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

FORM 10-Q

(Mark One)

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

For the quarterly period ended: September 30, 2017

OR

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

For the transition period from to

Commission File Number 001-37817

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 200E 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 o Accelerated filer o Non-accelerated filer x Smaller reporting company o Emerging Growth company o

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

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

Class	Outstanding at October 31, 2017
Common Stock, $0.01 par value	210,377,257

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 may 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 security systems and 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 quarters ended March 31, 2017 and June 30, 2017 and our 2016 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.

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per-share data)	2017	2016	2017	2016
Revenues				
Revenue	$ 1,470	$ 1,585	$ 4,497	$ 4,856
Related party	10	11	32	38
Total Revenues	1,480	1,596	4,529	4,894
Cost of services	1,210	1,319	3,742	4,079
Related party cost of services	9	9	24	28
Gross Margin	261	268	763	787
Operating Costs and Expenses				
Research and development	4	7	11	25
Selling, general and administrative	144	164	466	517
Restructuring and related costs	22	8	76	57
Amortization of intangible assets	60	63	182	200
Interest expense	35	1	105	3
Related party interest	—	10	—	30
Separation costs	2	15	8	34
(Gain) loss on sale of asset and businesses	(16)	—	(41)	1
Other (income) expenses, net	(3)	(2)	(24)	6
Total Operating Costs and Expenses	248	266	783	873
Income (Loss) before Income Taxes	13	2	(20)	(86)
Income tax expense (benefit)	30	1	11	(54)
(Loss) Income from Continuing Operations	(17)	1	(31)	(32)
Income from discontinued operations, net of tax	—	—	4	—
Net (Loss) Income	$ (17)	$ 1	$ (27)	$ (32)
Basic Earnings (Loss) per Share:				
Continuing operations	$ (0.09)	$ 0.01	$ (0.19)	$ (0.16)
Discontinued operations	—	—	0.02	—
Total Basic (Loss) Income per Share	$ (0.09)	$ 0.01	$ (0.17)	$ (0.16)
Diluted Earnings (Loss) per Share:				
Continuing operations	$ (0.09)	$ 0.01	$ (0.19)	$ (0.16)
Discontinued operations	—	—	0.02	—
Total Diluted (Loss) Income per Share	$ (0.09)	$ 0.01	$ (0.17)	$ (0.16)

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 September 30,		Nine Months Ended September 30,	
(in millions)	2017	2016	2017	2016
Net (Loss) Income	$ (17)	$ 1	$ (27)	$ (32)
Other Comprehensive Income (Loss), Net[(1)]:				
Translation adjustments, net	8	(10)	34	(25)
Unrealized gains, net	—	—	2	1
Changes in defined benefit plans, net	—	1	—	2
Other Comprehensive Income (Loss), Net	8	(9)	36	(22)
Comprehensive (Loss) Income, Net	$ (9)	$ (8)	$ 9	$ (54)

(1) Refer to Note 10 - Other Comprehensive Income (Loss) for gross components of Other Comprehensive Income (Loss), reclassification adjustments out of Accumulated Other Comprehensive Loss and related tax effects.

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

CONDUENT INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(in millions, except share data in thousands)	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 468	$ 390
Accounts receivable, net	1,380	1,286
Net receivable from former parent company	31	—
Other current assets	233	241
Total current assets	2,112	1,917
Land, buildings and equipment, net	249	283
Intangible assets, net	959	1,144
Goodwill	3,899	3,889
Other long-term assets	328	476
Total Assets	$ 7,547	$ 7,709
Liabilities and Equity		
Short-term debt and current portion of long-term debt	$ 71	$ 28
Accounts payable	147	164
Accrued compensation and benefits costs	221	269
Unearned income	184	206
Net payable to former parent company	—	124
Other current liabilities	591	611
Total current liabilities	1,214	1,402
Long-term debt	1,991	1,913
Pension and other benefit liabilities	151	172
Deferred taxes	605	619
Other long-term liabilities	132	173
Total Liabilities	4,093	4,279
Contingencies (See Note 11)		
Series A Convertible Preferred Stock	142	142
Common Stock	2	2
Additional paid-in-capital	3,834	3,812
Retained deficit	(34)	—
Accumulated other comprehensive loss	(490)	(526)
Total Equity	3,312	3,288
Total Liabilities and Equity	$ 7,547	$ 7,709
Shares of common stock issued and outstanding	210,372	202,875
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 September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash Flows from Operating Activities:				
Net (loss) income	$ (17)	$ 1	$ (27)	$ (32)
Adjustments required to reconcile net loss to cash flows from operating activities:				
Depreciation and amortization	123	135	378	417
Deferred tax expense (benefit)	24	(35)	(7)	(11)
Gain on investments	(3)	(3)	(10)	(6)
Amortization of debt financing costs	3	—	7	—
Net (gain) loss on sale of asset and businesses	(16)	—	(48)	1
Stock-based compensation	8	8	26	18
Changes in operating assets and liabilities:				
Increase in accounts receivable, net	(6)	(27)	(76)	(137)
Decrease (increase) in other current and long-term assets	12	2	(34)	(64)
Decrease in accounts payable and accrued compensation	(1)	(15)	(86)	(154)
Increase (decrease) in restructuring liabilities	1	(17)	25	8
Decrease in other current and long-term liabilities	(26)	(74)	(80)	(164)
Net change in income tax assets and liabilities	5	167	3	91
Other operating, net	(3)	(2)	(6)	(5)
Net cash provided by (used in) operating activities	104	140	65	(38)
Cash Flows from Investing Activities:				
Cost of additions to land, buildings and equipment	(20)	(31)	(57)	(86)
Proceeds from sales of land, buildings and equipment	—	—	33	—
Cost of additions to internal use software	(11)	(11)	(26)	(31)
Proceeds (payments) from sale (purchase) of businesses	56	(1)	56	(54)
Proceeds from investments	117	—	117	—
Net payments on related party notes receivable	—	43	—	43
Other investing	(1)	(1)	(1)	(1)
Net cash provided by (used in) investing activities	141	(1)	122	(129)
Cash Flows from Financing Activities:				
Proceeds on long term debt	—	2	306	6
Debt issuance fee payments	—	—	(9)	—
Payments on debt	(79)	(6)	(232)	(18)
Net (payments to) transfer from former parent	—	(145)	(161)	190
Employee stock plans (tax) / proceeds, net	(3)	—	(5)	—
Dividends paid on preferred stock	(2)	—	(7)	—
Other financing	(2)	—	(3)	(1)
Net cash (used in) provided by financing activities	(86)	(149)	(111)	177
Effect of exchange rate changes on cash and cash equivalents	—	(2)	2	(2)
Increase (decrease) in cash and cash equivalents	159	(12)	78	8
Cash and cash equivalents at beginning of period	309	160	390	140
Cash and Cash Equivalents at End of Period	$ 468	$ 148	$ 468	$ 148

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

Note 1 – Basis of Presentation

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

The condensed balance sheet as of December 31, 2016 has been derived from audited financial statements and the unaudited interim condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and note disclosures normally included in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures made are adequate to make the information not misleading. You should read these Condensed Consolidated Financial Statements, and notes thereto, in conjunction with the Consolidated Financial Statements included in our 2016 Annual Report.

