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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: June 30, 2018

OR

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

For the transition period from to

Commission File Number 001-37817

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)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

Class	Outstanding at July 31, 2018
Common Stock, $0.01 par value	211,173,496

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q and any exhibits to this Report may contain "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. The words “anticipate,” “believe,” “estimate,” “expect,” “intend,” “will,” “should” and similar expressions, as they relate to us, are intended to identify forward-looking statements. These statements reflect Management's current beliefs, assumptions and expectations and are subject to a number of factors that could cause actual results to differ materially. Such factors include, but are not limited to: termination rights contained in our government contracts; our ability to renew commercial and government contracts awarded through competitive bidding processes; our ability to recover capital and other investments in connection with our contracts; our ability to attract and retain necessary technical personnel and qualified subcontractors; our ability to deliver on our contractual obligations properly and on time; competitive pressures; our significant indebtedness; changes in interest in outsourced business process services; our ability to obtain adequate pricing for our services and to improve our cost structure; claims of infringement of third-party intellectual property rights; the failure to comply with laws relating to individually identifiable information, and personal health information and 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 estimate the scope of work or the costs of performance in our contracts; our ability to collect our receivables for unbilled services; a decline in revenues from or a loss or failure of significant clients; fluctuations in our non-recurring revenue; our failure to maintain a satisfactory credit rating; our ability to attract and retain key employees; increases in the cost of telephone and data services or significant interruptions in such services; our failure to develop new service offerings; our ability to receive dividends or other payments from our subsidiaries; changes in tax and other laws and regulations; changes in government regulation and economic, strategic, political and social conditions; changes in U.S. GAAP or other applicable accounting policies; and other factors that are set forth in the “Risk Factors” section, the “Legal Proceedings” section, the “Management's Discussion and Analysis of Financial Condition and Results of Operations” section and other sections of this Quarterly Report on Form 10-Q, our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018, as well as in our 2017 Annual Report on Form 10-K filed with the Securities and Exchange Commission. 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 as a result of new information, subsequent events or otherwise.

CONDUENT INCORPORATED
FORM 10-Q
June 30, 2018

TABLE OF CONTENTS

		Page
Part I — Financial Information		
Item 1.	Financial Statements (Unaudited)	3
	Condensed Consolidated Statements of Income (Loss)	3
	Condensed Consolidated Statements of Comprehensive Income (Loss)	4
	Condensed Consolidated Balance Sheets	5
	Condensed Consolidated Statements of Cash Flows	6
	Notes to the Condensed Consolidated Financial Statements	7
	Note 1 – Basis of Presentation	7
	Note 2 – Recent Accounting Pronouncements	8
	Note 3 – Segment Reporting	13
	Note 4 – Assets/Liabilities Held for Sale	15
	Note 5 – Restructuring Programs and Related Costs	16
	Note 6 – Debt	17
	Note 7 – Financial Instruments	17
	Note 8 – Fair Value of Financial Assets and Liabilities	17
	Note 9 – Employee Benefit Plans	18
	Note 10 – Accumulated Other Comprehensive Loss (AOCL)	18
	Note 11 – Contingencies and Litigation	19
	Note 12 – Preferred Stock	22
	Note 13 – Shareholders' Equity	22
	Note 14 – Earnings per Share	23
	Note 15 – Subsequent Events	24
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
	Capital Resources and Liquidity	31
	Market Risk Management	32
	Non-GAAP Financial Measures	32
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	35
Item 4.	Controls and Procedures	35
Part II — Other Information		
Item 1.	Legal Proceedings	35
Item 1A.	Risk Factors	35
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
Item 6.	Exhibits	36
Signatures		37

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.

PART I — FINANCIAL INFORMATION
ITEM 1 — FINANCIAL STATEMENTS (UNAUDITED)

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	2018	2017	2018	2017
Revenue	$ 1,387	$ 1,496	$ 2,807	$ 3,049
Cost of Services	1,125	1,253	2,293	2,547
Gross Margin	262	243	514	502
Operating Costs and Expenses				
Research and development	3	3	5	7
Selling, general and administrative	149	153	294	322
Restructuring and related costs	17	36	37	54
Amortization of acquired intangible assets	60	61	121	122
Interest expense	37	34	70	70
Separation costs	—	1	—	6
(Gain) loss on divestitures and transaction costs	(60)	(25)	(45)	(25)
Litigation costs (recoveries), net	4	(9)	35	(20)
Other (income) expenses, net	(2)	—	(3)	(1)
Total Operating Costs and Expenses	208	254	514	535
Income (Loss) Before Income Taxes	54	(11)	—	(33)
Income tax expense (benefit)	43	(7)	39	(19)
Income (Loss) From Continuing Operations	11	(4)	(39)	(14)
Income (loss) from discontinued operations, net of tax	—	—	—	4
Net Income (Loss)	$ 11	$ (4)	$ (39)	$ (10)
Basic Earnings (Loss) per Share:				
Continuing operations	$ 0.05	$ (0.03)	$ (0.21)	$ (0.09)
Discontinued operations	—	—	—	0.02
Total Basic Earnings (Loss) per Share	$ 0.05	$ (0.03)	$ (0.21)	$ (0.07)
Diluted Earnings (Loss) per Share:				
Continuing operations	$ 0.04	$ (0.03)	$ (0.21)	$ (0.09)
Discontinued operations	—	—	—	0.02
Total Diluted Earnings (Loss) per Share	$ 0.04	$ (0.03)	$ (0.21)	$ (0.07)

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Net Income (Loss)	$ 11	$ (4)	$ (39)	$ (10)
Other Comprehensive Income (Loss), Net				
Currency translation adjustments, net	(32)	14	(23)	26
Reclassification of currency translation adjustments on divestitures	—	—	5	—
Unrecognized gains (loss), net	(2)	—	(3)	2
Changes in benefit plans, net	3	(1)	3	—
Other Comprehensive Income (Loss), Net	(31)	13	(18)	28
Comprehensive Income (Loss), Net	$ (20)	$ 9	$ (57)	$ 18

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)	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 993	$ 658
Accounts receivable, net	930	1,114
Assets held for sale	316	757
Contract assets	193	—
Other current assets	229	181
Total current assets	2,661	2,710
Land, buildings and equipment, net	276	257
Intangible assets, net	771	891
Goodwill	3,424	3,366
Other long-term assets	304	324
Total Assets	$ 7,436	$ 7,548
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 43	$ 82
Accounts payable	158	138
Accrued compensation and benefits costs	297	335
Unearned income	129	151
Liabilities held for sale	119	169
Other current liabilities	567	493
Total current liabilities	1,313	1,368
Long-term debt	2,001	1,979
Deferred taxes	346	384
Other long-term liabilities	135	146
Total Liabilities	3,795	3,877
Contingencies (See Note 11)		
Series A convertible preferred stock	142	142
Common stock	2	2
Additional paid-in capital	3,865	3,850
Retained earnings (deficit)	144	171
Accumulated other comprehensive loss	(512)	(494)
Total Equity	3,499	3,529
Total Liabilities and Equity	$ 7,436	$ 7,548
Shares of common stock issued and outstanding	210,528	210,440
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)

(in millions)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash Flows from Operating Activities:				
Net income (loss)	$ 11	$ (4)	$ (39)	$ (10)
Adjustments required to reconcile net income (loss) to cash flows from operating activities:				
Depreciation and amortization	117	130	234	255
Deferred income taxes	(39)	(25)	(47)	(31)
(Gain) loss from investments	—	(4)	(1)	(7)
Amortization of debt financing costs	6	2	8	4
(Gain) loss on divestitures and transaction costs	(60)	(25)	(45)	(32)
Stock-based compensation	12	12	19	18
Changes in operating assets and liabilities:				
(Increase) decrease in accounts receivable	89	40	14	(70)
(Increase) decrease in other current and long-term assets	(46)	(13)	(95)	(47)
Increase (decrease) in accounts payable and accrued compensation	15	(36)	(25)	(85)
Increase (decrease) in restructuring liabilities	(3)	21	4	24
Increase (decrease) in other current and long-term liabilities	(54)	(37)	(11)	(54)
Net change in income tax assets and liabilities	53	7	48	(2)
Other operating, net	(3)	(1)	(4)	(3)
Net cash provided by (used in) operating activities	98	67	60	(40)
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(43)	(20)	(76)	(37)
Proceeds from sale of land, buildings and equipment	12	33	12	33
Cost of additions to internal use software	(8)	(7)	(14)	(15)
Proceeds (payments) from sale (purchase) of businesses	400	—	400	—
Net cash provided by (used in) investing activities	361	6	322	(19)
Cash Flows from Financing Activities:				
Proceeds on long-term debt	—	—	—	306
Debt issuance fee payments	(3)	(8)	(3)	(9)
Payments on debt	(8)	(9)	(29)	(153)
Net (payments to) transfer from former parent company	—	—	—	(161)
Issuance of common stock related to employee stock plans	1	—	(3)	(2)
Dividends paid on preferred stock	(3)	(3)	(5)	(5)
Other financing	—	1	—	(1)
Net cash provided by (used in) financing activities	(13)	(19)	(40)	(25)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(6)	—	(6)	2
Increase (decrease) in cash, cash equivalents and restricted cash	440	54	336	(82)
Cash, Cash Equivalents and Restricted Cash at Beginning of Period[1]	563	280	667	416
Cash, Cash Equivalents and Restricted Cash at End of period[1]	$ 1,003	$ 334	$ 1,003	$ 334

(1) Includes approximately $10 million and $25 million of restricted cash as of June 30, 2018 and 2017, respectively, that were included in Other current assets on the Condensed Consolidated Balance Sheets.

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

CONDUENT INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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

The Company is a global enterprise and leading provider of business process services with expertise in managing operations involving high volume, repeatable and individualized interactions. The Company's portfolio covers both front office and back office operations; however, the majority of its revenue and differentiation derives from engagements where it serves on behalf of its clients to manage end-user interactions across a wide-range of domains. Examples include payments, collections, benefit administration and end-user communication services. The Company creates value for its commercial and government clients through more efficient service delivery combined with a personalized and seamless experience for the end-user. The Company applies its expertise, technology and innovation to continually modernize its offering for improved customer and constituent satisfaction and loyalty, increase process efficiency and respond rapidly to changing market dynamics.

