fair value hierarchy are as follows:

Level 1: Fair value is determined using an unadjusted quoted price in an active market for identical assets or liabilities.

Level 2: Fair value is estimated using inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.

Level 3: Fair value is estimated using unobservable inputs that are significant to the fair value of the assets or liabilities.

Summary of Financial Assets and Liabilities Accounted for at Fair Value on a Recurring Basis

The following table represents assets and liabilities measured at fair value on a recurring basis. The basis for the measurement at fair value in all cases was Level 2.

(in millions)	September 30, 2022	December 31, 2021
Assets:		
Foreign exchange contract - forward	$ —	$ 1
Total Assets	$ —	$ 1
Liabilities:		
Foreign exchange contracts - forward	$ 3	$ 2
Total Liabilities	$ 3	$ 2

Summary of Other Financial Assets and Liabilities

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

	September 30, 2022		December 31, 2021	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Long-term debt	$ 1,272	$ 1,145	$ 1,383	$ 1,374

The fair value amounts for Cash and cash equivalents, Restricted cash, Accounts receivable, net and Short-term debt approximate carrying amounts due to the short-term maturities of these instruments.

The fair value of Long-term debt was estimated using quoted market prices for identical or similar instruments (Level 2 inputs).

Note 11 – Employee Benefit Plans

The Company has post-retirement savings and investment plans in several countries, including the U.S., U.K. and Canada. In many instances, employees participating in 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 permitted to contribute a portion of their salaries and bonuses to the plans. The Company, at its discretion, matches a portion of employee contributions.

The Company recognized an expense related to its defined contribution plans of $4 million and $6 million for the three months ended September 30, 2022 and 2021, respectively and $12 million and $16 million for the nine months ended September 30, 2022 and 2021, respectively. The balance sheet and income statement impacts of any remaining defined benefit plans are immaterial for all periods presented in these Condensed Consolidated Financial Statements.

Note 12 – Accumulated Other Comprehensive Loss (AOCL)

Below are the balances and changes in AOCL[(1)]:

(in millions)	Currency Translation Adjustments	Gains (Losses) on Cash Flow Hedges	Defined Benefit Pension Items	Total
Balance at December 31, 2021	$ (431)	$ 2	$ —	$ (429)
Other comprehensive income (loss)	(82)	(2)	—	(84)
Balance at September 30, 2022	$ (513)	$ —	$ —	$ (513)

(in millions)	Currency Translation Adjustments	Gains (Losses) on Cash Flow Hedges	Defined Benefit Pension Items	Total
Balance at December 31, 2020	$ (400)	$ 3	$ (1)	$ (398)
Other comprehensive income (loss)	(23)	(1)	(1)	(25)
Balance at September 30, 2021	$ (423)	$ 2	$ (2)	$ (423)

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(1) All amounts are net of tax. Tax effects were immaterial.

Note 13 – Contingencies and Litigation

As more fully discussed below, the Company is involved in a variety of claims, lawsuits, investigations and proceedings concerning a variety of matters, including: governmental entity contracting, servicing and procurement law; intellectual property law; employment law; commercial and contracts law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations. The Company determines whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. The Company assesses its potential liability by analyzing its litigation and regulatory matters using available information. The Company develops its view on estimated losses in consultation with outside counsel handling its 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 the Company's 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 in excess of any accrual for such matter or matters, this could have a material adverse effect on the Company's results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs. The Company believes it has recorded adequate provisions for any such matters as of September 30, 2022. Litigation is inherently unpredictable, and it is not possible to predict the ultimate outcome of these matters and such outcome in any such matters could be more than any amounts accrued and could be material to the Company's results of operations, cash flows or financial position in any reporting period.

Additionally, guarantees, indemnifications and claims arise during the ordinary course of business from relationships with suppliers, customers and non-consolidated affiliates 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 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 September 30, 2022, the Company had accrued its estimate of liability incurred under its indemnification arrangements and guarantees.

Litigation Against the Company

Employees' Retirement System of the Puerto Rico Electric Power Authority et al v. Conduent Inc. et al.: On March 8, 2019, a putative class action lawsuit alleging violations of certain federal securities laws in connection with our statements and alleged omissions regarding our financial guidance and business and operations was filed against us, our former Chief Executive Officer, and our former Chief Financial Officer in the United States District Court for the District of New Jersey. The complaint seeks certification of a class of all persons who purchased or otherwise acquired our securities from February 21, 2018 through November 6, 2018, and also seeks unspecified monetary damages, costs, and attorneys' fees. We moved to dismiss the class action complaint in its entirety. In June 2020, the court denied the motion to dismiss and allowed the claims to proceed. The Court granted Class Certification on February 28, 2022. Upon the substantial completion of document discovery, the parties agreed to engage in mediation, and the Court administratively terminated the litigation to permit those efforts to proceed. Without any admission of liability or damages, in the third quarter of 2022, the parties settled this matter following that mediation, and are preparing the necessary documentation for approval by the court, class notice, and the claims administration process. The Company maintains insurance that will cover the costs arising out of this litigation and resulting settlement subject to meeting the deductible and other terms and conditions thereof. Until the court approves the documentation for the settlement, the Company is not able to determine or predict the ultimate outcome of this proceeding or reasonably provide an estimate or range of estimate of the possible outcome or loss, if any, in excess of currently recorded reserves.

Skyview Capital LLC and Continuum Global Solutions, LLC v. Conduent Business Services, LLC: On February 3, 2020, plaintiffs filed a lawsuit in the Superior Court of New York County, New York. The lawsuit relates to the sale of a portion of Conduent Business Service, LLC's (CBS) select standalone customer care call center business to plaintiffs, which sale closed in February 2019. Under the terms of the sale agreement, CBS received approximately $23 million of notes from plaintiffs (Notes). The lawsuit alleges various causes of action in connection with the acquisition, including: indemnification for breach of representation and warranty; indemnification for breach of contract and fraud. Plaintiffs allege that their obligation to mitigate damages and their contractual right of set-off permits them to withhold and deduct from any amounts that are owed to CBS under the Notes, and plaintiffs seek a judgement that they have no obligation to pay the Notes. On August 20, 2020, Conduent filed a counterclaim against Skyview LLC (Skyview) seeking the outstanding balance on the Notes, the amounts owed for the Jamaica deferred closing, and other transition services agreement and late rent payment obligations. Conduent also moved to dismiss Skyview's claims in 2020. In May 2021, the court denied the motion and allowed the claims to proceed. Conduent denies all of the plaintiffs' allegations, believes that it has strong defenses to all of plaintiffs' claims, and it intends to defend the litigation vigorously. The Company is not able to determine or predict the ultimate outcome of this proceeding or reasonably provide an estimate or range of estimate of the possible outcome or loss, if any, in excess of currently recorded reserves.