In our opinion, all adjustments which are necessary for a fair statement of financial position, operating results and cash flows for the interim periods presented have been made. These adjustments consist of normal recurring items. Interim results of operations are not necessarily indicative of the results of the full year. For convenience and ease of reference, we refer to the financial statement caption “Income (Loss) before Income Taxes ” as “pre-tax income (loss)”.

Separation from Xerox Corporation

On December 31, 2016, Conduent Incorporated spun-off from Xerox Corporation (Xerox), pursuant to the Separation and Distribution Agreement. The separation was completed by way of a pro rata distribution of Conduent Incorporated shares held by Xerox to Xerox’s shareholders. As a result of the spin-off, we now operate as an independent, publicly traded company on the New York Stock Exchange, under the ticker "CNDT".

Prior to December 31, 2016, the Financial Statements of the Company were derived from the Consolidated Financial Statements and accounting records of Xerox as if the Company operated on a standalone basis and were prepared in accordance with U.S. generally accepted accounting principles (U.S. GAAP) and pursuant to the rules and regulations of the SEC. Historically, the Company consisted of the Business Process Outsourcing Operating segment within Xerox’s reportable Services segment and did not operate as a separate, standalone company. Accordingly, Xerox had reported the financial position and the related results of operations, cash flows and changes in equity of the Company in Xerox’s Consolidated Financial Statements.

Note 2 – Recent Accounting Pronouncements

New Accounting Standards To Be Adopted

Revenue Recognition: In May 2014, the Financial Accounting Standards Board (FASB) updated the accounting guidance related to revenue recognition to clarify the principles for recognizing revenue and replaces 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 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. We continue to evaluate the adoption impact of the updated accounting guidance on our financial statements, disclosures and internal controls. However, we do expect that the new guidance could impact (1) the timing of revenue recognition associated with certain contract modifications; (2) revenue associated with postage recognized on a net basis versus the current gross treatment, (3) certain volume discounts, and (4) timing of the amortization of contract acquisition costs. We will adopt this updated accounting guidance beginning January 1, 2018 using the modified retrospective method under which we will recognize a cumulative-effect adjustment at the date of adoption supplemented with disclosures.

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, with early adoption permitted. 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. We are currently evaluating the impact of the updated accounting guidance on our consolidated financial statements.

Cash Flows: In November 2016 the FASB issued updated accounting guidance regarding the presentation of restricted cash in the statement 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 statement of cash flows. At September 30, 2017 and December 31, 2016, we had $25 million and $22 million of restricted cash, respectively, reported in other current assets. This update is effective for us beginning January 1, 2018.

Business Combinations: In January 2017, the FASB issued clarifying accounting guidance related to the definition of a business to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. This update is effective for us beginning January 1, 2018, with early adoption permitted. The amendment in this update will be applied prospectively. We are currently evaluating the impact of the adoption of this clarifying accounting guidance on our consolidated financial statements.

Accounting Standards Implemented

Goodwill: In January 2017, the FASB issued updated accounting guidance for simplifying the goodwill impairment test. Under the new guidance an entity does not have to calculate the implied fair value of goodwill at the impairment testing date of its assets and liabilities as if those assets and liabilities had been acquired in a business combination. Instead the goodwill impairment test will compare the fair value of a reporting unit with its carrying amount and recognize as an impairment charge any amount by which the carrying amount exceeds the reporting unit's fair value, not to exceed the total amount of goodwill allocated to the reporting unit. We have elected to early adopt this new guidance for our goodwill impairment tests performed after January 1, 2017. Adoption did not have any effect on our financial condition, results of operations or cash flows.

Note 3 – Segment Reporting

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 2017, in an effort to better reflect how we manage our business, we changed our reporting segments to align the Healthcare business based upon customer focus between Commercial Industries and Public Sector.

Our financial performance is based on "Segment Profit / (Loss)" which is defined as income before amortization of intangibles, restructuring and related costs, interest, gain on sale of an asset, separation costs, other (income) expense, net and income taxes for the following three segments:

- Commercial Industries
- Public Sector
- Other

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 customer care, 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 and payment services.

Other: Other includes our Government Health Enterprise Medicaid Platform business, where we are limiting our focus to our current Health Enterprise clients and our Student Loan business, which is in run-off mode. Other also includes non-allocated corporate expenses as well as inter-segment eliminations.

Selected financial information for our reportable segments is as follows:

(in millions)	Three Months Ended September 30, Segment Revenue	Three Months Ended September 30, Segment Profit (Loss)	Nine Months Ended September 30, Segment Revenue	Nine Months Ended September 30, Segment Profit (Loss)
2017				
Commercial Industries	$ 864	$ 53	$ 2,663	$ 114
Public Sector	540	59	1,629	179
Other	76	1	237	(7)
Total	$ 1,480	$ 113	$ 4,529	$ 286
2016				
Commercial Industries	$ 923	$ 42	$ 2,869	$ 103
Public Sector	584	78	1,734	217
Other	89	(23)	291	(75)
Total	$ 1,596	$ 97	$ 4,894	$ 245

(in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
Reconciliation to Pre-tax Income (Loss)	2017	2016	2017	2016
Segment Profit	$ 113	$ 97	$ 286	$ 245
Reconciling items:				
Amortization of intangible assets	(60)	(63)	(182)	(200)
Restructuring and related costs	(22)	(8)	(76)	(57)
Interest Expense	(35)	(1)	(105)	(3)
(Gains) loss on sale of asset and businesses	16	—	41	(1)
Related party interest	—	(10)	—	(30)
Separation costs[(1)]	(2)	(15)	(8)	(34)
Other income (expense), net	3	2	24	(6)
Pre-tax Income (Loss)	$ 13	$ 2	$ (20)	$ (86)

(1) Separation costs are expenses incurred in connection with the separation into an independent, publicly-traded company. These costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services related to the separation transaction as well as costs associated with the operational separation of the two companies, such as those related to human resources, brand management, real estate and information management to the extent not capitalized.

Goodwill

Due to the first quarter 2017 change in segments, we were required to test Goodwill for impairment. As a result of the impairment test, the fair value of both the Commercial Industries and Public Sector reporting units exceeded their carrying values. To the extent the assumptions underlying the goodwill impairment test change, there could be additional impairments in the future.

No interim goodwill impairment trigger was identified as there was no significant change in the assumptions underlying the impairment test, including profitability in each of the reporting units.

Note 4 – Accounts Receivable, Net

Accounts receivable, net was as follows:

(in millions)	September 30, 2017	December 31, 2016
Amounts billed or billable	$ 1,115	$ 1,014
Unbilled amounts	267	279
Allowance for doubtful accounts	(2)	(7)
Accounts Receivable, Net	$ 1,380	$ 1,286

Unbilled amounts include amounts associated with percentage-of-completion accounting and other earned revenues not currently billable due to contractual provisions. Amounts to be invoiced in the subsequent months for current services provided are included in amounts billable, and at September 30, 2017 and December 31, 2016 were approximately $418 million and $429 million, respectively.