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). 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, 2017. 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. 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, 2017.

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 2017 Annual Report on Form 10-K. Summarized below are the accounting pronouncements adopted subsequent to December 31, 2017 that were applicable and material to the Company.

New Accounting Standards Adopted

Revenue Recognition: In May 2014, the Financial Accounting Standards Board (FASB) updated the accounting guidance related to revenue recognition, which is also referred to herein as "new revenue standard" to clarify the principles for recognizing revenue and replaced all existing revenue recognition guidance in U.S. GAAP with one accounting model. The core principle of the guidance is that an entity should recognize revenue when the promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. The updated guidance also requires additional qualitative and quantitative disclosures relating to the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers largely on a disaggregated basis. The Company adopted the new revenue standard as of January 1, 2018, using the modified retrospective method. The Company is applying the new revenue standard only to contracts not completed as of the date of initial application. The adoption has primarily impacted the following: (1) revenue associated with postage recognized on a net basis versus previously being recognized on a gross basis; (2) the timing of revenue recognition associated with fixed fees for certain contracts with more than one performance obligation; and (3) the timing of recognition of certain pricing discounts and credits.

The Company recorded a net increase to opening retained earnings of $17 million as of January 1, 2018, due to the cumulative impact of adopting this new guidance. The comparative information has not been restated and continues to be reported under the accounting standards in effect for the periods presented.

The impact of the new revenue standard for the three and six months ended June 30, 2018, was a decrease in Revenue of $32 million and $76 million, respectively, primarily as a result of recognizing postage receipts on a net basis, in the Company's Condensed Consolidated Statements of Income (Loss). The impact of the new revenue standard, as of and for the periods ended June 30, 2018, on the Company's pre-tax income, Condensed Consolidated Balance Sheets and Statements of Cash Flows was not material.

Summary of Accounting Policy

Revenue recognition

The Company recognizes revenue when control of the promised goods or services is transferred to its customers, in an amount that reflects the consideration that the Company expects to receive in exchange for those goods or services.

The Company's contracts with customers often include promises to transfer multiple products and services to a customer. Determining whether products and services are considered distinct performance obligations that should be accounted for separately, versus together, may require significant judgment. For instance, the Company may contract for an implementation or development project and also provide services to operate the system which the Company implements or develops over a period of time; or the Company may contract to scan, manage and store customer documents. For these contracts, the Company accounts for individual performance obligations separately, if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company generally determines standalone selling prices based on the prices charged to customers or using expected cost plus margin.

Once the Company determines the performance obligations, the Company estimates the amount of variable consideration, if any, to be included in determining the transaction price. The majority of the Company's contracts consist of fixed consideration, variable consideration or both. Typical forms of variable consideration include variable pricing such as volume discounts, tiered and declining pricing, penalties for service level agreements, performance bonuses and credits. The Company includes variable consideration in the transaction price to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty is resolved. In order to determine the transaction price, the Company estimates the amount of variable consideration at the inception of the contract, either utilizing the expected value or the most likely amount method, depending on the facts and circumstances relative to the contract. The Company estimates variable consideration and performs a constraint analysis for these contracts on the basis of both historical information and current trends.

The Company's performance obligations are generally transferred to customers over time. Typically, the Company's contracts include performance obligation(s) to stand-ready on a daily or monthly basis to provide services to the customers. A time-elapsed output method is used to measure progress because the Company transfers control evenly by providing a stand-ready service. In limited circumstances, the Company also uses a cost-to-cost based input method. The Company has determined that the above methods provide a faithful depiction of the transfer of services to the customer.

Estimates of revenue expected to be recognized in future periods exclude unexercised customer options to purchase additional services that do not represent material rights to the customer. Customer options that do not represent a material right are only accounted for, in accordance with the new revenue standard, when the customer exercises its option to purchase additional goods or services. The Company recognizes revenue for non-refundable upfront implementation fees on a straight-line basis over the period between the initiation of the services through the end of the contract terms.

When more than one party is involved in providing services to a customer, the Company evaluates whether it is the principal, and reports revenue on a gross basis, or an agent, and reports revenue on a net basis. In this assessment, the Company considers the following: if it obtains control of the specified services before they are transferred to the customer; is primarily responsible for fulfillment and inventory risk; and has discretion in establishing price.

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

The Company's payment terms vary by type of services offered. The time between invoicing and when payment is due is not significant. For certain services and customer types, the Company requires payment before services are rendered.

From time to time, the Company's contracts are modified to account for additions or changes to existing performance obligations. The Company's contract modifications are generally accounted for prospectively.

Disaggregation of Revenue

During the second quarter, the Company changed how it presents the disaggregated revenue by major service line to reflect the core businesses separate from the non-core businesses. This change had no impact on disaggregated revenue by reportable segment or the timing of revenue recognition.

The following table provides information about disaggregated revenue by major service line, the timing of revenue recognition and a reconciliation of the disaggregated revenue by reportable segments. Refer to Note 3 – Segment Reporting for additional information on the Company's reportable segments.

(in millions)	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018
Commercial Industries:		
Omni-channel communications	$ 199	$ 418
Human resource services	186	373
Industry services	240	490
Non-core	183	381
Total Commercial Industries	808	1,662
Public Sector:		
Government services and health	338	670
Transportation services	181	357
Non-core	55	105
Total Public Sector	574	1,132
Other:		
Education	5	13
Total Other	5	13
Total Consolidated Revenue	$ 1,387	$ 2,807
Timing of Revenue Recognition:		
Point in time	$ 34	$ 70
Over time	1,353	2,737
Total Revenue	$ 1,387	$ 2,807

The Company's contracts with customers are broadly similar in nature throughout the Company's major service lines. The following is a description of the Company's major service lines from which the Company generates revenue.

- **Omni-Channel Communications:** The Company offers a range of services that help its clients support their end-users. This includes in-bound and out-bound call support for both simple and complex transactions, technical support and patient assistance. The Company also provides multi-channel communication support (both print and digital) across a range of industries.

- **Human Resource Services:** The Company helps its clients support their employees at all stages of employment from initial on-boarding through retirement as well as health savings account (HSA) administration. The Company offers clients a range of customized advisory, technology and administrative services that improve the ability of employees to manage their benefits, professional development and retirement planning. Also, the Company assists its clients with workers' compensation claims management.

- **Industry Services:** The Company leverages technology to assist its clients with transaction processing as well as providing platform solutions. This includes offerings such as finance and accounting, transaction processing, learnings, legal and payment integrity services, among others.

- **Non-Core Commercial:** This represents certain human resource services and customer experience businesses that are considered non-core and therefore are expected to be sold to allow management to increase its focus on the businesses for which we believe we have a competitive advantage. Certain of these businesses are included in Assets/liabilities held for sale.

- **Government Services and Health:** The Company's services include public assistance program administration such as child support, pension administration, records management, electronic benefits, eligibility and payment cards, unclaimed property, disease management and software offerings in support of federal, state and local government agencies. The Company also provides payment services, which include prepaid cards, child support disbursements and other government support programs, disbursement of electronic payments directly to end users, collections and transfer of payments.

- **Transportation Services:** The Company's services include support for electronic toll collection, public transit, parking and photo enforcement.

- **Non-Core Public:** This represents certain transportation and state and local businesses that are considered non-core and therefore are expected to be sold to allow management to increase its focus on the businesses for which we believe we have a competitive advantage.

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 when the rights 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)	June 30, 2018	January 1, 2018
Contract Assets (Unearned Income)		
Current contract assets[1]	$ 193	$ 191
Long-term contract assets[2]	13	2
Current unearned income	(129)	(128)
Long-term unearned income[3]	(39)	(46)
Net Contract Assets (Unearned Income)	$ 38	$ 19
Accounts receivable, net	$ 930	$ 908

(1) *Prior to the adoption of the new revenue standard, these amounts were recorded in Accounts receivable, net and represented unbilled amounts.*

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

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

Revenues of $98 million and $181 million were recognized during the three and six months ended June 30, 2018, respectively, related to the Company's unearned income at January 1, 2018. The Company had no asset impairment charges related to contract assets for the three and six months ended June 30, 2018.

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 June 30, 2018, was approximately $2.4 billion. The Company expects to recognize approximately 66% of the revenues over the next two years and the remainder thereafter.

Costs to Obtain and Fulfill a Contract

The Company capitalizes commission expenses paid to internal sales personnel that are incremental to obtaining customer contracts. The net book value of these costs, which was $28 million as of June 30, 2018, are included in Other current assets or Other long-term assets. The judgments made in determining the amount of costs incurred include whether the commissions are incremental and directly related to a successful acquisition of a customer contract. These costs are amortized in Selling, general and administrative costs over the term of the contract or the estimated life of the customer relationship, if renewals are expected and the renewal commission is not commensurate with the initial commission. These costs are periodically reviewed for impairment. The Company expenses sales commissions when incurred if the amortization period of the sales commission is one year or less.

Also, the Company capitalizes costs incurred to fulfill its contracts that (i) relate directly to the contract (ii) are expected to generate resources that will be used to satisfy the Company's performance obligation under the contract and (iii) are expected to be recovered through revenue generated under the contract. The net book value of these costs, which comprise set-up/transition activities, was $58 million as of June 30, 2018, and are classified in Other current assets or Other long-term assets on the Condensed Consolidated Balance Sheets. Contract fulfillment costs are expensed to Cost of services as the Company satisfies its performance obligations by transferring the service to the customer. These costs are amortized on a systematic basis over the expected period of benefit.

The amounts of amortization of cost incurred to obtain and fulfill a contract for the three and six months ended June 30, 2018, were $13 million and $27 million, respectively.