Dennis Nasrawi v. Buck Consultants et al.: On October 8, 2009, plaintiffs filed a lawsuit in the Superior Court of California, Stanislaus County, and on November 24, 2009, the case was removed to the U.S. Court for the Eastern District of California, Fresno Division. Plaintiffs alleged actuarial negligence against Buck Consultants, LLC (Buck), which was a wholly-owned subsidiary of Conduent, for the use of faulty actuarial assumptions in connection with the 2007 actuarial valuation for the Stanislaus County Employees Retirement Association (StanCERA). Plaintiffs alleged that the employer contribution rate adopted by StanCERA based on Buck's valuation was insufficient to fund the benefits promised by the County. On July 13, 2012, the Court entered its ruling that the plaintiffs lacked standing to sue in a representative capacity on behalf of all plan participants. The Court also ruled that plaintiffs had adequately pleaded their claim that Buck allegedly aided and abetted StanCERA in breaching its fiduciary duty. Plaintiffs then filed their Fifth Amended Complaint and added StanCERA to the litigation. Buck and StanCERA filed demurrers to the amended complaint. On September 13, 2012, the Court sustained both demurrers with prejudice, completely dismissing the matter and barring plaintiffs from refiling their claims. Plaintiffs appealed, and ultimately the California Court of Appeals (Sixth District) reversed the trial court's ruling and remanded the case back to the trial court as to Buck only, and only with respect to plaintiff's claim of aiding and abetting StanCERA in breaching its fiduciary duty. This case was stayed pending the outcome of parallel litigation the plaintiffs were pursuing against StanCERA. The parallel litigation was tried before the bench in June 2018, and on January 24, 2019, the Court found in favor of StanCERA, holding that it had not breached its fiduciary duty to plaintiffs. In August 2018, the Company sold Buck; however, the Company retained this liability after the sale. On April 26, 2019, plaintiffs in the parallel litigation filed an appeal. On December 8, 2021, the appellate court affirmed the trial court's decision, and the judgment became final on January 7, 2022. On January 18, 2022, Plaintiffs in the parallel litigation filed a petition for review to the California Supreme Court. On March 16, 2022, the California Supreme Court denied Plaintiffs' petition, thereby foreclosing further avenues for Plaintiffs. Plaintiffs filed their Notice of Dismissal, which the Court entered on March 22, 2022. As a result, during the first quarter of 2022, the Company reversed the reserve pertaining to this matter.

Conduent Business Services, LLC v. Cognizant Business Services Corporation: On April 12, 2017, CBS filed a lawsuit against Cognizant Business Services Corporation (Cognizant) in the Supreme Court of New York County, New York. The lawsuit relates to the Amended and Restated Master Outsourcing Services Agreement effective as of October 24, 2012, and the service delivery contracts and work orders thereunder, between CBS and Cognizant, as amended and supplemented (Contract). The Contract contains certain minimum purchase obligations by CBS through the date of expiration. The lawsuit alleges that Cognizant committed multiple breaches of the Contract, including Cognizant's failure to properly perform its obligations as subcontractor to CBS under CBS's contract with the New York Department of Health to provide Medicaid Management Information Systems. In the lawsuit, CBS seeks damages in excess of $150 million. During the first quarter of 2018, CBS provided notice to Cognizant that it was terminating the Contract for cause and recorded in the same period certain charges associated with the termination. CBS also alleges that it terminated the Contract for cause, because, among other things, Cognizant violated the Foreign Corrupt Practices Act. In its answer, Cognizant asserted two counterclaims for breach of contract seeking recovery of damages in excess of $47 million, which includes amounts alleged not paid to Cognizant under the Contract and an alleged $25 million termination fee. Cognizant's second amended counterclaim increased Cognizant's damages to $89 million. The matter has been proceeding through fact and expert discovery. CBS will continue to vigorously defend itself against the counterclaims but the Company is not able to determine or predict the ultimate outcome of this proceeding or reasonably provide an estimate or range of estimate of the possible outcome or loss, if any, in excess of currently recorded reserves.

Other Matters

During the first quarter of 2022, the Company entered into settlement agreements with six of its insurers under its 2012–2013 errors and omission insurance policy in which the Company agreed to resolve its claims for insurance coverage in connection with the previously disclosed State of Texas matter that settled in February 2019, as included in the Company's Annual Report on Form 10-K for the year ended December 31, 2020. As a result of the settlement agreements entered with the insurers, the Company received an aggregate sum of $38 million, of which $14 million was recognized as defense costs recovery in Selling, general and administrative and $24 million was recognized in Litigation settlements (recoveries), net.

Since 2014, Xerox Education Services, Inc. (XES) has cooperated with several federal and state agencies regarding a variety of matters, including XES' self-disclosure to the U.S. Department of Education (Department) and the Consumer Financial Protection Bureau (CFPB) that some third-party student loans under outsourcing arrangements for various financial institutions required adjustments. With the exception of one remaining state attorney general inquiry, the Company has resolved all investigations by the CFPB, several state agencies, the Department and the U.S. Department of Justice. The Company cannot provide assurance that the CFPB, another regulator, a financial institution on behalf of which XES serviced third-party student loans, or another party will not ultimately commence a legal action against XES in which fines, penalties or other liabilities are sought from XES. Nor is the Company able to predict the likely outcome of these matters, should any such matter be commenced, or reasonably provide an estimate or range of estimates of any loss in excess of currently recorded reserves. The Company could, in future periods, incur judgments or enter into settlements to resolve these potential matters for amounts in excess of current reserves and there could be a material adverse effect on the Company's results of operations, cash flows and financial position in the period in which such change in judgment or settlement occurs.