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

In the first quarter 2017 we settled a customer dispute over an aged accounts receivable balance for $19 million. We applied $5 million of the proceeds to net accounts receivable and a $14 million gain was recorded as follows:

- $7 million to discontinued operations as a portion of the receivable was related to a business that was part of our Information Technology Outsourcing (ITO) discontinued operation; and
- $7 million to continuing operations as the remainder of the receivable was related to our continuing Healthcare Provider business; the majority of the $7 million is reflected in legal settlements in Other (income) expense, net.

Note 5 – Restructuring Programs and Related Costs

During the nine months ended September 30, 2017, we recorded net restructuring and asset impairment charges of $68 million, which included approximately $38 million of severance costs related to headcount reductions of approximately 3,200 employees worldwide, $33 million of lease cancellation costs and $4 million of asset impairments. These costs were offset by $7 million of net reversals, primarily resulting from changes in estimated reserves from prior period initiatives. The restructuring reserve balance as of September 30, 2017, for all programs was $40 million, of which approximately $28 million is expected to be spent over the next twelve months.

We also recorded $8 million of costs during the nine months ended September 30, 2017, primarily related to professional support services associated with the implementation of the strategic transformation program.

Information related to restructuring program activity during the nine months ended September 30, 2017 is outlined below:

(in millions)	Severance and Related Costs	Lease Cancellation and Other Costs	Asset Impairments	Total
Accrued Balance at December 31, 2016	$ 15	$ 5	$ 1	$ 21
Restructuring provision	38	33	4	75
Reversals of prior accruals	(5)	(2)	—	(7)
Net Current Period Charges	33	31	4	68
Payments and asset impairments	(34)	(9)	(6)	(49)
Accrued Balance at September 30, 2017	$ 14	$ 27	$ (1)	$ 40

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	2017	2016	2017	2016
Commercial Industries	$ 13	$ —	$ 44	$ 36
Public Sector	7	—	21	5
Other	2	—	3	4
Total Net Restructuring and Asset Impairment Charges	$ 22	$ —	$ 68	$ 45

Note 6 - Debt

Long term debt was as follows:

(in millions)	September 30, 2017		December 31, 2016	
Term loan A due 2021[1]	$	727	$	694
Term loan B due 2023		844		750
Senior notes due 2024		510		510
Capital lease obligations		39		43
Principal Debt Balance	$	2,120	$	1,997
Debt issuance costs and unamortized discounts		(58)		(56)
Less: current maturities		(71)		(28)
Total Long-term Debt	$	1,991	$	1,913

(1) The aggregate principal debt for Term Loan A includes borrowings in both U.S Dollars and Euros.

Term Loan B Repricing

On April 7, 2017, we entered into Amendment No. 1 (Repricing Amendment) to the Credit Agreement, dated December 7, 2016. As a result of the Repricing Amendment, we were required to pay the Term B Lenders a 1% principal prepayment fee on approximately $848 million principal balance in the amount of approximately $8 million, and the Term B Loan interest rate was reduced by 1.5%, from 5.5% over LIBOR to 4.0% over LIBOR. Transaction fees of $1 million were expensed.

Note 7 – Financial Instruments

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

At September 30, 2017, we had outstanding forward exchange contracts with gross notional values of approximately $160 million, which is typical of the amounts that are normally outstanding at any point during the year. Approximately 68% of these contracts mature within three months, 12% in three to six months, 15% in six to 12 months and 5% in greater than 12 months. The majority of these foreign currency derivative contracts are designated as cash flow hedges and did not have a material impact on our balance sheet, income statement or cash flows for the periods presented.

Note 8 – Fair Value of Financial Assets and Liabilities

The following table represents assets and liabilities measured at fair value on a recurring basis. The basis for the measurement at fair value is Level 1 for cash and cash equivalents, restricted cash and accounts receivable,net and Level 2 – Significant Other Observable Inputs for all other instruments.

(in millions)	September 30, 2017	December 31, 2016
Assets:		
Cash and cash equivalents	$ 468	$ 390
Restricted cash	25	22
Accounts receivable, net	1,380	1,286
Foreign exchange contracts - forwards	2	1
Deferred compensation investments in cash surrender life insurance(1)	—	99
Deferred compensation investments in mutual funds(1)	—	10
Total	$ 1,875	$ 1,808
Liabilities:		
Foreign exchange contracts - forwards	$ 1	$ 3
Deferred compensation plan liabilities	116	113
Total	$ 117	$ 116

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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. As a result, the Company sold the Plans' investments and has approximately $141 million of cash, of which $25 million is overfunded. The only impact to the income statement is a $19 million tax expense that resulted from the fair market value of the sold investments exceeding the Plans' tax basis. The Company will make payments to Plan participants of approximately $15 million and $101 million in the fourth quarters of 2017 and 2018, respectively.*

We utilize the income approach to measure the fair value for our derivative assets and liabilities. The income approach uses pricing models that rely on market observable inputs such as yield curves, currency exchange rates and forward prices.

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:

	September 30, 2017		December 31, 2016	
(in millions)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term debt	71	71	28	28
Long-term debt	1,991	2,085	1,913	1,933

The fair value amounts for Cash and cash equivalents and Accounts receivable, net, approximate carrying amounts due to the short maturities of these instruments. The fair value of Short and Long-term debt was estimated based on the current rates offered to us for debt of similar maturities (Level 2).

Note 9 – Employee Benefit Plans

We recognized an expense related to our defined contribution plans of $8 million and $10 million for the three months ended September 30, 2017 and 2016, respectively, and $27 million and $28 million, for the nine months ended September 30, 2017 and 2016, respectively.

Note 10 - Other Comprehensive Income (Loss)

Other comprehensive income for the three and nine months ended September 30 2017, increased $16 million ($17 million net of tax) and $57 million ($58 million net of tax), respectively, from the prior year periods. The increase primarily reflects gains from translation adjustments.

Accumulated Other Comprehensive Loss (AOCL)

AOCL is comprised of the following:

(in millions)	September 30, 2017		December 31, 2016	
Cumulative translation adjustments	$	(438)	$	(472)
Other unrealized gains (losses), net		1		(1)
Benefit plans net actuarial losses and prior service credits		(53)		(53)
Total Accumulated Other Comprehensive Loss	$	(490)	$	(526)

Note 11 – Contingencies and Litigation

As more fully discussed below, we are involved in a variety of claims, lawsuits, investigations and proceedings concerning: securities law; governmental entity contracting, servicing and procurement law; intellectual property law; environmental law; employment law; commercial and contracts law; the Employee Retirement Income Security Act (ERISA); and other laws and regulations. We determine whether an estimated loss from a contingency should be accrued by assessing whether a loss is deemed probable and can be reasonably estimated. We assess our potential liability by analyzing our litigation and regulatory matters using available information. We develop our views on estimated losses in consultation with outside counsel handling our defense in these matters, which involves an analysis of potential results, assuming a combination of litigation and settlement strategies. Should developments in any of these matters cause a change in our determination as to an unfavorable outcome and result in the need to recognize a material accrual, or should any of these matters result in a final adverse judgment or be settled for significant amounts, they could have a material adverse effect on our results of operations, cash flows and financial position in the period or periods in which such change in determination, judgment or settlement occurs. The Company believes it has recorded adequate provisions for any such matters and, as of September 30, 2017, it was not reasonably possible that a material loss had been incurred in connection with such matters in excess of the amounts recognized in its financial statements.