Cash Flows: In November 2016, the FASB issued updated accounting guidance regarding the presentation of restricted cash in the Condensed Consolidated Statements of Cash Flows. Specifically, this update requires that restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the Condensed Consolidated Statements of Cash Flows. The Company adopted this updated accounting guidance on January 1, 2018 using the retrospective method. The revision to prior year Condensed Consolidated Statements of Cash Flows from the adoption of this guidance was a reclassification in the Condensed Consolidated Statements of Cash Flows of $25 million of restricted cash to cash, cash equivalents and restricted cash.

New Accounting Standards To Be Adopted

Leases: In February 2016, the FASB updated the accounting guidance related to leases requiring lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases except short term leases (lease term of 12 months or less). The accounting for lessors is largely unchanged. This updated guidance is effective for us beginning January 1, 2019. This guidance must be adopted using a modified retrospective approach through a cumulative-effect adjustment for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. While we are currently evaluating the impact on the Company's Consolidated Financial Statements, we do expect a material impact to the Consolidated Balance Sheets.

Credit Losses: In June 2016, the FASB updated the accounting guidance related to measurement of credit losses on financial instruments, which requires financial assets measured at amortized cost to be presented at the net amount expected to be collected. This updated guidance is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the impact on the Company's Consolidated Financial Statements.

Note 3 – Segment Reporting

The Company's reportable segments correspond to how we organize and manage the business and are aligned to the industries in which our clients operate.

Beginning in 2018, the Company moved the Health Enterprise business from the Other segment into the Public Sector segment. In addition, the Company moved the historical results of the divested businesses to the Other segment from both the Commercial Industries and the Public Sector segments. The prior periods presented have been revised to reflect these changes.

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

- Commercial Industries
- Public Sector

Commercial Industries: Our Commercial Industries segment provides business process services and customized solutions to clients in a variety of industries. Across the Commercial Industries segment, we deliver end-to-end business-to-business and business-to-customer services that enable our clients to optimize their key processes. Our multi-industry competencies include omni-channel communications, human resource management and finance and accounting services.

Public Sector: Our Public Sector segment provides government-centric business process services to U.S. federal, state and local and foreign governments for transportation, public assistance, program administration, transaction processing, Medicaid platform and payment services.

Other segment includes businesses divested in 2017 and our Student Loan business, which is in run-off mode. The Company expects to exit the Student Loan business in the third quarter of 2018. In the third quarter of 2018 and beyond, any remaining costs for Student Loans will be reflected in Other (income) expenses, net.

Selected financial information for our reportable segments is as follows:

	Three Months Ended June 30,			
(in millions)	Commercial Industries	Public Sector	Other	Total
2018				
Revenue	$ 808	$ 574	$ 5	$ 1,387
Segment profit (loss)	$ 47	$ 68	$ (5)	$ 110
Segment depreciation and amortization	$ 33	$ 24	$ —	$ 57
Adjusted EBITDA[(1)]	$ 80	$ 91	$ (5)	$ 166
2017				
Revenue	$ 856	$ 598	$ 42	$ 1,496
Segment profit (loss)	$ 33	$ 52	$ 2	$ 87
Segment depreciation and amortization	$ 38	$ 29	$ 2	$ 69
Adjusted EBITDA[(2)]	$ 71	$ 82	$ 4	$ 157

	Six Months Ended June 30,			
(in millions)	Commercial Industries	Public Sector	Other	Total
2018				
Revenue	$ 1,662	$ 1,132	$ 13	$ 2,807
Segment profit (loss)	$ 91	$ 133	$ (9)	$ 215
Segment depreciation and amortization	$ 67	$ 46	$ —	$ 113
Adjusted EBITDA[(1)]	$ 158	$ 178	$ (9)	$ 327
2017				
Revenue	$ 1,751	$ 1,207	$ 91	$ 3,049
Segment profit (loss)	$ 59	$ 109	$ 5	$ 173
Segment depreciation and amortization	$ 74	$ 56	$ 3	$ 133
Adjusted EBITDA[(2)]	$ 133	$ 169	$ 8	$ 310

(1) 2018 Adjusted EBITDA for Public Sector does not include $1 million of NY MMIS settlement for the three and six months, respectively.

(2) 2017 Adjusted EBITDA for Public Sector does not include $1 million and $4 million of net NY MMIS and HE charge for the three and six months, respectively.

(in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
Segment Profit (Loss) Reconciliation to Pre-tax Income (Loss)	2018	2017	2018	2017
Income (Loss) Before Income Taxes	$ 54	$ (11)	$ —	$ (33)
Reconciling items:				
Restructuring and related costs	17	36	37	54
Amortization of acquired intangible assets	60	61	121	122
Separation costs	—	1	—	6
Interest expense	37	34	70	70
(Gain) loss on divestitures and transaction costs	(60)	(25)	(45)	(25)
Litigation costs (recoveries), net	4	(9)	35	(20)
Other (income) expenses, net	(2)	—	(3)	(1)
Segment Pre-tax Income (Loss)	$ 110	$ 87	$ 215	$ 173
Segment depreciation and amortization	$ 57	$ 69	$ 113	$ 133
NY MMIS	(1)	1	(1)	9
HE charge	—	—	—	(5)
Adjusted EBITDA	$ 166	$ 157	$ 327	$ 310

Note 4 – Assets/Liabilities Held for Sale

As of June 30, 2018 and December 31, 2017, there were certain businesses that qualified as assets/liabilities held for sale due to plans for disposal through sale. These assets/liabilities held for sale include a mix of both Commercial Industries and Public Sector that represent businesses in markets or with services that the Company did not see as strategic or core. The following is a summary of the major categories of assets and liabilities that have been reclassified to held for sale.

(in millions)	June 30, 2018	December 31, 2017
Accounts Receivable, net	$ 89	$ 160
Other current assets	12	41
Contract assets	4	—
Land, building and equipment, net	4	6
Product Software, net	5	3
Intangible assets, net	6	7
Goodwill	186	537
Other long-term assets	10	3
Total Assets held for sale	$ 316	$ 757
Accounts payable	$ 3	$ 9
Accrued compensation	16	20
Unearned revenue	25	30
Other current liabilities	21	53
Pension and other benefit obligations	49	50
Other long-term liabilities	5	7
Total Liabilities held for sale	$ 119	$ 169

In June 2018, the Company completed the sale of its Commercial Vehicle Operations business to Alinda Capital Partners. The aggregate proceeds from this divestiture was $400 million in cash and the transaction generated a pre-tax gain of $74 million. The revenue generated from this business was $33 million for the six months ended June 30, 2018 and $66 million for the year ended December 31, 2017.

Note 5 – 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 strategic transformation program and various productivity initiatives have reduced the Company's real estate footprint across all geographies and segments resulting in increased lease cancellation and other related costs. Management continues to evaluate the Company's business; therefore, in future years, there may be additional provisions for new plan initiatives, as well as 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 we have either a formal severance plan or a history of consistently providing severance benefits representing a substantive plan, we recognize employee severance costs when they are both probable and reasonably estimable.

A summary of the Company's restructuring program activity during the six months ended June 30, 2018 and 2017 was as follows:

(in millions)	Severance and Related Costs	Lease Cancellation and Other Costs	Total
Accrued Balance at December 31, 2017	$ 14	$ 30	$ 44
Restructuring provision	21	17	38
Adjustments to prior accruals	(2)	—	(2)
Total Net Current Period Charges	19	17	36
Payments against reserve and currency	(19)	(16)	(35)
Liabilities held for sale	—	3	3
Accrued Balance at June 30, 2018	$ 14	$ 34	$ 48

(in millions)	Severance and Related Costs	Lease Cancellation and Other Costs	Total
Accrued Balance at December 31, 2016	$ 15	$ 6	$ 21
Restructuring provision	28	17	45
Adjustments to prior accruals	1	—	1
Total Net Current Period Charges	29	17	46
Payments against reserve and currency	(19)	(6)	(25)
Accrued Balance at June 30, 2017	$ 25	$ 17	$ 42

In addition, the Company recorded professional support costs associated with the strategic transformation program in Restructuring and related costs of $1 million and $8 million for the six months ended June 30, 2018 and 2017, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions)	2018	2017	2018	2017
Commercial Industries	$ 12	$ 22	$ 27	$ 31
Public Sector	5	11	8	14
Other	—	1	1	1
Total Net Restructuring Charges	$ 17	$ 34	$ 36	$ 46

Note 6 – Debt

Long-term debt was as follows:

(in millions)	June 30, 2018		December 31, 2017	
Term loan A due 2022	$	709	$	732
Term loan B due 2023		837		842
Senior notes due 2024		510		510
Capital lease obligations		36		33
Principal debt balance		2,092		2,117
Debt issuance costs and unamortized discounts		(48)		(56)
Less: current maturities		(43)		(82)
Total Long-term Debt	$	2,001	$	1,979

Loans Repricing

On June 28, 2018, the Company entered into Amendment No. 3 (Amendment) to the December 7, 2016 Credit Agreement, which (i) extended the revolving credit maturity from December 7, 2021 to December 7, 2022 and reduced the interest rate on the revolving credit by 0.5% from 2.25% over LIBOR to 1.75% over LIBOR; (ii) extended the maturity date of the Term A Loans from December 7, 2021 to December 7, 2022 and reduced the interest rate by 0.5% from 2.25% over LIBOR to 1.75% over LIBOR, and (iii) reduced the interest rate on the Term B Loans by 0.5% from 3.0% over LIBOR to 2.5% over LIBOR. These transactions resulted in a write-off of unamortized discount and issuance costs of $3 million.

Note 7 – 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 June 30, 2018 and December 31, 2017, the Company had outstanding forward exchange contracts with gross notional values of approximately $136 million and $160 million, respectively. Approximately 60% of these contracts mature within three months, 15% in three to six months, 19% in six to twelve months and 6% in greater than twelve months. The majority 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.

Note 8 – 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 base 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.