Other Contingencies

Certain contracts, primarily in the Company's Government Services and Transportation segments, require the Company to provide a surety bond or a letter of credit as a guarantee of performance. As of September 30, 2022, the Company had $565 million of outstanding surety bonds issued to secure its performance of contractual obligations with its clients and $91 million of outstanding letters of credit issued to secure the Company's performance of contractual obligations to its clients as well as other corporate obligations. In general, the Company would only be liable for these guarantees in the event of default in the Company's performance of its obligations under each contract. The Company believes it has sufficient capacity in the surety markets and liquidity from its cash flow and its various credit arrangements to allow it to respond to future requests for proposals that require such credit support.

Note 14 – Preferred Stock

Series A Preferred Stock

In December 2016, the Company issued 120,000 shares of Series A convertible perpetual preferred stock with an aggregate liquidation preference of $120 million and an initial fair value of $142 million. The convertible preferred stock earns quarterly cash dividends at a rate of 8% per year ($9.6 million per year). Each share of convertible preferred stock is convertible at any time, at the option of the holder, into 44.9438 shares of common stock for a total of 5,393,000 shares (reflecting an initial conversion price of approximately $22.25 per share of common stock), subject to customary anti-dilution adjustments.

Note 15 – Earnings (Loss) per Share

The Company did not declare any common stock dividends in the periods presented.

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

(in millions, except per share data in whole dollars and shares in thousands)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Basic Net Earnings (Loss) per Share:				
Net Income (Loss)	$ 15	$ 11	$ 151	$ 12
Dividend - Preferred Stock	(2)	(2)	(7)	(7)
Adjusted Net Income (Loss) Available to Common Shareholders - Basic	$ 13	$ 9	$ 144	$ 5
Diluted Net Earnings (Loss) per Share:				
Net Income (Loss)	$ 15	$ 11	$ 151	$ 12
Dividend - Preferred Stock	(2)	(2)	(7)	(7)
Adjusted Net Income (Loss) Available to Common Shareholders - Diluted	$ 13	$ 9	$ 144	$ 5
Weighted Average Common Shares Outstanding - Basic	215,775	212,633	215,632	212,438
Common Shares Issuable With Respect To:				
Restricted Stock And Performance Units / Shares	3,668	7,184	3,384	7,239
8% Convertible Preferred Stock	—	—	—	—
Weighted Average Common Shares Outstanding - Diluted	219,443	219,817	219,016	219,677
Net Earnings (Loss) per Share:				
Basic	$ 0.06	$ 0.04	$ 0.67	$ 0.02
Diluted	$ 0.06	$ 0.04	$ 0.66	$ 0.02
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):				
Restricted stock and performance shares/units	5,717	3,606	5,705	2,229
Convertible preferred stock	5,393	5,393	5,393	5,393
Total Anti-Dilutive and Contingently Issuable Securities	11,110	8,999	11,098	7,622

Note 16 – Supplementary Financial Information

The components of Other assets and Other liabilities were as follows:

(in millions)	September 30, 2022	December 31, 2021
Other Current Assets		
Prepaid expenses	$ 95	$ 84
Income taxes receivable	41	46
Value-added tax (VAT) receivable	12	12
Restricted cash	10	5
Current portion of capitalized cloud computing implementation costs, net	5	6
Other	87	75
Total Other Current Assets	$ 250	$ 228
Other Current Liabilities		
Accrued liabilities	$ 225	$ 246
Litigation related accruals	42	64
Current operating lease liabilities	60	71
Restructuring liabilities	1	6
Income tax payable	3	10
Other taxes payable	18	14
Accrued interest	17	10
Other	29	22
Total Other Current Liabilities	$ 395	$ 443
Other Long-term Assets		
Internal use software, net	$ 192	$ 181
Deferred contract costs, net	80	73
Product software, net	102	93
Cloud computing implementation costs, net	5	8
Other	107	98
Total Other Long-term Assets	$ 486	$ 453
Other Long-term Liabilities		
Income tax liabilities	13	15
Unearned income	44	48
Other	27	32
Total Other Long-term Liabilities	$ 84	$ 95

Note 17 – Related Party Transactions

In the normal course of business, the Company provides services to, and purchases from, certain related parties with the same shareholders. The services provided to these entities included those related to human resources, end-user support and other services and solutions. The purchases from these entities included office equipment and related services and supplies. Revenue and purchases from these entities were included in Revenue and Costs of services or Selling, general and administrative, respectively, on the Company's Condensed Consolidated Statements of Income (Loss).

Transactions with related parties were as follows:

(in millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Revenue from related parties	$ 2	$ 3	$ 8	$ 12
Purchases from related parties	$ 7	$ 6	$ 20	$ 22

The Company's receivable and payable balances with related party entities were not material as of September 30, 2022 and December 31, 2021.

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

The following Management's Discussion and Analysis (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors that may affect our future results. Unless otherwise noted, transactions and other factors significantly impacting our financial condition, results of operations and liquidity are discussed in order of magnitude. Our MD&A is presented in six sections:

- Overview;
- Financial Information and Analysis of Results of Operations;
- Metrics;
- Capital Resources and Liquidity;
- Critical Accounting Estimates and Policies; and
- Recent Accounting Changes.

The MD&A is provided as a supplement to, and should be read in conjunction with, our Condensed Consolidated Financial Statements and the accompanying Notes.

Overview

We are a leading provider of business process services with expertise in transaction-intensive processing, analytics and automation. We serve as a trusted business partner in both the front office and back office, enabling personalized, seamless interactions on a massive scale that improve end-user experience.

Headquartered in Florham Park, New Jersey, we have a team of approximately 62,000 associates as of September 30, 2022, servicing customers from service centers in 24 countries.

Our reportable segments correspond to how we organize and manage the business and are aligned to the solutions we offer our clients.

We organize and manage our businesses through three reportable segments.

- **Commercial** – Our Commercial segment provides business process services and customized solutions to clients in a variety of industries. Across the Commercial segment, we operate on our clients' behalf to deliver mission-critical solutions and services to reduce costs, improve efficiencies and enable revenue growth for our clients and their consumers and employees.

- **Government Services** – Our Government Services segment provides government-centric business process services to U.S. federal, state and local and foreign governments for public assistance, health services, program administration, transaction processing and payment services. Our solutions in this segment help governments respond to changing rules for eligibility and increasing citizen expectations.