Additionally, guarantees, indemnifications and claims arise during the ordinary course of business from relationships with suppliers, customers and nonconsolidated affiliates when we undertake 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 financial position or liquidity. As of September 30, 2017, we have accrued our estimate of liability incurred under our indemnification arrangements and guarantees.

Litigation Against the Company

State of Texas v. Xerox Corporation, Xerox State Healthcare, LLC, and ACS State Healthcare, LLC: On May 9, 2014, the State of Texas, via the Texas Office of Attorney General (the “State”), filed a lawsuit in the 53rd Judicial District Court of Travis County, Texas. The lawsuit alleges that Xerox Corporation, Xerox State Healthcare, LLC and ACS State Healthcare (collectively, the "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 actual damages, two times the amount of any overpayments made as a result of unlawful acts, civil penalties, pre- and post-judgment interest and all costs and attorneys’ fees. The State references the amount in controversy as exceeding hundreds of millions of dollars. The Xerox Defendants filed their Answer in June, 2014 denying all allegations. The Xerox Defendants will continue to vigorously defend themselves in this matter. We do not believe it is probable that we will incur a material loss in excess of the amount accrued for this matter. In the course of litigation, we periodically engage in discussions with plaintiff’s counsel for possible resolution of the matter. Should developments cause a change in our 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 our 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") 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. Buck will continue to aggressively defend these lawsuits.

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. This notice stems from an inquiry that commenced in 2014 when XES received and responded to a Civil Investigative Demand containing a broad request for information. During this process, XES self-disclosed to the Department of Education 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 and the Department of Education, as well as certain states' attorney general offices and other regulatory agencies, began similar reviews. XES has cooperated and continues to fully cooperate with all regulatory agencies, and XES has submitted its NORA response. We cannot provide assurance that the CFPB or another party will not ultimately commence a legal action against XES in this matter nor are we able to predict the likely outcome of the investigations into this matter. We could in future periods incur judgments or enter into settlements in connection with this matter and there could be a material adverse effect on our results of operations, cash flows and financial position in the period in which such change in judgment or settlement occurs.

Other Contingencies

Certain contracts, primarily in our Public Sector segment, require us to provide a surety bond or a letter of credit as a guarantee of performance. As of September 30, 2017, we had $570 million of outstanding surety bonds used to secure our performance of contractual obligations with our clients, and we had $238 million of outstanding letters of credit and bank guarantees used to secure our performance of contractual obligations to our clients as well as other corporate obligations.

In general, we would only be liable for the amount of these guarantees in the event of default in our performance of our obligations under each contract; the probability of which we believe is remote. We believe we have sufficient capacity in the surety markets and liquidity from our cash flow and our various credit arrangements, including those with our former parent, to allow us to respond to future requests for proposals that require such credit support.

We have service arrangements where we service third-party student loans in the Federal Family Education Loan program (FFEL) on behalf of various financial institutions. We service these loans for investors under outsourcing arrangements and do not acquire any servicing rights that are transferable by us to a third-party. At September 30, 2017, we serviced a FFEL portfolio of approximately 0.8 million loans with an outstanding principal balance of approximately $12.8 billion. Some servicing agreements contain provisions that, under certain circumstances, require us to purchase the loans from the investor if the loan guaranty has been permanently terminated as a result of a loan default caused by our servicing error. If defaults caused by us are cured during an initial period, any obligation we may have to purchase these loans expires. Loans that we purchase may be subsequently cured, the guaranty reinstated and the loans repackaged for sale to third parties. We evaluate our exposure under our purchase obligations on defaulted loans and establish a reserve for potential losses, or default liability reserve, through a charge to the provision for loss on defaulted loans purchased. The reserve is evaluated periodically and adjusted based upon management's analysis of the historical performance of the defaulted loans. As of September 30, 2017, other current liabilities include reserves of approximately $1 million for losses on defaulted loans purchased which we believe 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 connection with the Separation from Xerox, we 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[1]	Former Parent Company Investment	Conduent Shareholders' Equity
Balance at December 31, 2016	$ 2	$ 3,812	$ —	$ (526)	$ —	$ 3,288
Comprehensive (loss) income, net	—	—	(27)	36	—	9
Cash dividends paid - preferred stock[2]	—	—	(7)	—	—	(7)
Stock option and incentive plans, net	—	22	—	—	—	22
Balance at September 30, 2017	$ 2	$ 3,834	$ (34)	$ (490)	$ —	$ 3,312

(in millions)	Common Stock	Additional Paid-in Capital	Retained Earnings	AOCL[1]	Former Parent Company Investment	Conduent Shareholders' Equity
Balance at December 31, 2015	$ —	$ —	$ —	$ (181)	$ 5,343	$ 5,162
Comprehensive loss, net	—	—	—	(22)	(32)	(54)
Net transfers from former parent	—	—	—	—	382	382
Balance at September 30, 2016	$ —	$ —	$ —	$ (203)	$ 5,693	$ 5,490

(1) AOCL - Accumulated other comprehensive loss.
(2) Cash dividends on preferred stock of $20.00 per share for the first, second and third quarters of 2017.

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 (shares in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions, except per-share data)	2017	2016	2017	2016
Basic Earnings (Loss) per Share:				
Net (loss) income from continuing operations	$ (17)	$ 1	$ (31)	$ (32)
Accrued dividends on preferred stock	(2)	—	(7)	—
Adjusted Net (Loss) Income From Continuing Operations Available to Common Shareholders	(19)	1	(38)	(32)
Income from discontinued operations, net of tax	—	—	4	—
Adjusted Net (Loss) Income Available to Common Shareholders	$ (19)	$ 1	$ (34)	$ (32)
Weighted average common shares outstanding	204,356	202,875	203,838	202,875
Basic Earnings (Loss) per Share:				
Continuing operations	$ (0.09)	$ 0.01	$ (0.19)	$ (0.16)
Discontinued operations	—	—	0.02	—
Basic (Loss) Income per Share	$ (0.09)	$ 0.01	$ (0.17)	$ (0.16)
Diluted Earnings (Loss) per Share:				
Net (loss) income from continuing operations	$ (17)	$ 1	$ (31)	$ (32)
Accrued dividends on preferred stock	(2)	—	(7)	—
Adjusted Net (Loss) Income from Continuing Operations Available to Common Shareholders	(19)	1	(38)	(32)
Net income from discontinued operations	—	—	4	—
Adjusted Net (Loss) Income Available to Common Shareholders	$ (19)	$ 1	$ (34)	$ (32)
Weighted average common shares outstanding[(1)]	204,356	202,875	203,838	202,875
Diluted Earnings (Loss) per Share:				
Continuing operations	$ (0.09)	$ 0.01	$ (0.19)	$ (0.16)
Discontinued operations	—	—	0.02	—
Diluted (Loss) Income per Share:	$ (0.09)	$ 0.01	$ (0.17)	$ (0.16)

(1) With the exception of the third quarter 2016, the computation of weighted average shares is the same for basic and diluted earnings per share due to the net loss from continuing operations. For third quarter 2016, there were no Conduent options outstanding.