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

(in millions)	June 30, 2018	December 31, 2017
Assets:		
Foreign exchange contract - forward	$ —	$ 2
Total Assets	$ —	$ 2
Liabilities:		
Foreign exchange contracts - forwards	$ 3	$ 1
Deferred compensation plan liabilities[1]	90	99
Total Liabilities	$ 93	$ 100

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(1) *In September 2017, the Company terminated the legacy deferred compensation plans (Plans) and the Company Owned Life Insurance (COLI), which held the Plans' investments. The Company will make payments to Plan participants during the remainder of 2018.*

Summary of Other Financial Assets and Liabilities Accounted at Fair Value on a Nonrecurring Basis

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

	June 30, 2018		December 31, 2017	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	2,001	2,100	1,979	2,070

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 based on the current rates offered to the Company for debt of similar maturities (Level 2).

Note 9 – Employee Benefit Plans

The Company recognized an expense related to its defined contribution plans of $7 million and $9 million for the three months ended June 30, 2018 and 2017, respectively, and $16 million and $19 million for the six months ended June 30, 2018 and 2017, respectively.

Note 10 – Accumulated Other Comprehensive Loss (AOCL)

AOCL is comprised of the following:

(in millions)	June 30, 2018	December 31, 2017
Cumulative currency translation adjustments	$ (455)	$ (437)
Other unrealized gains (losses), net	(2)	1
Benefit plans net actuarial losses and prior service credits	(55)	(58)
Total Accumulated Other Comprehensive Loss	$ (512)	$ (494)

Note 11 – Contingencies and Litigation

As more fully discussed below, the Company is involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting, servicing and procurement law; intellectual property law; environmental law; employment law; 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 June 30, 2018. 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 in excess of 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 final outcome of these claims. However, while the ultimate liabilities resulting from such claims may be significant to results of operations in the period recognized, management does not anticipate they will have a material adverse effect on the condensed consolidated financial position or liquidity. As of June 30, 2018, the Company had accrued its estimate of liability incurred under its indemnification arrangements and guarantees.

Litigation Against the Company

State of Texas v. Xerox Corporation, Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), Conduent State Healthcare, LLC (f/k/a Xerox State Healthcare, LLC, f/k/a ACS State Healthcare, LLC) and Conduent Incorporated: On May 9, 2014, the State of Texas, via the Texas Office of Attorney General (the “State”), filed a lawsuit in the 53rd Judicial District Court of Travis County, Texas. The lawsuit alleges that Xerox Corporation, Xerox State Healthcare, LLC and ACS State Healthcare (collectively, the "Xerox Defendants") violated the Texas Medicaid Fraud Prevention Act in the administration of its contract with the Texas Department of Health and Human Services (“HHSC”). The State alleges that the Xerox Defendants made false representations of material facts regarding the processes, procedures, implementation and results regarding the prior authorization of orthodontic claims. The State seeks recovery of amounts paid for orthodontic treatment under the Texas Medicaid program for the period from approximately 2004 to 2012, three times the amount of the payments made as a result of the alleged unlawful acts, civil penalties, pre- and post-judgment interest and all costs and attorneys’ fees. The Xerox Defendants filed their Answer in June, 2014 denying all allegations. A trial date is schedule for November, 2018. During the first quarter of 2018, the State notified the Xerox Defendants in the litigation discovery process that its claim is in excess of two billion dollars based primarily on the assertion of treble damages and civil penalties per illegal act for almost two hundred thousand purported illegal acts. The Xerox Defendants will forcefully contest this assertion and continue to vigorously defend themselves in this matter. During the second quarter of 2018, the trial date was rescheduled for May, 2019. We are not able to determine or predict the ultimate outcome of this proceeding or to estimate any reasonably possible loss or range of losses, if any, in excess of the thirty-eight million dollars the Company has already accrued. In the course of litigation, the Company periodically engages in discussions with the State's counsel for possible resolution of the matter. Should developments cause a change in the Company's determination as to an unfavorable outcome, or result in a final adverse judgment or settlement for a significant amount, 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 determination, judgment or settlement occurs.

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 allege actuarial negligence against Buck Consultants, LLC ("Buck"), 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 allege 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. This case has been stayed pending the outcome of parallel litigation the plaintiffs are pursuing against StanCERA. Buck will continue to aggressively defend these lawsuits. 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.

Conduent Business Services, LLC v. Cognizant Business Services, LLC: On April 12, 2017, Conduent Business Services LLC ("Conduent") 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 Conduent and Cognizant, as amended and supplemented (the "Contract"). The Contract contains certain minimum purchase obligations by Conduent 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 Conduent under Conduent's contract with the New York Department of Health to provide a Medicaid Management Information Systems (the "NY MMIS Contract"). In the lawsuit, Conduent seeks damages in excess of one hundred fifty million dollars. During the first quarter of 2018, Conduent provided notice to Cognizant that it was terminating the Contract for cause and recorded in the same period certain charges associated with the termination. Cognizant has asserted counterclaims against Conduent in the lawsuit seeking damages in excess of twenty-two million dollars. Conduent has responded to Cognizant's counterclaims by denying the allegations. Conduent 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.

Other Matters

On January 5, 2016, the Consumer Financial Protection Bureau (the "CFPB") notified Xerox Education Services, Inc. (XES) that, in accordance with the CFPB's discretionary Notice and Opportunity to Respond and Advise (NORA) process, the CFPB's Office of Enforcement is considering recommending that the CFPB take legal action against XES, alleging that XES violated the Consumer Financial Protection Act's prohibition of unfair practices. Should the CFPB commence an action, it may seek restitution, civil monetary penalties, injunctive relief, or other corrective action. The purpose of a NORA letter is to provide a party being investigated an opportunity to present its position to the CFPB before an enforcement action is recommended or commenced. XES submitted its response to the NORA. The CFPB's NORA stems from an inquiry that commenced in 2014 when XES received and responded to a CFPB Civil Investigative Demand containing a broad request for information. During this process, XES self-disclosed to the U.S. Department of Education (the "Department") and the CFPB certain adjustments of which it had become aware that had not been timely made relating to its servicing of a small percentage of third-party student loans under outsourcing arrangements for various financial institutions. The CFPB, the U.S. Department of Education, the U.S. Department of Justice, the New York Office of the Attorney General, the New York Department of Financial Services and the Massachusetts Office of the Attorney General began similar reviews. XES has cooperated and continues to fully cooperate with all regulatory agencies and resolved the Massachusetts Office of the Attorney General investigation in November 2016. Both as a result of these inquiries, its own reviews of operations and work performed by external auditors, XES has identified certain other operational issues requiring remediation, and this remediation work has commenced. XES continues to review its operations to determine whether any additional remediation work is necessary. XES disclosed these additional operational projects to the Department at the end of the second quarter of 2018 and is working with the Department to develop plans to complete these projects while XES exits the business. The Company cannot provide assurance that the CFPB or another regulator or 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 investigations. The Company could in future periods incur judgments or enter into settlements to resolve these investigations 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 Public Sector segment, require the Company to provide a surety bond or a letter of credit as a guarantee of performance. As of June 30, 2018, the Company had $635 million of outstanding surety bonds used to secure its performance of contractual obligations with its clients and $339 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 the amount of 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 (including its Credit Facility) to allow it to respond to future requests for proposals that require such credit support.

The Company has service arrangements where the Company services third-party student loans in the Federal Family Education Loan program (FFEL) on behalf of various financial institutions. At July 31 2018, the Company serviced a FFEL portfolio of approximately 14,500 loans. Some servicing agreements contain provisions that, under certain circumstances, require the Company to purchase the loans if the loan guaranty has been permanently terminated as a result of a loan default caused by the Company's servicing error. If defaults caused by the Company are cured during an initial period, any obligation the Company may have to purchase these loans expires. Loans that the Company purchases may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. The Company evaluates its exposure under its purchase obligations on defaulted loans and establishes a reserve for potential losses. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of June 30, 2018, Other current liabilities included reserves of approximately $0.3 million, which the Company believes to be adequate. In addition to potential purchase obligations arising from servicing errors, various laws and regulations applicable to student loan borrowers could give rise to fines, penalties and other liabilities associated with loan servicing errors.

Note 12 – Preferred Stock

Series A Preferred Stock

In December 2016, the Company issued 120 thousand 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 pays 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 thousand shares (reflecting an initial conversion price of approximately $22.25 per share of common stock), subject to customary anti-dilution adjustments.

Note 13 – Shareholders' Equity

(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL	Conduent Shareholders' Equity
Balance at December 31, 2017	$ 2	$ 3,850	$ 171	$ (494)	$ 3,529
Comprehensive income (loss), net	—	—	(39)	(18)	(57)
Cash dividends paid - preferred stock	—	—	(5)	—	(5)
Cumulative impact of adopting the new revenue standard	—	—	17	—	17
Stock option and incentive plans, net	—	15	—	—	15
Balance at June 30, 2018	$ 2	$ 3,865	$ 144	$ (512)	$ 3,499

(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL	Conduent Shareholders' Equity
Balance at December 31, 2016	$ 2	$ 3,812	$ —	$ (526)	$ 3,288
Comprehensive income (loss), net	—	—	(10)	28	18
Cash dividends paid - preferred stock	—	—	(5)	—	(5)
Stock option and incentive plans, net	—	16	—	—	16
Balance at June 30, 2017	$ 2	$ 3,828	$ (15)	$ (498)	$ 3,317