- **Transportation** – Our Transportation segment provides systems and support, as well as revenue-generating services, to government clients. On behalf of government agencies and authorities in the transportation industry, we deliver mission-critical mobility and payment solutions that improve automation, interoperability and decision-making to streamline operations, increase revenue and reduce congestion while creating safer communities and seamless travel experiences for consumers.

Executive Summary

We continue to transform our business through an intense focus on growth, quality, and efficiency – utilizing a programmatic and project management approach. Beginning in the first quarter of 2020 and through the third quarter of 2022, we have expanded the focus of our project portfolio to include both efficiency and growth initiatives, aimed to position the company to pivot to revenue growth and margin expansion over time.

We intend to drive portfolio focus, operating discipline, sales and delivery excellence and innovation, complemented by tightly aligned investments to achieve this mission and purpose. Our strategy is designed to deliver value by delivering profitable growth, expanding operating margins and deploying a disciplined capital allocation strategy. During the nine months ended September 30, 2022, our strategy is showing results, including the following:

- Net income of $151 million for the nine months ended September 30, 2022 as compared to net income of $12 million for the same period in the prior year.
- Two of our three segments posting revenue growth for the quarter, including the first quarter of year-over-year revenue growth for the Commercial segment since the spin-off of Conduent as a separate public company.
- New Business annual contract value (ACV) of $191 million in the third quarter increased for the fifth consecutive quarter, with proportional contributions from all segments.
- Annual recurring revenue signings of $296 million for the nine months ended September 30, 2022 is substantially unchanged compared to the prior year.
- Renewal TCV of $1,896 million for the nine months ended September 30, 2022 is 38% higher than the same period in the prior year.

Macroeconomic and Geopolitical Uncertainty

Given the nature of our business and our global operations, the effects of global macroeconomic and geopolitical uncertainty, including COVID-19 pandemic related factors (as discussed in more detail below) could have a materially adverse effect on our business, results of operations and financial condition.

COVID-19 Pandemic

Throughout the COVID-19 pandemic, we have continued to provide critical and best-in-class services to our customers and their end-users, while ensuring the health and safety of our greatest assets - our associates. To address the potential impact to our business over the near-term, our Business Continuity team established a proactive plan in the first quarter of 2020 that has continued throughout the pandemic, which includes:

- Supporting our associates with a number of specific initiatives, including making improvements to our policies to extend short-term disability, providing extra supplemental sick leave coverage and introducing a hardship leave policy.
- Increased sanitation and social distancing for on-site essential associates.

At the end of the third quarter of 2022, we continued to have most of our workforce in either a work-from-home or hybrid environment. We will continue to assess when to bring associates back to our offices, as appropriate, based on the specific COVID-19 conditions in certain geographies, as well as business requirements.

As the pandemic continues, we may revise our approach to these initiatives or take additional actions to meet the needs of our employees, customers and their end-users as well as the Company's needs and to continue to provide our mission-critical services and solutions.

Financial Review of Operations

($ in millions)	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021	2022 vs. 2021 $ Change	2022 vs. 2021 % Change
Revenue	$ 977	$ 1,038	$ (61)	(6)%
Operating Costs and Expenses				
Cost of services (excluding depreciation and amortization)	754	776	(22)	(3)%
Selling, general and administrative (excluding depreciation and amortization)	117	131	(14)	(11)%
Research and development (excluding depreciation and amortization)	2	2	—	— %
Depreciation and amortization	54	84	(30)	(36)%
Restructuring and related costs	4	10	(6)	(60)%
Interest expense	22	12	10	83 %
(Gain) loss on divestitures and transaction costs	1	—	1	n/m
Litigation settlements (recoveries), net	—	—	—	n/m
Loss on extinguishment of debt	—	—	—	n/m
Other (income) expenses, net	—	4	(4)	n/m
Total Operating Costs and Expenses	954	1,019	(65)	
Income (Loss) Before Income Taxes	23	19	4	
Income tax expense (benefit)	8	8	—	
Net Income (Loss)	$ 15	$ 11	$ 4	

($ in millions)	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021	2022 vs. 2021 $ Change	2022 vs. 2021 % Change
Revenue	$ 2,872	$ 3,092	$ (220)	(7)%
Operating Costs and Expenses				
Cost of services (excluding depreciation and amortization)	2,236	2,335	(99)	(4)%
Selling, general and administrative (excluding depreciation and amortization)	332	382	(50)	(13)%
Research and development (excluding depreciation and amortization)	5	3	2	67 %
Depreciation and amortization	168	265	(97)	(37)%
Restructuring and related costs	24	31	(7)	(23)%
Interest expense	59	38	21	55 %
(Gain) loss on divestitures and transaction costs	(159)	1	(160)	n/m
Litigation settlements (recoveries), net	(31)	2	(33)	n/m
Loss on extinguishment of debt	—	2	(2)	n/m
Other (income) expenses, net	—	4	(4)	n/m
Total Operating Costs and Expenses	2,634	3,063	(429)	
Income (Loss) Before Income Taxes	238	29	209	
Income tax expense (benefit)	87	17	70	
Net Income (Loss)	$ 151	$ 12	$ 139	

Revenue

Revenue for the three and nine months ended September 30, 2022 decreased, compared to the prior year periods, primarily due to lower federal stimulus revenue in the Government Services segment, lost business from prior years, as well as negative foreign exchange translation impact, particularly the Euro and British pound, partially offset by recognition of a $15 million revenue benefit associated with a minimum annual volume commitment contract with a large client, higher interest rates positively impacting our Benefit Wallet business and new business ramp across all segments.

Cost of Services (excluding depreciation and amortization)

Cost of services for the three and nine months ended September 30, 2022 decreased, compared to the prior year periods, driven by lost business from prior years, increased operational efficiency and favorable foreign exchange translation impact.

Selling, General and Administrative (SG&A) (excluding depreciation and amortization)

SG&A for the three months ended September 30, 2022 decreased, compared to the prior year period, driven by progress in our efficiency initiatives, most notably within shared technology infrastructure, as well as lower variable employee costs.

