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XEROX:
FREQUENTLY ASKED QUESTIONS ON POTENTIAL LMES UNDER ITS SECURED BONDS

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Xerox: Frequently Asked Questions on Potential LMEs under its Secured Bonds

The Bottom Line™:

- There has been significant market speculation that Xerox may attempt new liability management exercises under the secured bonds with the consent of only a majority in principal amount of each series of these bonds.
- We have received numerous subscriber questions regarding additional potential LME scenarios involving Xerox, and we answer those questions in this report.
- If Xerox seeks to amend its secured indentures to move assets to an Unrestricted Subsidiary as a prelude to an LME, the Xerox secured indentures would not allow this without the consent of 100% of the bonds of each applicable series.
- If Xerox seeks to amend its secured indentures to move assets to a non-guarantor Restricted Subsidiary and then structure a "double-dip pari-plus" new money transaction, where the new money would have a first lien on the NewCo assets and a first lien on the RemainCo assets using the conventional intercompany loan structure observed in pari-plus type transactions, the Xerox secured indentures would not allow this without the consent of 100% of the bonds of each applicable series.
- If Xerox seeks to amend its secured indentures to move assets to a non-guarantor NewCo and then issue new debt that has claims against both RemainCo and NewCo, there is a strong argument that the Xerox secured indentures would not allow this without the consent of 100% of the bonds of each applicable series.
- We also briefly confirm that the Company had enough investments capacity under its secured indentures to consummate the recently announced joint venture drop-down LME, based on several assumptions.

Overview

On February 17, Xerox Corporation ("Xerox" or the "Company") reported on a Form 8-K that it had entered into what is tantamount to a drop-down financing transaction, but with a joint venture rather than an unrestricted subsidiary. For more details on this transaction, see Xerox: How Did Xerox Consummate the Joint Venture Financing Under the Terms of its Existing Term Loan Facility?

In addition, on February 25, our sister company LFI reported that select Xerox creditors have signed onto a coop agreement as creditors worry about the possibility of another liability management transaction.

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At Covenant Review, we have received numerous subscriber questions regarding several potential LME scenarios involving Xerox, and particularly on the implications of those potential transactions on the Company's 10.25% Senior Secured First Lien Notes due 2030 (the "First Lien Notes") and 13.5% Senior Secured Second Lien Notes due 2031 (the "Second Lien Notes" and, together with the First Lien Notes, the "Secured Notes").

The Company is the issuer of $400 million of First Lien Notes under an April 11, 2025 Indenture (the "First Lien Indenture") and is the issuer of $500 million of Second Lien Notes under an April 11, 2025 Indenture (the "Second Lien Indenture,"[1] and, together with the First Lien Indenture, the "Secured Indentures"). The Secured Notes are guaranteed by Xerox Holdings Corporation and each of the Company's subsidiaries that guarantees the Company's existing credit agreement. The Secured Indentures have substantially identical restrictive covenants with respect to the matters discussed in this report, with customary adjustments to reflect the respective lien priority of each series of the Secured Notes and the fact that the proceeds of the Second Lien Notes were initially escrowed pending the Lexmark acquisition.

Covenant Review has published extensive research on Xerox over the years, and our research is available here. In particular, we direct our readers to our research on the First Lien Notes and the Second Lien Notes.

Q. On February 20, Covenant Review published a report explaining how Xerox could have consummated the recently announced joint venture drop-down LME under its existing credit agreement. How could they do it under the Secured Indentures?

A. On February 17, 2026, Xerox Corporation (the "Company") reported on a Form 8-K that it had entered into what is tantamount to a drop-down financing transaction, but with a joint venture rather than an unrestricted subsidiary. The steps are as follows:

> (1) the Company formed a joint venture ("IPCo Holdings") with certain of its lenders (the "IPCo Lenders") pursuant to which the IPCo Lenders received Class A Units in IPCo Holdings and the Company received Class B Units in IPCo Holdings,
>
> (2) the Company contributed certain intellectual property and related assets, including the trademarks in respect of the Xerox brand (the "IPCo Assets") to IPCo Holdings,
>
> (3) the IPCo Lenders funded a $405 million senior secured term loan (the "IPCo Term Loan") to IPCo Holdings (the "Joint Venture Financing"), and
>
> (4) the proceeds of the Joint Venture Financing were distributed to the Company and are "expected to be used for general corporate purposes."

Subsequent to the Joint Venture Financing and related contribution and distribution, Xerox contributed cash in an amount roughly equal to $4,750,000 to the common equity capital of IPCo Holdings.

[1] The Second Lien Indenture was supplemented by a May 9, 2025 First Supplemental Indenture to reflect the issuance of $100 million in additional Second Lien Notes and a July 1, 2025 Second Supplemental Indenture to reflect the assumption of the Second Lien Notes by the Company.