Note 15 – Related Party Transaction

In January 2017, in connection with the Separation and Distribution Agreement, we paid Xerox $161 million for final settlement.

The Condensed Consolidated Statements of Income (Loss), Condensed Consolidated Statements of Comprehensive Loss and Condensed Consolidated Statements of Cash Flows for the three and nine months ended September 30, 2016 included an allocation of general corporate expenses from Xerox, the Company's former parent. Management considered these allocations to be a reasonable reflection of the utilization of services by, or the benefits provided, by Xerox. Allocations for management costs and corporate support services provided totaled $41 million and $125 million for the three and nine months ended September 30, 2016, respectively. These amounts included costs for corporate functions including, but not limited to, senior management, legal, human resources, finance and accounting, treasury, information technology and other shared services. Where possible, these costs were allocated based on direct usage, with the remainder allocated on a basis of costs, headcount or other measures we have determined as reasonable.

Note 16 – Subsequent Event

On October 10, 2017, we entered into Amendment No. 2 (Repricing Amendment) to the Credit Agreement, dated December 7, 2016, as amended by Amendment No. 1 dated April 7, 2017. This Repricing Amendment of Term B Loan reduced the interest rate 1.0% from 4.0% over LIBOR to 3.0% over LIBOR.

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.

Separation from Xerox Corporation

On December 31, 2016, Conduent Incorporated completed its spin-off from Xerox Corporation. As a result of the spin-off, we now operate as an independent, publicly traded company on the New York Stock Exchange, under the ticker "CNDT". Refer to Note 1 - Basis of Presentation, in the Condensed Consolidated Financial Statements for additional information regarding the separation.

Currency Impact

To understand the trends in our business, we believe that it is helpful to analyze the impact of changes in the translation of foreign currencies into U.S. Dollars on revenue and expenses. We refer to this analysis as "currency impact" or "the impact from currency" or "constant currency" and is calculated by translating current period activity in local currency using the comparable prior year period's currency translation rate.

Financial Review of Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
(in millions)	2017	2016	$ Change	2017	2016	$ Change
Total Revenues	$ 1,480	$ 1,596	(116)	$ 4,529	$ 4,894	(365)
Total Cost of services	1,219	1,328	(109)	3,766	4,107	(341)
Gross Margin	261	268	(7)	763	787	(24)
Operating Costs and Expenses						
Research and development	4	7	(3)	11	25	(14)
Selling, general and administrative	144	164	(20)	466	517	(51)
Restructuring and related costs	22	8	14	76	57	19
Amortization of intangible assets	60	63	(3)	182	200	(18)
Interest expense	35	1	34	105	3	102
Related party interest	—	10	(10)	—	30	(30)
Separation costs	2	15	(13)	8	34	(26)
(Gain) loss on sale of asset and businesses	(16)	—	(16)	(41)	1	(42)
Other (income) expenses, net	(3)	(2)	(1)	(24)	6	(30)
Total Operating Costs and Expenses	$ 248	$ 266	(18)	$ 783	$ 873	(90)
Income (Loss) before Income Taxes	$ 13	$ 2	$ 11	$ (20)	$ (86)	$ 66
Income tax expense (benefit)	30	1	29	11	(54)	65
(Loss) Income from Continuing Operations	$ (17)	$ 1	(18)	$ (31)	$ (32)	1

Revenue

Total revenues for the three months and nine months ended September 30, 2017 declined across all segments due primarily to lost business, the wind-down of the New York Medicaid Management Information System (NY MMIS) contract, the run-off of our Student Loan business, strategic contract actions taken by management as part of our portfolio rationalization, lower volumes and overall price declines that were consistent with prior-period trends. Partially offsetting the decline was the ramp up in new contracts in the Commercial Industries and Public Sector businesses.

Cost of Services

Cost of services for the three and nine months ended September 30, 2017 decreased compared to the prior year periods due primarily to lost business, the wind-down of the NY MMIS contract, the run-off of our Student Loan business, strategic contract actions taken by management as part of portfolio management and lower volumes.

Gross Margin

Declines in gross margin for the three and nine months ended September 30, 2017 compared to the prior year periods reflect lost business and margin pressures in our customer experience service offerings, price declines and to a lesser degree the impact of the hurricanes.

Research and Development

Research and development for the three and nine months ended September 30, 2017, decreased compared to the prior year periods due to cost savings initiatives.

Selling, General and Administrative (SG&A)

SG&A for the three and nine months ended September 30, 2017 was lower than the prior year periods reflecting the impact of our strategic transformation initiatives that drove lower wages and benefits.

Restructuring and Related Costs

Net restructuring and related costs for the three months ended September 30, 2017 includes approximately $7 million of severance costs due to headcount reductions of approximately 700 employees worldwide, $17 million of lease cancellation costs and $2 million of asset impairments. These costs were offset by $4 million of net reversals primarily resulting from changes in estimated reserves from prior-period initiatives.

Net restructuring and related costs for the nine months ended September 30, 2017 includes strategic transformation costs of $8 million and approximately $38 million of severance costs related to headcount reductions of approximately 3,200 employees worldwide, $33 million of lease cancellation costs and $4 million of asset impairments. These costs were offset by $7 million of net reversals, primarily resulting from changes in estimated reserves from prior-period initiatives.

Net restructuring and related costs for the three months ended September 30, 2016 relates to the strategic transformation program. Severance costs of $4 million related to headcount reductions and were offset by $4 million of net reversals for changes in estimated reserves from prior-period initiatives.

Net restructuring and related costs for the nine months ended September 30, 2016 includes approximately $52 million of severance costs related to headcount reductions of approximately 3,300 employees worldwide, $12 million of professional support services associated with the implementation of our strategic transformation program, $2 million of lease cancellation costs and $2 million of asset impairments. These costs were partially offset by $11 million of net reversals for changes in estimated reserves from prior-period initiatives.

The restructuring reserve balance as of September 30, 2017, for all programs was $40 million, of which approximately $28 million is expected to be spent over the next twelve months.

Refer to Note 5 - Restructuring Programs and Related Costs, in the Condensed Consolidated Financial Statements for additional information regarding our restructuring programs.

Amortization of Intangible Assets

Amortization of intangible assets for the three and nine months ended September 30, 2017 decreased compared to the prior year periods as the nine months ended September 30, 2016 included the accelerated amortization related to the loss of a large customer contract.

Interest Expense

Interest expense represents interest on long-term debt and the amortization of debt issuance costs. Interest expense for the three and nine months ended September 30, 2017 increased compared to the prior year periods primarily due to the issuance of debt in connection with the capitalization of the company during the spin-off in December 2016, the subsequent additional borrowing under the Term Loan B in January 2017 and amounts outstanding under the Company's $750 million committed credit facility (Credit Facility).

Refer to Note 6 - Debt, in the Condensed Consolidated Financial Statements for additional information.

Separation Costs

Separation costs are primarily for third-party investment banking, accounting, legal, consulting and other similar types of services related to the separation transaction as well as costs associated with the operational separation from Xerox Corporation, such as those related to human resources, brand management, real estate and information management to the extent not capitalized. Separation costs also include the costs associated with bonuses and restricted stock grants awarded to employees for retention related to separation.