SG&A for the nine months ended September 30, 2022 decreased, compared to the prior year period, primarily driven by the recovery of $14 million of defense costs as part of the settlement with insurance carriers relating to the previously disclosed State of Texas matter, progress in our efficiency initiatives, most notably within shared technology infrastructure, as well as lower variable employee costs.

Depreciation and Amortization

Depreciation and amortization for the three and nine months ended September 30, 2022 decreased, compared to the prior year periods, primarily due to portions of certain customer relationship intangible assets from acquisitions in years past being fully amortized.

Restructuring and Related Costs

We engage in a series of restructuring programs related to optimizing our employee base, reducing our real estate footprint, exiting certain activities, outsourcing certain internal functions, consolidating our data centers and engaging in other actions designed to reduce our cost structure and improve productivity. The following are the components of our Restructuring and related costs:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2022	2021	2022	2021
Severance and related costs	$ 2	$ —	$ 3	$ 2
Data center consolidation	2	4	9	19
Termination and asset impairment costs	—	5	10	7
Total net current period charges	4	9	22	28
Consulting and other costs[1]	—	1	2	3
Restructuring and related costs	$ 4	$ 10	$ 24	$ 31

(1) *Represents professional support costs associated with certain strategic transformation programs.*

Refer to Note 7 – Restructuring Programs and Related Costs to the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Interest Expense

Interest expense represents interest on long-term debt and the amortization of debt issuance costs. On October 15, 2021, we completed the refinancing of our previously outstanding debt, which extended the maturity profile of our debt. The increase in Interest expense for the three and nine months ended September 30, 2022, compared to the prior year periods, was driven by higher interest rates on our refinanced credit facilities, partially offset by a lower total outstanding debt balance.

(Gain) Loss on Divestitures and Transaction Costs

The divestiture of the Midas business in the first quarter of 2022 resulted in a gain of $166 million. Additionally, professional fees and other costs related to certain consummated and non-consummated transactions considered by the Company are included in this financial statement line item.

Litigation Settlements (Recoveries), Net

Litigation settlements (recoveries), net for the nine months ended September 30, 2022 primarily consist of $24 million of insurance recoveries recorded in the first quarter of 2022 related to the previously disclosed State of Texas matter.

Refer to Note 13 – Contingencies and Litigation to the Condensed Consolidated Financial Statements for additional information.

Income Taxes

The effective tax rate for the three months ended September 30, 2022 was 33.8%, compared to 38.3% for the three months ended September 30, 2021. The September 30, 2022 rate was higher than the U.S. statutory rate of 21%, primarily due to charges related to return to provision adjustments for 2021 and charges of valuation allowances partially offset by changes in the geographic mix of income.

The effective tax rate for the three months ended September 30, 2021 was higher than the U.S. statutory rate of 21%, primarily due to the geographic mix of income, permanent book-tax differences and valuation allowances, partially offset by a benefit attributable to the return to provision adjustment for 2020.

Excluding the impact of discrete tax adjustments, amortization of intangible assets and restructuring costs, the normalized effective tax rate for the three months ended September 30, 2022 was 27.5%. The normalized effective tax rate for the three months ended September 30, 2021 was 30.4%, predominantly due to excluding the impact of discrete tax adjustments, amortization of intangible assets and restructuring costs. The normalized effective tax rate for the third quarter of 2022 was lower than the third quarter of 2021 rate primarily due to the geographic mix of income.

The effective tax rate for the nine months ended September 30, 2022 was 36.7%, compared to 58.5% for the nine months ended September 30, 2021. The September 30, 2022 rate was higher than the U.S. statutory rate of 21%, primarily due to the geographic mix of income, state and local taxes and permanently non-deductible amounts related to the Midas divestiture transaction, partially offset by the tax benefit of valuation allowances released due to the gain from this divestiture and tax credits.

The effective tax rate for the nine months ended September 30, 2021 was higher than the U.S. statutory rate of 21%, primarily due to the geographic mix of income, permanent book-tax differences, valuation allowances, and tax audit reserves, partially offset by tax credits.

Excluding the impact of the Midas divestiture, the litigation insurance recoveries, amortization of intangible assets, restructuring costs and certain discrete tax items, the normalized effective tax rate for the nine months ended September 30, 2022 was 32.4%. The normalized effective tax rate for the nine months ended September 30, 2021 was 26.8%, predominantly due to excluding the impact of discrete tax adjustments, charges for amortization of intangible assets and restructuring costs. The normalized effective tax rate for the year-to-date September 30, 2022 was higher than the year-to-date September 30, 2021 rate predominantly due to the geographic mix of income, increase in permanent tax differences and lower adjusted pre-tax income.

We believe it is reasonably possible that unrecognized tax benefits of approximately $3 million will reverse within 12 months due to settlements. A payment of $8 million was made in June 2022 decreasing unrecognized tax benefits.

On August 16, 2022, the Inflation Reduction Act (IRA) was enacted. The law imposes two new taxes: (i) 15% corporate alternative minimum tax (CAMT) on adjusted financial statement income of corporations with profits over $1 billion, which is effective for tax years beginning after December 31, 2022, and (ii) a 1% surcharge on corporate stock buybacks of public US companies, which applies to repurchases of stock after December 31, 2022. We do not expect any material impacts from this tax law change.

Operations Review of Segment Revenue and Profit

In the first quarter of 2022, we realigned certain clients between reportable segments to reflect how we currently manage our business. Certain clients were reclassified from the Government Services reportable segment to the Commercial reportable segment to align with a product view of the business. This change had an insignificant impact. Additionally, in the first quarter of 2022, in order to provide greater visibility into the profitability of our segments, certain real estate costs that were previously included in Unallocated Costs have been allocated to each of the reportable segments. As described in Note 5 – Assets/Liabilities Held for Sale and Divestiture, we sold our Midas Suite of patient safety, quality and advanced analytics solutions to a third party in the first quarter of 2022. Accordingly, the results of this disposed business, which had been reported in the Commercial segment have been reclassified to the Divestitures segment. All prior periods presented have been recast to reflect these changes.

Our financial performance is based on Segment Profit/(Loss) and Segment Adjusted EBITDA for the following three segments:

- Commercial;
- Government Services; and
- Transportation.

Divestitures includes our Midas business which was sold in the first quarter of 2022.