Note 14 – Earnings per Share

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

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

(in millions, except per share data. Shares in thousands)	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Basic Earnings (Loss) per Share:				
Net income (loss) from continuing operations	$ 11	$ (4)	$ (39)	$ (14)
Accrued dividends on preferred stock	(3)	(3)	(5)	(5)
Adjusted Net Income (Loss) From Continuing Operations Available to Common Shareholders	8	(7)	(44)	(19)
Net income (loss) from discontinued operations	—	—	—	4
Adjusted Net Income (Loss) Available to Common Shareholders	$ 8	$ (7)	$ (44)	$ (15)
Weighted average common shares outstanding	205,296	203,673	205,184	203,522
Basic Earnings (Loss) per Share:				
Continuing operations	$ 0.05	$ (0.03)	$ (0.21)	$ (0.09)
Discontinued operations	—	—	—	0.02
Basic Earnings (Loss) per Share	$ 0.05	$ (0.03)	$ (0.21)	$ (0.07)
Diluted Earnings (Loss) per Share:				
Net income (loss) from continuing operations	$ 11	$ (4)	$ (39)	$ (14)
Accrued dividends on preferred stock	(3)	(3)	(5)	(5)
Adjusted Net Income (Loss) From Continuing Operations Available to Common Shareholders	8	(7)	(44)	(19)
Net income (loss) from discontinued operations	—	—	—	4
Adjusted Net Income (Loss) Available to Common Shareholders	$ 8	$ (7)	$ (44)	$ (15)
Weighted average common shares outstanding	205,296	203,673	205,184	203,522
Common shares issuable with respect to:				
Stock options	146	—	—	—
Restricted stock and performance units / shares	3,447	—	—	—
Adjusted Weighted Average Common Shares Outstanding	208,889	203,673	205,184	203,522
Diluted Earnings (Loss) per Share:				
Continuing operations	$ 0.04	$ (0.03)	$ (0.21)	$ (0.09)
Discontinued operations	—	—	—	0.02
Diluted Earnings (Loss) per Share	$ 0.04	$ (0.03)	$ (0.21)	$ (0.07)

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):

	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Stock Options	—	628	295	628
Restricted stock and performance shares/units	201	8,538	6,329	8,538
Convertible preferred stock	5,393	5,393	5,393	5,393
Total Anti-Dilutive Securities	5,594	14,559	12,017	14,559

Note 15 – Subsequent Events

In August 2018, the Company announced that it has entered into an agreement (subject to regulatory approval) to sell its local and municipal constituent government software solutions business to Avenu Insights & Analytics. The revenue generated from this business was $55 million for the six months ended June 30, 2018 and $113 million for the year ended December 31, 2017.

In July 2018, the Company completed the sale of its off-street parking business, including the Multipark System in France and the United Kingdom (U.K.), along with its U.S. Airport Parking business to Andera Partners. The proceeds from this divestiture was $24 million in cash. The revenue generated from this business was $18 million for the six months ended June 30, 2018 and $42 million for the year ended December 31, 2017.

In July 2018, the Company redeemed $476 million of its outstanding $510 million 10.5% Senior Notes due 2024. As part of the redemption, the Company paid a premium of $95 million and will write off the associated unamortized discount and issuance costs of $13 million.

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

The following Management’s Discussion and Analysis (MD&A) is intended to help the reader understand the results of operations and financial condition of Conduent Incorporated and its consolidated subsidiaries. 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 digital 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. Our strategy is to drive portfolio focus, operational discipline sales and delivery excellence and innovation, complemented by tightly aligned investments. Headquartered in Florham Park, New Jersey, we have a team of approximately 84,000 people as of June 30, 2018, who serves customers in 26 countries.

Financial Review of Operations

	Three Months Ended June 30,		2018 vs. 2017	
($ in millions)	2018	2017	$ Change	% Change
Revenue	$ 1,387	$ 1,496	$ (109)	(7)%
Cost of Services	1,125	1,253	(128)	(10)%
Gross Margin	262	243	19	8 %
Operating Costs and Expenses				
Research and development	3	3	—	— %
Selling, general and administrative	149	153	(4)	(3)%
Restructuring and related costs	17	36	(19)	(53)%
Amortization of acquired intangible assets	60	61	(1)	(2)%
Separation costs	—	1	(1)	(100)%
Interest expense	37	34	3	9 %
(Gain) loss on divestitures and transaction costs	(60)	(25)	(35)	140 %
Litigation costs (recoveries), net	4	(9)	13	(144)%
Other (income) expenses, net	(2)	—	(2)	
Total Operating Costs and Expenses	**208**	**254**	**(46)**	(18)%
Income (Loss) Before Income Taxes	54	(11)	65	
Income tax expense (benefit)	43	(7)	50	
Income (Loss) From Continuing Operations	**$ 11**	**$ (4)**	**$ 15**	

($ in millions)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	2018 vs. 2017 $ Change	2018 vs. 2017 % Change
Revenue	$ 2,807	$ 3,049	$ (242)	(8)%
Cost of Services	2,293	2,547	(254)	(10)%
Gross Margin	514	502	12	2 %
Operating Costs and Expenses				
Research and development	5	7	(2)	(29)%
Selling, general and administrative	294	322	(28)	(9)%
Restructuring and related costs	37	54	(17)	(31)%
Amortization of acquired intangible assets	121	122	(1)	(1)%
Separation costs	—	6	(6)	(100)%
Interest expense	70	70	—	— %
(Gain) loss on divestitures and transaction costs	(45)	(25)	(20)	80 %
Litigation costs (recoveries), net	35	(20)	55	(275)%
Other (income) expenses, net	(3)	(1)	(2)	200 %
Total Operating Costs and Expenses	**514**	**535**	**(21)**	(4)%
Income (Loss) Before Income Taxes	—	(33)	33	
Income tax expense (benefit)	39	(19)	58	
Income (Loss) From Continuing Operations	**$ (39)**	**$ (14)**	**$ (25)**	

Revenue

Revenue for the three and six months ended June 30, 2018 decreased, compared to the prior year periods, mainly due to the impact from adopting the accounting guidance related to revenue recognition, which is also referred to herein as "new revenue standard", divestitures completed in 2017, strategic decisions by management as part of our portfolio rationalization, including exiting certain unprofitable contracts and contract losses. Partially offsetting these declines were increases from the ramp of new business.

Cost of Services

Cost of services for the three and six months ended June 30, 2018 decreased, compared to the prior year periods, mainly driven by reductions in real estate, information technology and labor costs from our strategic transformation initiatives, lost business, strategic contract actions taken by management as part of portfolio management, lower volumes and divestitures completed in 2017.

Gross Margin

Increase in gross margin for the three and six months ended June 30, 2018, compared to the prior year periods, was driven primarily by the impact of cost and productivity improvements, including reductions in real estate, information technology and labor costs from our strategic transformation initiatives and exiting or remediating certain underperforming contracts. These were partially offset by contract losses.

Selling, General and Administrative (SG&A)

Lower SG&A for the three and six months ended June 30, 2018, compared to the prior year periods, was reflective of the impact of our strategic transformation initiatives, primarily due to reductions in labor costs.

Restructuring and Related Costs

Restructuring and related costs for the three months ended June 30, 2018, include $5 million of severance costs due to headcount reductions of approximately 600 employees worldwide and $12 million of lease cancellation and other costs as part of our effort to consolidate our real estate footprint.

Restructuring and related costs for the six months ended June 30, 2018, include $19 million of severance costs due to headcount reductions of approximately 1,400 employees worldwide and $17 million of lease cancellation and other costs as part of our effort to consolidate our real estate footprint.

Restructuring and related costs for the three months ended June 30, 2017, include $19 million of severance costs due to headcount reductions of approximately 1,800 employees worldwide and $15 million of lease cancellation and other costs as part of our effort to consolidate our real estate footprint.

Restructuring and related costs for the six months ended June 30, 2017, include $29 million of severance costs due to headcount reductions of approximately 2,500 employees worldwide and $17 million of lease cancellation and other costs as part of our effort to consolidate our real estate footprint and $8 million of strategic transformation costs.

Refer to Note 5 – 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 debts and the amortization of debt issuance costs. Increase in Interest expense for the three months ended June 30, 2018, compared to the prior year period, was driven primarily by write-off of debt issuance costs to certain loans that were refinanced in June 2018. Refer to Note 6 – Debt in the Condensed Consolidated Financial Statements for additional information.

(Gain) Loss on Divestitures and Transaction Costs

Increase in gain for the three and six months ended June 30, 2018, compared to the prior year periods, was driven primarily by the gain from the sale of the Commercial Vehicle Operations (CVO) business, partially offset by transaction costs.

Litigation Costs (Recoveries), Net

Increase in net litigation costs for the three months ended June 30, 2018, compared to the prior year period, was primarily due to income received in 2017 from several customer dispute settlements and increase in reserves for certain Student Loan services remediation in 2018.

Increase in net litigation costs for the six months ended June 30, 2018, compared to the prior year period, was primarily due to income received in 2017 from several customer dispute settlements, reserves for certain terminated contracts that are subject to litigation and increase in reserves for certain Student Loan services remediation in 2018.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (Tax Reform) was enacted. The income tax effects of the Tax Reform have been initially accounted for on a provisional basis pursuant to the SEC staff guidance on income taxes. Reasonable estimates for all material tax effects of the Tax Reform have been provided and adjustments to provisional amounts will be made in subsequent reporting periods as information becomes available to complete provisional computations.

The effective tax rate for the three months ended June 30, 2018 was 79.6%, compared with 63.6% for the three months ended June 30, 2017. The June 30, 2018 rate was higher than the U.S. statutory rate of 21%, primarily due to the impacts of the divestiture of the CVO business and the geographic mix of income, partially offset by U.S. foreign tax credits and related valuation allowance release. As a result of higher projected U.S. Federal taxable income caused by the divestiture, the Company is not expected to be subject to Base Erosion Anti-Abuse Tax (BEAT) in 2018. The effective tax rate for the three months ended June 30, 2017 was higher than the statutory tax rate of 35%, primarily due to U.S. losses from amortization and restructuring that were taxed at a higher rate than our pre-tax income from foreign operations.

Excluding the gain from the sale of the CVO business, charges for amortization of intangible assets, restructuring and divestiture related costs, the normalized effective tax rate without a BEAT tax for the three months ended June 30, 2018 was 11.1%. The normalized effective tax rate was 33.3% for the three months ended June 30, 2017, predominantly impacted by the exclusion of amortization of intangible assets and restructuring costs.