On February 18, 2026, our sister company CreditSights published Xerox: JV IP Deal with TPG Credit; Model Update, and in that report CreditSights estimated that the contributed assets totaled approximately $490 million.

On February 20, 2026, Covenant Review published Xerox: How Did Xerox Consummate the Joint Venture Financing Under the Terms of its Existing Term Loan Facility?, where we explained how Xerox would have been able to avoid the J. Crew Blocker provision in its credit agreement by using a joint venture entity that was not a "Subsidiary" for purposes of the covenants of its existing credit agreement.

In the interests of brevity, we will not repeat the analysis of this joint venture drop down transaction for purposes of analyzing the Secured Indentures, other than to confirm that this structure would have been permitted under the terms of the Secured Indentures for much the same reasons that it would have been permitted under the existing Credit Agreement. We note that the Secured Indentures appear to provide adequate Investments capacity to have structured this joint venture drop-down transaction, assuming that the contributed assets totaled approximately $490 million (as CreditSights estimated) and that the joint venture entity was not a "Subsidiary" under the Secured Indentures.

For each Secured Indenture, the general Restricted Payments basket provides capacity to the greater of $125 million and 10% of LTM EBITDA,[2] the general Permitted Investments basket provides capacity to the greater of $370 million and 30% of LTM EBITDA,[3] and a basket for investments in joint ventures provides capacity to the greater of $370 million and 30% of LTM EBITDA[4], and all of these baskets can be used to make investments in joint ventures.[5]

Accordingly, based on the CreditSights estimate of the value of the contributed assets at approximately $490 million, we can confirm that the Company would have had enough investments capacity under its Secured Indentures to consummate the recently announced joint venture drop-down LME, in much the same way that it would have been able to structure this transaction under its existing credit agreement.[6]

Q. Can Xerox amend the Secured Indentures with a bare majority of each series of Secured Notes to move assets to an Unrestricted Subsidiary as a prelude to potential liability management exercises?

A. No. The Secured Indentures would not allow this transaction to occur with the consent of a bare majority in principal amount of the applicable Secured Notes.

[2] See Section 409(b)(v) of each Secured Indenture.
[3] See "Permitted Investments" clause (xiv) of each Secured Indenture.
[4] See "Permitted Investments" clause (xix)(B) of each Secured Indenture.
[5] In addition, the Company may have additional Restricted Payments capacity under the basket build provision and/or its leverage ratio-based carveouts, but we do not consider those provisions in light of the capacity set forth in the baskets above relative to the estimated value of the contributed assets (per CreditSights).
[6] Of course, this assumes that the joint venture entity was not a "Subsidiary" under the Secured Indentures (or the existing credit agreement). Under the Secured Indentures, a "Subsidiary" of any person is defined as "any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Capital Stock or other equity interests (including partnership interests) entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof is at the time owned or controlled, directly or indirectly, by (i) such Person or (ii) one or more Subsidiaries of such Person."

The reason for this answer can be found in *Section 902 – With Consent of Holders* of the Secured Indentures. Clause (ii)(B) (of the third paragraph of Section 902) of each Secured Indenture provides that the Company cannot amend certain material provisions of the Secured Indentures pertaining to Unrestricted Subsidiaries without the consent of the holders of at least 100% in aggregate principal amount of the outstanding applicable Secured Notes:

- Section 902(ii)(B)(1) restricts the ability of the Company to amend, modify, or waive the definition of "Unrestricted Subsidiary" or "Material Intellectual Property" without 100% consent of the holders of the outstanding applicable Secured Notes;

- Section 902(ii)(B)(2) restricts the ability of the Company to amend, modify, or waive any provisions of this Indenture that would, except as set forth in the definition of "Unrestricted Subsidiary," permit the creation or existence of Unrestricted Subsidiaries, or any Subsidiary that would be "unrestricted" or otherwise generally excluded from the requirements, taken as a whole, applicable to Subsidiaries pursuant to the Note Documents without 100% consent of the holders of the outstanding applicable Secured Notes;

- Section 902(ii)(B)(3) restricts the ability of the Company to amend or modify any provision of the applicable Secured Indenture to permit additional Investments (including Guarantees of Indebtedness of) in, Restricted Payments to or dispositions to any Unrestricted Subsidiary not permitted by the terms of this Indenture (prior to the amendment or modification) without 100% consent of the holders of the outstanding applicable Secured Notes; and

- Section 902(ii)(B)(4) restricts the ability of the Company to amend, modify, or waive *Section 417 – Limitation on Investments in Unrestricted Subsidiaries* without 100% consent of the holders of the outstanding applicable Secured Notes.[7]

As the modification of these provisions pertaining to Unrestricted Subsidiaries are sacred rights under the Secured Indentures, the Company cannot modify those provisions with the consent of a bare majority in principal amount of the applicable Secured Notes.