Gain on Sale of Asset and Businesses

We sold a property in June 2017 for a pre-tax gain of $24 million.

Additionally, we completed the divestiture of: (1) our Firehouse business and suite of emergency records management products used by fire departments across the country for their incident reporting and Emergency Management System information and records management; (2) our healthcare provider consulting services business, which advises healthcare organizations on IT application optimization; (3) the Breakaway Group business, which provides advisory project services to assist healthcare organizations optimize their health IT applications; (4) the mobile device management business of Wireless Data Services Limited; and (5) the Global Mobility business. The aggregate proceeds for these divestitures was $56 million in cash. The businesses sold represents $82 million of 2016 revenue and $60 million for the nine months ended September 30, 2017. We recorded a pre-tax gain of $16 million on these divestitures.

Other (Income) Expenses, Net

Other (income) expenses, net primarily includes foreign currency transaction (gains) losses, litigation and other contingent matters and deferred compensation investment results.

The increase in Other income for the three months ended September 30, 2017 is primarily related to an adjustment to contingent consideration on a previous acquisition. The increase in Other income for the nine months ended September 30, 2017 is primarily related to income received as a result of several customer dispute settlements and an adjustment to contingent consideration on a previous acquisition.

Pre-tax Income (Loss)

Improvement in Pre-tax income (loss) for the three and nine months ended September 30, 2017 as compared to the prior year periods was primarily driven by improvements in our Commercial and Other segments, benefits from our strategic transformation program, gain on sale of asset and businesses and lower separation costs, partially offset by higher interest expense, higher restructuring and related costs and dis-synergies.

Income Taxes

The effective tax rate for the three months ended September 30, 2017, was 230.8% as compared with 50.0% for the three months ended September 30, 2016. The September 30, 2017 rate is higher than the U.S. statutory tax rate of 35% primarily due to a taxable gain on the termination of the Company Owned Life Insurance plan (COLI) and gains on U.S. divestitures.

Excluding primarily the tax on the termination of the COLI, gains on U.S. divestitures and amortization, the normalized effective tax rate for the three months ended September 30, 2017 was 36.8%. Primarily excluding the amortization and restructuring costs, the normalized effective rate was 39.5% for the three months ended September 30, 2016.

The effective tax rate for the nine months ended September 30, 2017, was (55.0)% as compared with 62.8% for the nine months ended September 30, 2016. The September 30, 2017 negative rate is lower than the U.S. statutory tax rate of 35% due to pre-tax loss and tax from taxable gain on the termination of the COLI and gains on U.S. divestitures. The September 30, 2016 effective tax rate was higher than the U.S. statutory tax rate due primarily to U.S. pre-tax losses that are taxed at a higher rate than foreign pre-tax income, which has the effect of increasing the overall effective tax rate.

Excluding primarily the tax on the termination of the COLI, gain on U.S. divestitures and amortization, the normalized effective tax rate for the nine months ended September 30, 2017 was 35.0%. Primarily excluding the amortization and restructuring costs, the normalized effective rate was 23.6% for the nine months ended September 30, 2016.

Worldwide Employment

Worldwide employment was approximately 90,000 as of September 30, 2017 and decreased by 6,000 from December 31, 2016, due primarily to the impact of restructuring and productivity reductions as well as seasonal reductions and divestitures.

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 2017, in an effort to better reflect how we manage our business, we changed our reporting segments to align the Healthcare business based on customer focus between Commercial Industries and Public Sector.

Our financial performance is based on "Segment Profit / (Loss)" which is defined as income before amortization of intangibles, restructuring and related costs, interest, gain on sale of an asset, separation costs, other (income) expense, net and income taxes for the following three segments:

- Commercial Industries,
- Public Sector, and
- Other

Revenues by segment for the three and nine months ended September 30 were:

	Three Months Ended September 30,				Nine Months Ended September 30,			
(in millions)	Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Profit (Loss)%	Revenue	% of Total Revenue	Segment Profit (Loss)	Segment Profit (Loss)%
2017								
Commercial Industries	$ 864	58%	$ 53	6.1 %	$ 2,663	59%	$ 114	4.3 %
Public Sector	540	37%	59	10.9 %	1,629	36%	179	11.0 %
Other	76	5%	1	1.3 %	237	5%	(7)	(3.0)%
Total	$ 1,480	100%	$ 113	7.6 %	$ 4,529	100%	$ 286	6.3 %
2016								
Commercial Industries	$ 923	58%	$ 42	4.6 %	$ 2,869	59%	$ 103	3.6 %
Public Sector	584	37%	78	13.4 %	1,734	35%	217	12.5 %
Other	89	5%	(23)	(25.8)%	291	6%	(75)	(25.8)%
Total	$ 1,596	100%	$ 97	6.1 %	$ 4,894	100%	$ 245	5.0 %

Commercial Industries Segment

Revenue

Commercial Industries revenue for the three and nine months ended September 30, 2017 was 58% and 59%, respectively, of total revenue and decreased 6% and 7%, respectively, from the prior year periods. The declines were driven primarily by strategic contract actions and lost business in the Healthcare Payer, High Tech Industrial & Retail and Provider businesses and lower volumes from existing clients, partially offset by revenue from new contracts.

Segment Profit

Increase in the Commercial Industries segment profit for the three months ended September 30, 2017 was driven by benefits from our strategic transformation cost initiatives and from new business, partially offset by losses in our customer experience services offering and the overall revenue decline from existing clients, investments and dis-synergy costs.

Increase in the Commercial Industries segment profit for the nine months ended September 30, 2017 was driven by benefits from our strategic transformation cost initiatives, partially offset by losses in our customer experience services offering and the overall revenue decline from existing clients, investments and dis-synergy costs.

Public Sector Segment

Revenue

Public Sector revenue for the three and nine months ended September 30, 2017 was 37% of total revenue for both periods and decreased 8% and 6%, respectively, compared to the prior year periods. The decreases were primarily driven by contract losses in State & Local, Government Healthcare and Payment Services. These declines for the nine months ended were partially mitigated by growth in our Transportation business.

Segment Profit

Decrease in the Public Sector segment profit for the three and nine months ended September 30, 2017 were due to contract losses in Government Healthcare, State & Local, and Payment Services, dis-synergies and investments in our core offerings.

Other Segment

Revenue

Other revenue for the three and nine months ended September 30, 2017 was 5% of total revenues for both periods and decreased 15% and 19%, respectively, driven by the exit from the NY MMIS contract and the run-off of the student loan business.

Segment Profit (Loss)

Other segment profit (loss) of $1 million and $(7) million for the three and nine months ended September 30, 2017 improved $24 million and $68 million, respectively, compared to the prior year periods primarily due to improved profitability in the student loan business, improvements in the HE business.

Health Enterprise

In February 2017, we determined that it was not probable that the NY MMIS project would be completed. As a result of this determination, we recorded a pre-tax charge of $161 million ($98 million after-tax) in the fourth quarter 2016 financial results. The charge included $83 million for the write-off of contract receivables which were recorded as a reduction of revenue and $78 million recorded in costs of outsourcing, including $36 million for wind down costs, a $28 million non-cash charge for the impairment of software and $14 million for the write-off of deferred contract set-up and transition costs and other related assets and liabilities. The three and nine months ended September 30, 2017, includes adjustments to increase our estimated wind-down costs of approximately $1 million and $10 million, respectively.