The effective tax rate for the six months ended June 30, 2018 was anomalous, compared with 57.6% for the six months ended June 30, 2017. The June 30, 2018 rate was anomalous, primarily due to goodwill allocated to the divested CVO business that is not deductible for U.S. tax purposes and the geographic mix of income, partially offset by U.S. foreign tax credits and related valuation allowance release. As a result of higher projected U.S. Federal taxable income caused by the divestiture, the Company is not expected to be subject to BEAT in 2018. The effective tax rate for the six months ended June 30, 2017 was higher than the statutory tax rate of 35%, primarily due to U.S. losses from amortization and restructuring that were taxed at a higher rate than our pre-tax income from foreign operations.

Excluding the gain from the sale of the CVO business, charges for amortization of intangible assets, restructuring and divestiture related costs, the normalized effective tax rate without a BEAT tax for the six months ended June 30, 2018 was 22.9%. The normalized effective tax rate was 33.6% for the six months ended June 30, 2017, predominantly impacted by the exclusion of amortization of intangible assets and restructuring costs.

Operations Review of Segment Revenue and Profit

Our reportable segments correspond to how we organize and manage the business and are aligned to the industries in which our clients operate.

Beginning in 2018, the Company moved the Health Enterprise business from Other segment into Public Sector segment. In addition, the Company moved the historical results of the businesses that were divested during the third quarter of 2017 to Other segment from both the Commercial Industries and the Public Sector segments.

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

- Commercial Industries, and
- Public Sector.

Other segment includes businesses divested in 2017 and our Student Loan business, which is in run-off mode. The Company expects to exit the Student Loan business in the third quarter of 2018. In the third quarter of 2018, any remaining costs for Student Loans will be reflected in Other (income) expenses, net.

Revenues by segment were:

($ in millions)	Commercial Industries	Public Sector	Other	Total
Three Months Ended June 30, 2018				
Total Revenue	$ 808	$ 574	$ 5	$ 1,387
Profit (Loss)	$ 47	$ 68	$ (5)	$ 110
Adjusted EBITDA[1]	$ 80	$ 91	$ (5)	$ 166
% of Total Revenue	58.2%	41.4%	0.4 %	100.0%
Adjusted EBITDA Margin[1]	9.9%	15.9%	(100.0)%	12.0%
Three Months Ended June 30, 2017				
Total Revenue	$ 856	$ 598	$ 42	$ 1,496
Profit (Loss)	$ 33	$ 52	$ 2	$ 87
Adjusted EBITDA[1]	$ 71	$ 82	$ 4	$ 157
% of Total Revenue	57.2%	40.0%	2.8 %	100.0%
Adjusted EBITDA Margin[1]	8.3%	13.7%	9.5 %	10.5%

($ in millions)	Commercial Industries	Public Sector	Other	Total
Six Months Ended June 30, 2018				
Total Revenue	$ 1,662	$ 1,132	$ 13	$ 2,807
Profit (Loss)	$ 91	$ 133	$ (9)	$ 215
Adjusted EBITDA[1]	$ 158	$ 178	$ (9)	$ 327
% of Total Revenue	59.2%	40.3%	0.5 %	100.0%
Adjusted EBITDA Margin[1]	9.5%	15.7%	(69.2)%	11.6%
Six Months Ended June 30, 2017				
Total Revenue	$ 1,751	$ 1,207	$ 91	$ 3,049
Profit (Loss)	$ 59	$ 109	$ 5	$ 173
Adjusted EBITDA[1]	$ 133	$ 169	$ 8	$ 310
% of Total Revenue	57.4%	39.6%	3.0 %	100.0%
Adjusted EBITDA Margin[1]	7.6%	14.0%	8.8 %	10.2%

(1) Refer to the reconciliations table in the "Non-GAAP Financial Measures" section.

Commercial Industries Segment

Revenue

Commercial Industries revenue for the three and six months ended June 30, 2018 decreased, compared to prior year periods, primarily driven by strategic contract actions and the impact of the new revenue standard, partially offset by revenue from new contracts and volume increases from existing accounts.

Segment Profit and Adjusted EBITDA

Increase in the Commercial Industries segment profit and adjusted EBITDA margin for the three and six months ended June 30, 2018, compared to prior year periods, was mainly driven by reductions in real estate, information technology and labor costs from our strategic transformation initiatives and from increases in new business, partially offset by the overall revenue decline from existing clients and investments, primarily in our sales force.

Public Sector Segment

Revenue

Public Sector revenue for the three and six months ended June 30, 2018, decreased compared to prior year periods, primarily driven by strategic contract actions and the impact of the new revenue standard, contract losses and lower volumes, partially offset by certain price increases as a result of contract remediation.

Segment Profit and Adjusted EBITDA

Increase in the Public Sector segment profit and adjusted EBITDA margin for the three and six months ended June 30, 2018, compared to prior year periods, was mainly driven by reductions in real estate, information technology and labor costs from our strategic transformation initiatives and contract remediation, partially offset by the overall revenue decline from existing clients and investment, primarily in our sales force.

Other Segment

Revenue

Other revenue for the three and six months ended June 30, 2018 decreased, compared to prior year periods, driven mainly by the divestitures completed in 2017 and the run-off of our Student Loan business.

Segment Profit (Loss) and Adjusted EBITDA

Other segment loss and adjusted EBITDA for the three and six months ended June 30, 2018 were primarily due to divestitures completed in 2017 and the run-off of our Student Loan business.

Metrics

Signings

Signings are defined as estimated future revenues from contracts signed during the period, including renewals of existing contracts. Total Contract Value (TCV) is the estimated total contractual revenue related to signed contracts. The amounts in the following table reflect the impact of our adoption of the new revenue recognition standard on January 1, 2018. Refer to Note 2 – Recent Accounting Pronouncements in the Condensed Consolidated Financial Statements for further discussion of the estimated impact of the adoption of this standard.

Signings for the three and six months ended June 30, were:

	Three Months Ended June 30,		2018 vs. 2017	
($ in millions)	2018	2017	$ Change	% Change
New business TCV	$ 372	$ 657	$ (285)	(43)%
Renewals TCV	1,575	587	988	168 %
Total Signings	$ 1,947	$ 1,244	$ 703	57 %
Annual recurring revenue signings[1]	$ 86	$ 130	$ (44)	(34)%
Non-recurring revenue signings[2]	$ 69	$ 109	$ (40)	(37)%

($ in millions)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	2018 vs. 2017 $ Change	2018 vs. 2017 % Change
New business TCV	$ 778	$ 1,187	$ (409)	(34)%
Renewals TCV	2,597	988	1,609	163 %
Total Signings	$ 3,375	$ 2,175	$ 1,200	55 %
Annual recurring revenue signings[1]	$ 179	$ 274	$ (95)	(35)%
Non-recurring revenue signings[2]	$ 132	$ 201	$ (69)	(34)%

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

Signings for the three and six months ended June 30, 2018 increased, compared to the prior year, mainly due to increased renewal activities; partially offset by new business signings decline due to a continued focus on strategic wins with acceptable margins.

Renewal Rate

Renewal rate is defined as the annual recurring revenue (ARR) on contracts that are renewed during the period as a percentage of ARR on all contracts for which a renewal decision was made during the period, excluding any contracts that were not renewed and where a strategic action to improve the risk or profitability had been initiated.

Excluding our strategic decision not to renew certain contracts, renewal rates for the three and six months ended June 30, 2018 were 99% and 97%, respectively.

Capital Resources and Liquidity

As of June 30, 2018 and December 31, 2017, total cash and cash equivalents were $993 million and $658 million, respectively. As of June 30, 2018, there were $1.5 billion outstanding borrowings under our Credit Agreement.

On June 28, 2018, the Company entered into Amendment No. 3 to the December 7, 2016 Credit Agreement. Refer to Note 6 – Debt in the Condensed Consolidated Financial Statements for additional information.

In July 2018, the Company redeemed most of its Senior Notes, which included principal, premium and interest, of $575 million. Also in July 2018, the Company completed the sale of a non-core business with total proceeds of $24 million. Refer to Note 15 – Subsequent Events in the Condensed Consolidated Financial Statements for additional information.

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:

(in millions)	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017	Better (Worse)
Net cash provided by (used in) operating activities	$ 60	$ (40)	$ 100
Net cash provided by (used in) investing activities	322	(19)	341
Net cash provided by (used in) financing activities	(40)	(25)	(15)

Operating activities: The increase in cash generated from operating activities was primarily attributable to improvements in working capital and lower Health Enterprise wind-down payments for certain contracts, partially offset by payments for restructuring and prepaid software licenses.

Investing activities: The increase in cash generated from investing activities was primarily due to the proceeds from the sale of the CVO business, partially offset by increased spending for capital expenditures.

Financing activities: The increase in cash used from financing activities was related to net debt repayments, including repayments of capital leases.

Market Risk Management

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. These derivative financial instruments are utilized to hedge economic exposures, as well as to reduce earnings and cash flow volatility resulting from shifts in market rates.

Recent market events 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 7 – Financial Instruments in the Condensed Consolidated Financial Statements for additional discussion on our financial risk management.

Non-GAAP Financial Measures

We have reported our financial results in accordance with U.S. generally accepted accounting principles (GAAP). In addition, we have discussed our results using the non-GAAP measures described below.

We believe these non-GAAP measures allow investors to better understand the trends in our business and to better understand and compare our results. Accordingly, we believe it is necessary to adjust several reported amounts, determined in accordance with GAAP, to exclude the effects of certain items as well as their related tax effects. Management believes that these non-GAAP financial measures provide an additional means of analyzing the current periods' results against the corresponding prior periods' results. However, these non-GAAP financial measures should be viewed in addition to, and not as a substitute for, the Company's reported results prepared in accordance with U.S. GAAP. Our non-GAAP financial measures are not meant to be considered in isolation or as a substitute for comparable U.S. GAAP measures and should be read only in conjunction with our Condensed Consolidated Financial Statements prepared in accordance with U.S. GAAP. Our management regularly uses our supplemental non-GAAP financial measures internally to understand, manage and evaluate our business and make operating decisions and providing such non-GAAP financial measures to investors allows for a further level of transparency as the factors management uses in planning for and forecasting future periods. Compensation of our executives is based in part on the performance of our business based on certain of these non-GAAP measures.