Unallocated Costs includes IT infrastructure costs that are shared by multiple reportable segments, enterprise application costs and certain corporate overhead expenses not directly attributable or allocated to our reportable segments.

We continue to modernize a significant portion of our infrastructure with new systems and processes and consolidate our data centers as part of our quality and efficiency initiatives. There is a risk, however, that our modernization efforts and data center consolidations could materially and adversely disrupt our operations. See Part I, Item 1A – Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2021 for additional information.

Results of financial performance by segment were:

(in millions)	Three Months Ended September 30, Commercial	Government Services	Transportation	Divestitures	Unallocated Costs	Total
2022						
Revenue	$ 504	$ 291	$ 182	$ —	$ —	$ 977
Segment profit (loss)	$ 44	$ 79	$ 16	$ —	$ (87)	$ 52
Segment depreciation and amortization	$ 24	$ 9	$ 9	$ —	$ 11	$ 53
Adjusted EBITDA	$ 68	$ 88	$ 25	$ —	$ (76)	$ 105
% of Total Revenue	51.6 %	29.8 %	18.6 %	— %	— %	100.0 %
Adjusted EBITDA Margin	13.5 %	30.2 %	13.7 %	— %	— %	10.7 %
2021						
Revenue	$ 493	$ 346	$ 180	$ 19	$ —	$ 1,038
Segment profit (loss)	$ 16	$ 125	$ 13	$ 11	$ (89)	$ 76
Segment depreciation and amortization	$ 24	$ 8	$ 9	$ 1	$ 12	$ 54
Adjusted EBITDA	$ 40	$ 133	$ 22	$ 12	$ (77)	$ 130
% of Total Revenue	47.5 %	33.4 %	17.3 %	1.8 %	— %	100.0 %
Adjusted EBITDA Margin	8.1 %	38.4 %	12.2 %	47.1 %	— %	12.5 %

(in millions)	Nine Months Ended September 30, Commercial	Government Services	Transportation	Divestitures	Unallocated Costs	Total
2022						
Revenue	$ 1,486	$ 856	$ 523	$ 7	$ —	$ 2,872
Segment profit (loss)	$ 94	$ 224	$ 40	$ 2	$ (218)	$ 142
Segment depreciation and amortization	$ 74	$ 25	$ 26	$ —	$ 34	$ 159
Adjusted EBITDA	$ 168	$ 249	$ 66	$ 2	$ (184)	$ 301
% of Total Revenue	51.8 %	29.8 %	18.2 %	0.2 %	— %	100.0 %
Adjusted EBITDA Margin	11.3 %	29.1 %	12.6 %	28.6 %	— %	10.5 %
2021						
Revenue	$ 1,493	$ 996	$ 549	$ 54	$ —	$ 3,092
Segment profit (loss)	$ 59	$ 320	$ 51	$ 27	$ (247)	$ 210
Segment depreciation and amortization	$ 74	$ 21	$ 26	$ 3	$ 39	$ 163
Adjusted EBITDA	$ 133	$ 341	$ 77	$ 30	$ (208)	$ 373
% of Total Revenue	48.3 %	32.2 %	17.8 %	1.7 %	— %	100.0 %
Adjusted EBITDA Margin	8.9 %	34.2 %	14.0 %	51.4 %	— %	12.1 %

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
Segment Profit (Loss) Reconciliation to Pre-tax Income (Loss)	2022	2021	2022	2021
Income (Loss) Before Income Taxes	$ 23	$ 19	$ 238	$ 29
Reconciling items:				
Amortization of acquired intangible assets	2	31	11	103
Restructuring and related costs	4	10	24	31
Interest expense	22	12	59	38
(Gain) loss on divestitures and transaction costs	1	—	(159)	1
Litigation settlements (recoveries)	—	—	(31)	2
Loss on extinguishment of debt	—	—	—	2
Other (income) expenses, net	—	4	—	4
Segment Pre-tax Income (Loss)	$ 52	$ 76	$ 142	$ 210
Segment depreciation and amortization (including contract inducements)	$ 53	$ 54	$ 159	$ 163
Adjusted EBITDA	$ 105	$ 130	$ 301	$ 373

Commercial Segment

Revenue

Commercial revenue for the three months ended September 30, 2022 was higher compared to the prior year period primarily due to recognition of the revenue benefit associated with a minimum annual volume commitment contract with a large client, as well as higher interest rates positively impacting our Benefit Wallet business, partially offset by unfavorable exchange rate movement.

Commercial revenue for the nine months ended September 30, 2022 was lower compared to the prior year periods, primarily due to the merger of two of our clients resulting in lower volumes as well as unfavorable exchange rate movement and lost business from prior years, partially offset by recognition of the revenue benefit associated with a minimum annual volume commitment contract with a large client, higher interest rates positively impacting our Benefit Wallet business and strong new business ramp.

Segment Profit and Adjusted EBITDA

Increases in the Commercial segment profit and adjusted EBITDA margin for the three and nine months ended September 30, 2022, compared to the prior year periods, were mainly driven by increased operational efficiency and expense reductions resulting from progress in our efficiency initiatives, higher interest rates positively impacting our Benefit Wallet business and recognition of the revenue benefit associated with a minimum annual volume commitment contract with a large client more than offsetting the dynamics of a challenging labor market in both North America and Europe.

Government Services Segment

Revenue

Government Services revenue for the three and nine months ended September 30, 2022 decreased, compared to the prior year periods. This decrease was primarily driven by significantly lower Federal stimulus revenue, while increases in volume, price and new business offset lost business from prior years.

Segment Profit and Adjusted EBITDA

Decreases in the Government Services segment profit and adjusted EBITDA margin for the three and nine months ended September 30, 2022, compared to the prior year periods, were mainly driven by lower Federal stimulus revenue.

Transportation Segment

Revenue

Transportation revenue for the three months ended September 30, 2022 increased slightly, compared to the prior year period, primarily driven by increased volumes offsetting the unfavorable exchange rate movement, particularly the Euro.

Transportation revenue for the nine months ended September 30, 2022 decreased, compared to the prior year period, primarily driven by unfavorable exchange rate movement, particularly the Euro, and a one-time revenue benefit in the prior year period.

Segment Profit and Adjusted EBITDA

Transportation segment profit and adjusted EBITDA margin for the three months ended September 30, 2022 increased primarily due to progress in our efficiency initiatives.