We have reached agreement in principle with the State of New York regarding resolution of the Health Enterprise (HE) platform project, which would result in settlement of our New York Health Enterprise platform exposure. Under this agreement in principle, we would pay, or incur costs on behalf of, the State of New York in the amount of approximately $20 million which is reserved. This agreement in principle remains subject to ongoing negotiations and a settlement will not be effective unless and until we enter into a definitive agreement with the State of New York. Our HE platform has been fully implemented in New Hampshire, Alaska and North Dakota and we are in the process of obtaining certification for Alaska and North Dakota.

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.

Signings for the three and nine months ended September 30, were:

(in millions)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
New business TCV	$ 390	$ 633	$ 1,577	$ 1,803
Renewals TCV	657	913	1,645	3,388
Total Signings	$ 1,047	$ 1,546	$ 3,222	$ 5,191
Annual recurring revenue signings	$ 92	$ 167	$ 366	$ 408
Non-recurring revenue signings	$ 86	$ 104	$ 287	$ 326

Signings for the three and nine months ended September 30, 2017 decreased 32% and 38%, from the prior year periods, respectively, reflecting the impact of lower contract renewals, partially resulting from our strategic contract remediation actions in 2017 and a large contract renewal in the second quarter of 2016.

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. Renewal rate for the three and nine months ended September 30, 2017 was 98% and 93%, respectively, and exceeded our target range of 85%-90%. Excluding these strategic actions, renewals would have been approximately 95% and 83% for the three and nine months ended September 30, 2017 .

Capital Resources and Liquidity

As of September 30, 2017 and December 31, 2016, total cash and cash equivalents were $468 million (inclusive of $141 million cash related to the termination of the deferred compensation plan) and $390 million, respectively. We had no outstanding borrowings under our Revolving Credit Facility as of September 30, 2017.

Additionally, we have letters of credit and bank guarantees outstanding from time-to-time to secure our performance of contractual obligation to our clients and other corporate obligations. Refer to Note 11 - Contingencies and Litigation, in the Condensed Consolidated Financial Statements for additional information regarding these guarantees.

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)	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Increase (Decrease)
Net cash provided by (used in) operating activities	$ 65	$ (38)	$ 103
Net cash provided by (used in) investing activities	122	(129)	251
Net cash (used in) provided by financing activities	(111)	177	(288)

Operating activities: The increase in cash generated from operating activities was primarily attributable to improvements in working capital, reduced wind-down payments associated with implementations in California, Montana and New York, partially offset by income-tax payments.

Investing activities: The increase in cash provided by investing activities was primarily related to the following:
- $116 million increase due to proceeds received on long-term investments driven by the termination of the deferred compensation plan.
- $109 million increase due to proceeds received from 2017 divestitures ($56 million) and payment made to Atos for an adjustment to purchase price related to a divestiture in 2016 ($53 million).

Financing activities: The decrease in cash used from financing activities was primarily related to the following:

- $351 million decrease due to net transfers to former parent.
- $214 million decrease due to increase in payments of debt.
- $300 million increase due to proceeds on issuance of debt.

Capital Market Activity

On October 10, 2017, we entered into Amendment No. 2 to the Credit Agreement dated December 7, 2016 and amended by Amendment No. 1 dated April 7, 2017. Amendment No. 2 reduced the interest rate on our Term Loan B by 1.0% from 4.0% over LIBOR to 3.0% over LIBOR.

On April 7, 2017, we entered into Amendment No. 1 to the Credit Agreement, dated December 7, 2016 which reduced the interest rate on our Term Loan B by 1.5% from 5.5% over LIBOR to 4.0% over LIBOR.

In January 2017, we borrowed an additional $100 million on Term Loan B with proceeds used for general corporate purposes.

Refer to Note 6 - Debt, in the Condensed Consolidated Financial Statements for additional information.

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. GAAP. In addition, we have discussed our results using certain non-GAAP measures.

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 to how management reviews and evaluates our business results and trends. These non-GAAP measures are among 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 these non-GAAP measures.

A reconciliation of the non-GAAP financial measures to the most directly comparable financial measures calculated and presented in accordance with GAAP are provided below.

These reconciliations also include the income tax effects for 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. The noted 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.

Constant Currency

To better understand trends in our business, we believe that it is helpful to adjust revenue to exclude the impact of changes in the translation of foreign currencies into U.S. Dollars. We refer to this adjusted revenue as “constant currency.” Currency impact is the difference between actual growth rates and constant currency growth rates.

Adjusted Operating Income and Adjusted Operating Margin

We make adjustments to Pre-Tax Income (Loss) for the following items for the purpose of calculating Adjusted Operating Income and Adjusted Operating Margin.

- Amortization of intangible assets. The amortization of intangible assets is driven by acquisition activity, which can vary in size, nature and timing as compared to other companies within our industry from period to period.
- Restructuring and related costs. Restructuring and related costs include restructuring and asset impairment charges as well as costs associated with our strategic transformation program.
- Separation costs. Separation costs are expenses incurred in connection with the 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.
- Interest expense. Interest expense includes interest on long-term debt and amortization of debt issuance costs and related party interest.
- Other (income) expenses net. Other (income) expenses, net includes currency (gains) losses, net, litigation matters and all other (income) expenses, net.
- NY MMIS (2017 only). Costs associated with the company not fully completing the State of New York Health Enterprise Platform project.
- HE charge (2017 only). Costs associated with not fully completing the Health Enterprise Medical Platform implementation projects in California and Montana.
- (Gain) loss on sale of asset and businesses.

We provide our investors with adjusted operating income and adjusted operating margin information, as supplemental information, because we believe it offers added insight, by itself and for comparability between periods, by adjusting for certain non-cash items as well as certain other identified items which we do not believe are indicative of our ongoing business, and may also provide added insight on trends in our ongoing business.

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

We make 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:

- Amortization of intangible assets.
- Restructuring and related costs.
- Separation costs.
- Other (income) expenses, net.
- NY MMIS (2017 only).
- HE charge (2017 only).
- (Gain) loss on sale of asset and businesses.

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.

Operating Income / Margin Reconciliation:

(in millions)	Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Pre Tax Income (Loss)	Revenue	Margin	Pre Tax Income (Loss)	Revenue	Margin
GAAP as Reported[(1)]	$ 13	$ 1,480	0.9%	$ 2	1,596	0.1%
Adjustments:						
Amortization of intangible assets	60			63		
NY MMIS	1			—		
Restructuring and related costs	22			8		
HE charge	(3)			—		
Separation costs	2			15		
Interest expense	35			1		
Related party interest	—			10		
(Gain) loss on sale of asset and businesses	(16)			—		
Other (income) expenses, net	(3)			(2)		
Adjusted Operating Income/Margin	$ 111	$ 1,480	7.5%	$ 97	$ 1,596	6.1%

(1) Pre-Tax Income (Loss) and revenue from continuing operations.