Reconciliations of the non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with U.S. GAAP are provided in the tables below.

These reconciliations also include the income tax effects of our non-GAAP performance measures in total, to the extent applicable. The income tax effects are calculated under the same accounting principles as applied to our reported pre-tax performance measures under ASC 740, which employs an annual effective tax rate method to the results including an adjustment for estimated BEAT. The income tax effect for our non-GAAP performance measures is effectively the difference in income taxes for reported and adjusted pre-tax income calculated under the annual effective tax rate method. The tax effect of the non-GAAP adjustments was calculated based upon evaluation of the statutory tax treatment and the applicable statutory tax rate in the jurisdictions in which such charges were incurred.

Adjusted Net Income (Loss), Adjusted Earnings per Share and Adjusted Effective Tax Rate

We made adjustments to Income (Loss) before Income Taxes for the following items for the purpose of calculating Adjusted Net Income (Loss), Adjusted Earnings per Share and Adjusted Effective Tax Rate:

- Restructuring and related costs. Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our strategic transformation program.

- Amortization of acquired intangible assets. The amortization of acquired intangible assets is driven by acquisition activity, which can vary in size, nature and timing as compared to other companies within our industry and from period to period.
- Separation costs. Separation costs are expenses incurred in connection with separation from Xerox Corporation into a separate, independent, publicly traded company. These costs primarily relate to third-party investment banking, accounting, legal, consulting and other similar types of services related to the separation transaction as well as costs associated with the operational separation of the two companies.
- (Gain) loss on divestitures and transaction costs. Represents (gain) loss on divested businesses and transactions costs.
- Litigation costs (recoveries), net. Litigation costs (recoveries), net represents reserves for certain terminated contracts that are subject to litigation.
- Other (income) expenses, net. Other (income) expenses, net includes currency (gains) losses, net and all other (income) expenses, net.
- New York Medicaid Management Information System (NY MMIS). Costs associated with the Company not fully completing the State of New York Health Enterprise Platform project.
- Health Enterprise charge (HE charge). Costs associated with not fully completing the Health Enterprise Medical platform projects in California and Montana.

The Company provides adjusted net income and adjusted EPS financial measures to assist our investors in evaluating our ongoing operating performance for the current reporting period and, where provided, over different reporting periods, by adjusting for certain items which may be recurring or non-recurring and which in our view do not necessarily reflect ongoing performance. We also internally use these measures to assess our operating performance, both absolutely and in comparison to other companies, and in evaluating or making selected compensation decisions.

Management believes that adjusted effective tax rate, provided as supplemental information, facilitates a comparison by investors of our actual effective tax rate with an adjusted effective tax rate which reflects the impact of the items which are excluded in providing adjusted net income, and may provide added insight into our underlying business results and how effective tax rates impact our ongoing business.

Net Income (Loss) and EPS Reconciliation:

	Three Months Ended June 30, 2018		Three Months Ended June 30, 2017	
(in millions, except per share data. Shares in thousands)	Net Income (Loss)	Diluted EPS	Net Income (Loss)	Diluted EPS
Income (Loss) from Continuing Operations	$ 11	$ 0.04	$ (4)	$ (0.03)
Adjustments:				
Restructuring and related costs	17		36	
Amortization of acquired intangible assets	60		61	
Separation costs	—		1	
(Gain) loss on divestitures and transaction costs	(60)		(25)	
Litigation costs (recoveries), net	4		(9)	
Other (income) expenses, net	(2)		—	
NY MMIS	(1)		1	
HE charge	—		—	
Less: Income tax adjustments(1)	35		(25)	
Adjusted Net Income (Loss) and EPS	$ 64	$ 0.29	$ 36	$ 0.16
(GAAP Shares in thousands)				
Weighted average common shares outstanding		205,296		203,673
Stock options		146		—
Restricted stock and performance units / shares		3,447		—
Adjusted Weighted Average Shares Outstanding(2)		208,889		203,673
(Non-GAAP Shares in thousands)				
Weighted average common shares outstanding		205,296		203,673
Stock options		146		229
Restricted stock and performance units / shares		3,447		2,797
Adjusted Weighted Average Shares Outstanding(2)		208,889		206,699

(in millions, except per share data. Shares in thousands)	Six Months Ended June 30, 2018 Net Income (Loss)	Six Months Ended June 30, 2018 Diluted EPS	Six Months Ended June 30, 2017 Net Income (Loss)	Six Months Ended June 30, 2017 Diluted EPS
Income (Loss) from Continuing Operations	$ (39)	$ (0.21)	$ (14)	$ (0.09)
Adjustments:				
Restructuring and related costs	37		54	
Amortization of acquired intangible assets	121		122	
Separation costs	—		6	
(Gain) loss on divestitures and transaction costs	(45)		(25)	
Litigation costs (recoveries), net	35		(20)	
Other (income) expenses, net	(3)		(1)	
NY MMIS	(1)		9	
HE charge	—		(5)	
Less: Income tax adjustments[1]	6		(55)	
Adjusted Net Income (Loss) and EPS	$ 111	$ 0.51	$ 71	$ 0.32
(GAAP Shares in thousands)				
Weighted average common shares outstanding		205,184		203,522
Stock options		—		—
Restricted stock and performance units / shares		—		—
Adjusted Weighted Average Shares Outstanding[2]		205,184		203,522
(Non-GAAP Shares in thousands)				
Weighted average common shares outstanding		205,184		203,522
Stock options		144		249
Restricted stock and performance shares		3,117		2,473
Adjusted Weighted Average Shares Outstanding[2]		208,445		206,244

(1) *Reflects the income tax (expense) benefit of the adjustments. Refer to Effective Tax Rate reconciliation below for details.*
(2) *Average shares for the 2018 and 2017 calculation of adjusted EPS excludes 5 million shares associated with our Series A convertible preferred stock and includes the impact of the preferred stock dividend of $2.4 million for both of the three months ended June 30, 2018 and 2017 and $5 million for both of the six months ended June 30, 2018 and 2017, respectively.*

Effective Tax Rate Reconciliation:

($ in millions)	Three Months Ended June 30, 2018 Pre-Tax Income (Loss)	Three Months Ended June 30, 2018 Income Tax (Benefit) Expense	Three Months Ended June 30, 2018 Effective Tax Rate	Three Months Ended June 30, 2017 Pre-Tax Income (Loss)	Three Months Ended June 30, 2017 Income Tax (Benefit) Expense	Three Months Ended June 30, 2017 Effective Tax Rate
As Reported from Continuing Operations	$ 54	$ 43	79.6%	$ (11)	$ (7)	63.6%
Non-GAAP adjustments[2]	18	(35)		65	25	
Adjusted[3]	$ 72	$ 8	11.1%	$ 54	$ 18	33.3%

($ in millions)	Six Months Ended June 30, 2018 Pre-Tax Income (Loss)	Six Months Ended June 30, 2018 Income Tax (Benefit) Expense	Six Months Ended June 30, 2018 Effective Tax Rate	Six Months Ended June 30, 2017 Pre-Tax Income (Loss)	Six Months Ended June 30, 2017 Income Tax (Benefit) Expense	Six Months Ended June 30, 2017 Effective Tax Rate
As Reported from Continuing Operations[1]	$ —	$ 39		$ (33)	$ (19)	57.6%
Non-GAAP adjustments[2]	144	(6)		140	55	
Adjusted[3]	$ 144	$ 33	22.9%	$ 107	$ 36	33.6%

(1) *The effective tax rate was anomalous for the six months ended June 30, 2018. Refer to MD&A—Financial Review of Operations—Income Taxes for additional information.*
(2) *Refer to Net Income (Loss) reconciliation for details of non-GAAP adjustments.*
(3) *The tax impact of Adjusted Pre-tax income (loss) from continuing operations was calculated under the same accounting principles applied to the 'As Reported' pre-tax income (loss), which employs an annual effective tax rate method to the results with an adjustment for the accounting of BEAT and without regard to the sale of the CVO business, charges for amortization of intangible assets, restructuring and divestiture related costs.*

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information set forth under the “Market Risk Management” section in Item 2 of this Quarterly Report on Form 10-Q is hereby incorporated by reference in answer to this Item.

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company’s management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act") as of the end of the period covered by this report. Based on this evaluation, our principal executive officer and principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective to ensure that information we are required to disclose in the reports that we file or submit under the Exchange Act, as amended, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms relating to Conduent Incorporated, including our consolidated subsidiaries, and was accumulated and communicated to the Company’s management, including the principal executive officer and principal financial officer, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

(b) Changes in Internal Controls

In connection with the evaluation required by paragraph (d) of Rule 13a-15 under the Exchange Act, there was no change identified in our internal control over financial reporting that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

ITEM 1 — LEGAL PROCEEDINGS

The information set forth under Note 11 – Contingencies and Litigation in the Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q is incorporated by reference in answer to this Item.

ITEM 1A — RISK FACTORS

Reference is made to the Risk Factors set forth in Part I, Item 1A of our 2017 Annual Report. There have been no material changes to our risk factors as previously reported in our 2017 Annual Report.