Transportation segment profit and adjusted EBITDA margin decreased for the nine months ended September 30, 2022, compared to the prior year period, mainly driven by the impact of lost business, a one-time item benefiting the prior year period and the impact of unfavorable exchange rate movement, partially offset by new business.

Divestitures

Revenue, Segment Profit (Loss) and Adjusted EBITDA

The decline in revenue, segment profit and Adjusted EBITDA for the three and nine months ended September 30, 2022 was primarily due to the sale of the Midas Suite of products. The current year includes slightly more than one month of activity versus the prior year, which includes a full nine months of activity.

Unallocated Costs

Unallocated Costs for the three months ended September 30, 2022 were substantially unchanged compared to the prior year period.

Unallocated Costs for the nine months ended September 30, 2022 decreased, compared to the prior year period, primarily due to a portion of the recovery of defense costs as part of the settlement with insurance carriers relating to the previously disclosed State of Texas matter that settled in February 2019 that was allocated to SG&A, progress with our efficiency initiatives and lower variable employee costs.

Metrics

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. TCV is the estimated total contractual revenue related to signed contracts. TCV signings is defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Due to the inconsistency of when existing contracts end, quarterly and yearly comparisons are not a good measure of renewal performance. New business ACV is calculated as TCV divided by the contract term, in months, multiplied by 12 for an annual measure.

For the three months ended September 30, 2022, the Company signed $191 million of new business ACV, an increase for the fifth consecutive quarter, with proportional contributions from all segments.

For the nine months ended September 30, 2022, the Company signed $538 million of new business ACV, down 13% from the prior year, primarily due to $158 million of federal stimulus signings and volume from a large client we no longer include in the sales metrics.

Signing information for the three and nine months ended September 30, 2022 and 2021 is as follows:

($ in millions)	Three Months Ended September 30, 2022[3]		Three Months Ended September 30, 2021[3]		2022 vs. 2021 $ Change		2022 vs. 2021 % Change
New business ACV	$	191	$	150	$	41	27 %
New business TCV	$	348	$	339	$	9	3 %
Renewals TCV		658		276		382	138 %
Total Signings	$	1,006	$	615	$	391	64 %
Annual recurring revenue signings[1]	$	89	$	86	$	3	3 %
Non-recurring revenue signings[2]	$	107	$	68	$	39	57 %

($ in millions)	Nine Months Ended September 30, 2022[3]		Nine Months Ended September 30, 2021[3]		2022 vs. 2021 $ Change		2022 vs. 2021 % Change
New business ACV	$	538	$	617	$	(79)	(13)%
New business TCV	$	1,208	$	1,462	$	(254)	(17)%
Renewals TCV		1,896		1,374		522	38 %
Total Signings	$	3,104	$	2,836	$	268	9 %
Annual recurring revenue signings[1]	$	296	$	294	$	2	1 %
Non-recurring revenue signings[2]	$	251	$	344	$	(93)	(27)%

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(1) Recurring revenue signings are for new business contracts longer than one year.

(2) Non-recurring revenue signings are for contracts shorter than one year.

(3) Adjusted to remove Midas new business signings.

The total new business pipeline at the end of September 30, 2022 and 2021 was $24.0 billion and $21.0 billion, respectively. Total new business pipeline is defined as total new business TCV pipeline of deals in all sell stages. This extends past the next twelve-month period to include total pipeline, excluding the impact of divested business as required.

Net ARR Activity

The Net ARR Activity metric is defined as Projected Annual Recurring Revenue for contracts signed in the prior 12 months, less the annualized impact of any client losses, contractual volume and price changes, and other known impacts for which the Company was notified in that same time period, which could positively or negatively impact results. The metric annualizes the net impact to revenue. Timing of revenue impact varies and may not be realized within the forward 12-month timeframe. The metric is for indicative purposes only. This metric excludes COVID-related volume impacts and non-recurring revenue signings. This metric is not indicative of any specific 12-month timeframe.

The Net ARR activity metric for the trailing twelve months for each of the prior five quarters was as follows:

(in millions)	Net ARR Activity metric	
September 30, 2022	$	70
June 30, 2022		104
March 31, 2022		102
December 31, 2021		128
September 30, 2021		132

Capital Resources and Liquidity

As of September 30, 2022 and December 31, 2021, total cash and cash equivalents were $577 million and $415 million, respectively. We also have a $550 million revolving line of credit for our various cash needs, of which $2 million was used for letters of credit. In the first quarter of 2022, we repaid $100 million that was outstanding as of December 31, 2021 under our revolving line of credit. The net amount available to be drawn upon under our revolving line of credit as of September 30, 2022, was $548 million.

As of September 30, 2022, our total debt outstanding was $1,272 million of which $33 million was due within one year. Refer to Note 7 – Debt in the Condensed Consolidated Financial Statements for additional debt information.

In order to provide financial flexibility and finance certain investments and projects, we may continue to utilize external financing arrangements. However, we believe that our cash on hand, projected cash flow from operations, sound balance sheet and our revolving line of credit will continue to provide sufficient financial resources to meet our expected business obligations for at least the next twelve months.

Cash Flow Analysis

The following table summarizes our cash flows, as reported in our Condensed Consolidated Statement of Cash Flows in the accompanying Condensed Consolidated Financial Statements:

	Nine Months Ended September 30,		
(in millions)	2022	2021	Better (Worse)
Net cash provided by (used in) operating activities	$ 93	$ 158	$ (65)
Net cash provided by (used in) investing activities	$ 216	$ (97)	313
Net cash provided by (used in) financing activities	$ (132)	$ (112)	(20)

Operating activities

The net decrease in cash generated from operating activities of $65 million, compared to the prior year period, was primarily related to lower Adjusted EBITDA, higher cash tax payments, which are mainly related to the Midas gain, and higher cash interest paid. These items were partially offset by the $38 million of insurance recoveries related to the previously disclosed State of Texas matter.

Investing activities

The increase in cash provided by investing activities of $313 million was primarily due to the proceeds from the divestiture of the Midas business, partially offset by slightly increased spending related to modernizing our infrastructure and productivity tools.