(in millions)	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016		
	Pre Tax Income (Loss)	Revenue	Margin	Pre Tax Income (Loss)	Revenue	Margin
GAAP as Reported[(1)]	$ (20)	$ 4,529	(0.4)%	$ (86)	4,894	(1.8)%
Adjustments:						
Goodwill impairment	182			200		
Amortization of intangible assets	10			—		
NY MMIS	76			57		
Restructuring and related costs	(8)			—		
HE charge	8			34		
Interest expense	105			3		
Related party interest	—			30		
(Gain) loss on sale of asset and businesses	(41)			1		
Other (income) expenses, net	(24)			6	—	
Adjusted Operating Income/Margin	$ 288	$ 4,529	6.4 %	$ 245	$ 4,894	5.0 %

(1) Pre-Tax Income (Loss) and revenue from continuing operations.

Effective Tax Rate Reconciliation:

(in millions)	Three Months Ended September 30, 2017 Pre-Tax Income (Loss)	Three Months Ended September 30, 2017 Income Tax (Benefit) Expense	Three Months Ended September 30, 2017 Effective Tax Rate	Three Months Ended September 30, 2016 Pre-Tax Income (Loss)	Three Months Ended September 30, 2016 Income Tax (Benefit) Expense	Three Months Ended September 30, 2016 Effective Tax Rate
GAAP as Reported From Continuing Operations	$ 13	$ 30	230.8%	$ 2	$ 1	50.0%
Non-GAAP adjustments[1]	63	17		84	33	
Termination of COLI plan	—	(19)		—	—	
Adjusted[2]	$ 76	$ 28	36.8%	$ 86	$ 34	39.5%

(1) Refer to Net Income (Loss) reconciliation for details.

(2) The tax impact of Adjusted Pre-Tax Income (Loss) from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income, which employs an annual effective tax rate method to the results.

(in millions)	Nine Months Ended September 30, 2017 Pre-Tax Income (Loss)	Nine Months Ended September 30, 2017 Income Tax (Benefit) Expense	Nine Months Ended September 30, 2017 Effective Tax Rate	Nine Months Ended September 30, 2016 Pre-Tax Income (Loss)	Nine Months Ended September 30, 2016 Income Tax (Benefit) Expense	Nine Months Ended September 30, 2016 Effective Tax Rate
GAAP as Reported From Continuing Operations	$ (20)	$ 11	(55.0)%	$ (86)	$ (54)	62.8%
Non-GAAP adjustments[1]	203	72		298	104	
Termination of COLI plan	—	(19)		—	—	
Adjusted[2]	$ 183	$ 64	35.0 %	$ 212	$ 50	23.6%

(1) Refer to Net Income (Loss) reconciliation for details.

(2) The tax impact of Adjusted Pre-Tax Income (Loss) from continuing operations is calculated under the same accounting principles applied to the As Reported Pre-Tax Income, which employs an annual effective tax rate method to the results.

Net Income (Loss) and EPS Reconciliation:

(in millions, except earnings per share)	Three Months Ended September 30, 2017 Net Income (Loss)	Three Months Ended September 30, 2017 EPS	Three Months Ended September 30, 2016 Net Income (Loss)	Three Months Ended September 30, 2016 EPS
GAAP as Reported From Continuing Operations	$ (17)	$ (0.09)	$ 1	$ 0.01
Adjustments:				
Amortization of intangible assets	60		63	
NY MMIS	1		—	
Restructuring and related costs	22		8	
HE charge	(3)		—	
Separation costs	2		15	
(Gain) loss on sale of asset and businesses	(16)		—	
Other (income) expenses, net	(3)		(2)	
Less: Income tax adjustments[1]	2		(33)	
Adjusted Net Income (Loss) and EPS	$ 48	$ 0.22	$ 52	$ 0.24
(shares)				
Weighted average common shares outstanding		204		203
Restricted stock and performance shares		3		3
8% Convertible preferred stock		—		5
Adjusted Weighted Average Shares Outstanding[2]		207		211

(1) Reflects the income tax (expense) benefit of the adjustments. Refer to the Effective Tax Rate reconciliation details.

(2) Average shares for the 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 quarterly dividend of $2 million for the three months ended September 30, 2017. Average shares for the 2016 calculation of adjusted EPS includes 5 million shares associated with our Series A convertible preferred stock and excludes the impact of the preferred stock quarterly dividend.

(in millions, except earnings per share)	Nine Months Ended September 30, 2017				Nine Months Ended September 30, 2016			
	Net Income (Loss)		EPS		Net Income (Loss)		EPS	
GAAP as Reported From Continuing Operations	$	(31)	$	(0.19)	$	(32)	$	(0.16)
Adjustments:								
Amortization of intangible assets		182				200		
NY MMIS		10				—		
Restructuring and related costs		76				57		
HE charge		(8)				—		
Separation costs		8				34		
(Gain) loss on sale of asset and businesses		(41)				1		
Other (income) expenses, net		(24)				6		
Less: Income tax adjustments[(1)]		(53)				(104)		
Adjusted Net Income (Loss) and EPS	$	119	$	0.54	$	162	$	0.77

(shares)	2017	2016
Weighted average common shares outstanding	204	203
Restricted stock and performance shares	3	3
8% Convertible preferred stock	—	5
Adjusted Weighted Average Shares Outstanding[(2)]	207	211

(1) Reflects the income tax (expense) benefit of the adjustments. Refer to the Effective Tax Rate reconciliation details.

(2) Average shares for the 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 quarterly dividend of $7 million for the nine months ended September 30, 2017. Average shares for the 2016 calculation of adjusted EPS includes 5 million shares associated with our Series A convertible preferred stock and excludes the impact of the preferred stock quarterly dividend.

ITEM 3 — QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

ITEM 4 — CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures

The Company’s management evaluated, with the participation of our principal executive officer and principal financial officer, or persons performing similar functions, the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as 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 2016 Annual Report. There have been no material changes to our risk factors as previously reported in our 2016 Annual Report.

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

(a) Sales of Unregistered Securities during the Quarter ended September 30, 2017

During the quarter ended September 30, 2017, the Company did not issue any securities in transactions that were not registered under the Securities Act of 1933, as amended.

(b) Issuer Purchases of Equity Securities during the Quarter ended September 30, 2017

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.
10.1(d)	Amendment No. 2 to Credit Agreement, dated as of April 7, 2017, among Conduent Incorporated, Conduent Business Services, LLS, Affiliated Computer Services International B.V. and Conduent Finance, Inc., the Lenders from time to time party thereto and JPMorgan Chase Bank, N/A., as Administrative Agent. Incorporated by reference to Registrant's Current Report on Form 8-K, filed October 10, 2017.
10.6(h)	Executive Change in Control Severance Plan, dated as of October 1, 2017. Incorporated by reference to Registrant's Current Report on Form 8-K, filed October 4, 2017.
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: November 8, 2017

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)) 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) 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
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2017

/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)) 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) 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
   (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 8, 2017

/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 September 30, 2017, 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

November 8, 2017

/s/ BRIAN J. WEBB-WALSH

Brian J. Webb-Walsh
Chief Financial Officer

November 8, 2017

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.