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

(a) Sales of Unregistered Securities during the Quarter ended June 30, 2018

During the quarter ended June 30, 2018, 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 June 30, 2018

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 Registrants Current Report on Form 8-K dated December 23, 2016.
4.1(a)	First Supplemental Indenture, dated as of January 9, 2018, among Conduent Finance, Inc., Xerox Business Services, LLC, the Guarantors named therein and U.S. Bank National Association, as trustee.
4.1(b)	Second Supplemental Indenture, dated as of June 1, 2018, among Conduent Finance, Inc., Xerox Business Services, LLC, the Guarantors named therein and U.S. Bank National Association, as trustee.
4.1(c)	Third Supplemental Indenture, dated as of June 1, 2018, among Conduent Finance, Inc., Xerox Business Services, LLC, the Guarantors named therein and U.S. Bank National Association, as trustee.
4.1(d)	Fourth Supplemental Indenture, dated as of June 1, 2018, among Conduent Finance, Inc., Xerox Business Services, LLC, the Guarantors named therein and U.S. Bank National Association, as trustee.
4.1(e)	Fifth Supplemental Indenture, dated as of July 12, 2018, among Conduent Finance, Inc., Xerox Business Services, LLC, the Guarantors named therein and U.S. Bank National Association, as trustee. Incorporated by reference to Exhibit 4.1 to Registrant's Current Report on Form 8-K dated July 12, 2018. (See SEC File Number 001-37817).
10.1(d)	Amendment No. 3 to Credit Agreement, dated as of June 28, 2018, among Conduent Incorporated, Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), Affiliated Computer Services International B.V., Conduent Finance, Inc., the Lenders from time to time party thereto and JPMorgan Chase Bank, N.A. as Administrative Agent. Incorporated by reference to Exhibit 10.1 to Registrant's Current Report on Form 8-K dated June 28, 2018. (See SEC File Number 001-37817).
31(a)	Certification of CEO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
31(b)	Certification of CFO pursuant to Rule 13a-14(a) or Rule 15d-14(a).
32	Certification of CEO and CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.
101.DEF	XBRL Taxonomy Extension Definition Linkbase.
101.INS	XBRL Instance Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.
101.SCH	XBRL Taxonomy Extension Schema Linkbase.

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/ ALLAN COHEN

Allan Cohen
Vice President and
Chief Accounting Officer
(Principal Accounting Officer)

Date: August 8, 2018

FIRST SUPPLEMENTAL INDENTURE

This First Supplemental Indenture (this "Supplemental Indenture"), dated as of January 9, 2018, between CVO Holding Company, LLC, a Delaware limited liability company (the "Guaranteeing Subsidiary"), an affiliate of Conduent Finance, Inc., a Delaware corporation, or Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), a Delaware limited liability company (collectively, the "Issuers"), and U.S. Bank National Association, as trustee (the "Trustee").

W I T N E S S E T H

WHEREAS, the Issuers and the Guarantors (as defined in the Indenture referred to below) have heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of December 7, 2016, providing for the issuance of an unlimited aggregate principal amount of Senior Notes due 2024 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuers' Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to be Bound; Guarantee. Each Guaranteeing Subsidiary by executing this Supplemental Indenture agrees to be a Guarantor under the Indenture for all purposes thereof and as such will have all of the rights and be subject to all of the obligations and agreements of a "Guarantor" under the Indenture, including but not limited to the obligations and agreements in Article X thereof.

(3) Governing Law. THIS SUPPLEMENTAL INDENTURE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(4) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or .pdf transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

(5) Effect of Headings. The Section headings herein are for convenience of reference only, and are not to be considered part of this Supplemental Indenture and shall in no way modify or restrict any of the terms or provisions.

(6) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary.

(7) Benefits Acknowledged. The Guaranteeing Subsidiary's Guarantee is subject to the terms and conditions set forth in the Indenture. The Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

(8) Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed, and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and each Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby and entitled to the benefits hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

CVO HOLDING COMPANY, LLC

By /s/ J. Michael Peffer
Name: J. Michael Peffer
Title: President

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By /s/ Crystal Deperry
Name: Crystal Deperry
Title: Vice President

SECOND SUPPLEMENTAL INDENTURE

This Second Supplemental Indenture (this "Supplemental Indenture"), dated as of June 1, 2018, between CGS Local Government Solutions, LLC, a Delaware limited liability company (the "Guaranteeing Subsidiary"), an affiliate of Conduent Finance, Inc., a Delaware corporation, or Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), a Delaware limited liability company (collectively, the "Issuers"), and U.S. Bank National Association, as trustee (the "Trustee").

W I T N E S S E T H

WHEREAS, the Issuers and the Guarantors (as defined in the Indenture referred to below) have heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of December 7, 2016, providing for the issuance of an unlimited aggregate principal amount of Senior Notes due 2024 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuers' Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to be Bound; Guarantee. Each Guaranteeing Subsidiary by executing this Supplemental Indenture agrees to be a Guarantor under the Indenture for all purposes thereof and as such will have all of the rights and be subject to all of the obligations and agreements of a "Guarantor" under the Indenture, including but not limited to the obligations and agreements in Article X thereof.

(3) Governing Law. THIS SUPPLEMENTAL INDENTURE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(4) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or .pdf transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

(5) Effect of Headings. The Section headings herein are for convenience of reference only, and are not to be considered part of this Supplemental Indenture and shall in no way modify or restrict any of the terms or provisions.

(6) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary.

(7) Benefits Acknowledged. The Guaranteeing Subsidiary's Guarantee is subject to the terms and conditions set forth in the Indenture. The Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

(8) Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed, and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and each Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby and entitled to the benefits hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

CGS Local Government Solutions, LLC

By /s/ J. Michael Peffer
Name: J. Michael Peffer
Title: President

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By /s/ Philip G. Kane, Jr.
Name: Philip G. Kane, Jr.
Title: Vice President

THIRD SUPPLEMENTAL INDENTURE

This Third Supplemental Indenture (this "Supplemental Indenture"), dated as of June 1, 2018, between CGSLGS Holdings, LLC, a Delaware limited liability company (the "Guaranteeing Subsidiary"), an affiliate of Conduent Finance, Inc., a Delaware corporation, or Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), a Delaware limited liability company (collectively, the "Issuers"), and U.S. Bank National Association, as trustee (the "Trustee").

W I T N E S S E T H

WHEREAS, the Issuers and the Guarantors (as defined in the Indenture referred to below) have heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of December 7, 2016, providing for the issuance of an unlimited aggregate principal amount of Senior Notes due 2024 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuers' Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to be Bound; Guarantee. Each Guaranteeing Subsidiary by executing this Supplemental Indenture agrees to be a Guarantor under the Indenture for all purposes thereof and as such will have all of the rights and be subject to all of the obligations and agreements of a "Guarantor" under the Indenture, including but not limited to the obligations and agreements in Article X thereof.

(3) Governing Law. THIS SUPPLEMENTAL INDENTURE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(4) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or .pdf transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

(5) Effect of Headings. The Section headings herein are for convenience of reference only, and are not to be considered part of this Supplemental Indenture and shall in no way modify or restrict any of the terms or provisions.

(6) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary.

(7) Benefits Acknowledged. The Guaranteeing Subsidiary's Guarantee is subject to the terms and conditions set forth in the Indenture. The Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

(8) Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed, and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and each Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby and entitled to the benefits hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

CGSLGS Holdings, LLC

By /s/ J. Michael Peffer
Name: J. Michael Peffer
Title: President

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By /s/ Philip G. Kane, Jr.
Name: Philip G. Kane, Jr.
Title: Vice President

EXHIBIT 4.1(d)

FOURTH SUPPLEMENTAL INDENTURE

This Fourth Supplemental Indenture (this "Supplemental Indenture"), dated as of June 1, 2018, between CSLS Holdings, LLC, a Delaware limited liability company (the "Guaranteeing Subsidiary"), an affiliate of Conduent Finance, Inc., a Delaware corporation, or Conduent Business Services, LLC (f/k/a Xerox Business Services, LLC), a Delaware limited liability company (collectively, the "Issuers"), and U.S. Bank National Association, as trustee (the "Trustee").

W I T N E S S E T H

WHEREAS, the Issuers and the Guarantors (as defined in the Indenture referred to below) have heretofore executed and delivered to the Trustee an indenture (the "Indenture"), dated as of December 7, 2016, providing for the issuance of an unlimited aggregate principal amount of Senior Notes due 2024 (the "Notes");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Issuers' Obligations under the Notes and the Indenture on the terms and conditions set forth herein and under the Indenture (the "Guarantee"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the parties mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

(1) Capitalized Terms. Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

(2) Agreement to be Bound; Guarantee. Each Guaranteeing Subsidiary by executing this Supplemental Indenture agrees to be a Guarantor under the Indenture for all purposes thereof and as such will have all of the rights and be subject to all of the obligations and agreements of a "Guarantor" under the Indenture, including but not limited to the obligations and agreements in Article X thereof.

(3) Governing Law. THIS SUPPLEMENTAL INDENTURE WILL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

(4) Counterparts. The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement. The exchange of copies of this Supplemental Indenture and of signature pages by facsimile or .pdf transmission shall constitute effective execution and delivery of this Supplemental Indenture as to the parties hereto and may be used in lieu of the original Supplemental Indenture and signature pages for all purposes.

(5) Effect of Headings. The Section headings herein are for convenience of reference only, and are not to be considered part of this Supplemental Indenture and shall in no way modify or restrict any of the terms or provisions.

(6) The Trustee. The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary.

(7) Benefits Acknowledged. The Guaranteeing Subsidiary's Guarantee is subject to the terms and conditions set forth in the Indenture. The Guaranteeing Subsidiary acknowledges that it will receive direct and indirect benefits from the financing arrangements contemplated by the Indenture and this Supplemental Indenture and that the guarantee and waivers made by it pursuant to this Guarantee are knowingly made in contemplation of such benefits.

(8) Ratification of Indenture; Supplemental Indentures Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed, and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and each Holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby and entitled to the benefits hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed, all as of the date first above written.

CSLS Holdings, LLC

By /s/ J. Michael Peffer
Name: J. Michael Peffer
Title: President

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By /s/ Philip G. Kane, Jr.
Name: Philip G. Kane, Jr.
Title: Vice President

CEO CERTIFICATIONS

I, Ashok Vemuri, 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.

August 8, 2018

/s/ ASHOK VEMURI

Ashok Vemuri
Principal Executive Officer

CFO CERTIFICATIONS

I, Brian J. Webb-Walsh, 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.

August 8, 2018

/s/ BRIAN J. WEBB-WALSH

Brian J. Webb-Walsh
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 June 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Ashok Vemuri, Chief Executive Officer of the Company, and Brian J. Webb-Walsh, 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/ ASHOK VEMURI

Ashok Vemuri
Chief Executive Officer

August 8, 2018

/s/ BRIAN J. WEBB-WALSH

Brian J. Webb-Walsh
Chief Financial Officer

August 8, 2018

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.