Financing activities

The increase in cash used in financing activities was primarily related to the repayment of the $100 million borrowed under the revolver partially offset by lower Term loan and Senior note principal payments.

Sales of Accounts Receivable

We enter into factoring agreements in the normal course of business as part of our cash and liquidity management, to sell certain accounts receivable without recourse to third-party financial institutions. During the third quarter of 2022, we replaced our previously outstanding factoring agreements with an agreement with a new third-party financial institution with substantially equivalent terms. The transactions under this agreement are treated as a sale and are accounted for as a reduction in accounts receivable because the agreement transfers effective control over, and risk related to, the receivables to the buyer. Cash proceeds from this arrangement are included in cash flow from operating activities in the Consolidated Statements of Cash Flows.

The net impact from the sales of accounts receivable on net cash provided by (used in) operating activities for the nine months ended September 30, 2022 and 2021 was $35 million and $(21) million, respectively.

Material Cash Requirements from Contractual Obligations

The Company believes its balances of cash and cash equivalents, which totaled $577 million as of September 30, 2022, along with cash generated by operations and amounts available for borrowing under its 2021 Revolving Credit Facility, will be sufficient to satisfy its cash requirements over the next 12 months and beyond.

At September 30, 2022, the Company’s material cash requirements include debt, leases and estimated purchase commitments. See Part II, Item 7 – Management's Discussion and Analysis of Financial Condition and Results of Operation of our Annual Report on Form 10-K for the year ended December 31, 2021 for additional information on our material cash requirements.

Critical Accounting Estimates and Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP) requires us to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying Condensed Consolidated Financial Statements and notes thereto. There have been no significant changes during the nine months ended September 30, 2022 to our critical accounting estimates and policies from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2021.

Recent Accounting Changes

See Note 2 – Recent Accounting Pronouncements for information on accounting standards adopted during the current year, as well as recently issued accounting standards not yet required to be adopted and the expected impact of the adoption of these accounting standards.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in foreign currency exchange 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. We may utilize derivative financial instruments to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates. We also may hedge the cost to fund material non-dollar entities by buying currencies periodically in advance of the funding date. This is accounted for using derivative accounting.

Recent market and economic events, including the effects of the COVID-19 pandemic, have not caused us to materially modify nor change our financial risk management strategies with respect to our exposures to foreign currency risk. Refer to Note 8 – Financial Instruments in the Condensed Consolidated Financial Statements for additional discussion on our financial risk management.

During the reporting period, there have been no material changes to the quantitative and qualitative disclosures regarding our market risk set forth in our Annual Report on Form 10-K for the year ended December 31, 2021.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company's management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act"), as of the end of the period covered by this Form 10-Q. 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 Form 10-Q, 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 Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms relating to the Company, including our consolidated subsidiaries, and was accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended September 30, 2022, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 13 – Contingencies and Litigation in the Condensed Consolidated Financial Statements of this Form 10-Q is incorporated herein by reference in answer to this Item.

ITEM 1A — RISK FACTORS

Reference is made to the Risk Factors set forth in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021. Below is an update to a risk factor as previously reported in our Annual Report on Form 10-K for the year ended December 31, 2021.

Our business may be adversely affected by geopolitical events, natural disasters and other factors that could directly impact certain of our employees, customers and vendors in countries or regions effected by such events and factors.

We have a global workforce and global customers. Our employees and customers in a particular country or region in the world may be impacted as a result of a variety of diversions, including: geopolitical events, such as war, the threat of war, or terrorist activity; natural disasters or the effects of climate change (such as drought, flooding, wildfires, increased storm severity, and sea level rise); power shortages or outages, major public health issues, including pandemics (such as the coronavirus); and significant local, national or global events capturing the attention of a large part of the population. As an example of a geopolitical event, in February 2022, Russian forces launched significant military action against Ukraine, which has resulted in conflict and disruptions in the region. To date, while we do not believe Russia's military action in Ukraine and governmental actions in response thereto have had a material impact on our business, financial position or operations, we continue to monitor the situation closely. If any of these, or any other factors, disrupt a country or region where we have a significant workforce (such as the U.S., India or the Philippines) or customers (such as the U.S. or Europe), or vendors, our business could be materially adversely affected.

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

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2022

During the quarter ended September 30, 2022, the Company did not issue any securities in transactions that were not registered under the Securities Act of 1933, as amended.

(b) Issuer Purchases of Equity Securities during the Quarter ended September 30, 2022

None.

ITEM 6 — EXHIBITS

3.1	Restated Certificate of Incorporation of Registrant filed with the Department of the State of New York on December 31, 2016.
	Incorporated by reference to Exhibit 3.1 to Registrant's Current Report on Form 8-K dated December 23, 2016.
3.2	Amended and Restated By-Laws of Registrant as amended through December 31, 2016.
	Incorporated by reference to Exhibit 3.2 to Registrant's Current Report on Form 8-K dated December 23, 2016.
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase.
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase.
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	Inline XBRL Taxonomy Extension Schema Linkbase.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

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

CONDUENT INCORPORATED
(Registrant)

By: /S/ STEPHEN WOOD

Stephen Wood
Chief Financial Officer
(Principal Financial Officer)

Date: November 1, 2022

CEO CERTIFICATIONS

I, Clifford Skelton, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Conduent Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2022

/s/ CLIFFORD SKELTON

Clifford Skelton
Principal Executive Officer

CFO CERTIFICATIONS

I, Stephen Wood, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Conduent Incorporated;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 1, 2022

/s/ STEPHEN WOOD

Stephen Wood
Principal Financial Officer

CERTIFICATION OF CEO AND CFO PURSUANT TO 18 U.S.C. § 1350, AS ADOPTED PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Form 10-Q of Conduent Incorporated, a New York corporation (the “Company”), for the quarter ended September 30, 2022, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Clifford Skelton, Chief Executive Officer of the Company, and Stephen Wood, Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his/her knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ CLIFFORD SKELTON

Clifford Skelton
Chief Executive Officer
November 1, 2022

/s/ STEPHEN WOOD

Stephen Wood
Chief Financial Officer
November 1, 2022

This certification accompanies this Report pursuant to § 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of § 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by § 906 has been provided to Conduent Incorporated and will be retained by Conduent Incorporated and furnished to the Securities and Exchange Commission or its staff upon request.