[7] *Section 417 – Limitation on Investments in Unrestricted Subsidiaries* generally provides that the only transfers of assets that can be made to an Unrestricted Subsidiary can be made pursuant to "Permitted Investments" clause (xix)(A), which allows investments to the greater of $85 million and 10% of LTM EBITDA (and such Investments must be made pursuant to customary escrow arrangements related to issuances of debt by an Unrestricted Subsidiary in connection with a proposed acquisition by the restricted group). In addition, Section 417 generally provides that no Unrestricted Subsidiary can hold Material Intellectual Property.

Q. Can Xerox amend the Secured Indentures with a bare majority of each series of Secured Notes to move assets to a non-guarantor Restricted Subsidiary (which we'll refer to in this report as "NewCo") and then structure a "double-dip pari-plus" new money transaction (including an intercompany proceeds note), where the new money debt incurred by NewCo would have a first lien on the NewCo assets and a parity first lien on the legacy Xerox ("RemainCo") assets?

A. No.

In a transaction where Xerox seeks to amend each Secured Indenture to implement the above-described "double-dip pari-plus" transaction, where NewCo would be the issuer/borrower of the new debt and the new debt would be secured by both a first lien on the assets of NewCo and a first lien on the assets of RemainCo (via both guarantees of the NewCo debt by RemainCo obligors and a pledge of the RemainCo intercompany proceeds note for the benefit of NewCo creditors), the Secured Indentures would not allow this transaction to occur with the consent of a mere majority in principal amount of the applicable Secured Notes.

This is because the last paragraph of Section 407(b) of each of the Secured Indentures contains this override provision:

> Notwithstanding anything to the contrary herein or in any Note Document, **any Indebtedness (including all intercompany loans and Guarantees of Indebtedness) incurred after the Issue Date owed by the Company or a Guarantor to any Non-Guarantor Subsidiary** or Unrestricted Subsidiary **shall be subordinated in right of payment to the Obligations under the Indenture and the Notes** pursuant to a global intercompany subordination agreement in substantially the form attached to this Indenture as Exhibit G, which such global intercompany subordination agreement shall permit repayments and prepayments so long as no Event of Default has occurred and is continuing **(this clause, the "Double-Dip Provision")**. [emphasis ours]

This Double-Dip Provision would prevent the creation of an intercompany note issued by the Company and/or Guarantors of the Secured Notes that is secured by a first lien on the Collateral for the Secured Notes, unless that intercompany note is contractually subordinated to both the First Lien Notes and Second Lien Notes.[8]

One might then ask, why can't a majority in principal amount of the First Lien Notes and Second Lien Notes just amend away the Double-Dip Provision (and other Secured Indenture provisions that are in the way) in structuring the pari-plus LME transaction?

The answer can be found in *Section 902 – With Consent of Holders* of the Secured Indentures. Clause (ii)(B)(5) (of the third paragraph of Section 902) of each Secured Indenture provides that the Company cannot amend the Double-Dip Provision without the consent of the holders of at least 100% in aggregate principal amount of the outstanding applicable Secured Notes.

Accordingly, without the consent of 100% in principal amount of the Secured Notes of each series, the Company cannot amend the Secured Indentures to remove the Double-Dip Provision. As a result, the

[8] Of course, contractually subordinating the intercompany note to the First Lien Notes and the Second Lien Notes would defeat the purpose of this "double-dip/ pari-plus" transaction structure.

Secured Indentures would not allow the "double-dip pari-plus" transaction described above with a bare majority of the applicable Secured Notes.[9]

Q. Can Xerox amend the Secured Indentures with a bare majority of each series of Secured Notes to move assets to NewCo and then borrow or issue new RemainCo first lien debt that also has a first lien guarantee from NewCo (which wouldn't guarantee RemainCo's other secured debt)?

A. There is a strong argument that Xerox cannot do this under the Secured Indentures with a bare majority of each series of Secured Notes.

Clause (ii)(A)(2) (of the third paragraph of Section 902) of each Secured Indenture provides that the Company cannot "modify the Security Documents or the provisions of this [Secured Indenture] dealing with Collateral in any manner adverse to the Holders of the Notes in any material respect other than in accordance with the terms of this [Secured Indenture], the Security Documents or the Intercreditor Agreements" without the consent of 100% of the holders of the applicable Secured Notes.

If the Company were to amend the Secured Indentures with a bare majority of each series of Secured Notes to allow the Company to move significant assets to NewCo (a non-guarantor Restricted Subsidiary), this would arguably be materially modifying the "provisions of the applicable Secured Indenture dealing with Collateral" in a manner adverse to the holders of the applicable Secured Notes.

According to this argument, each Secured Indenture contains a number of provisions that limit the amount of value that can leave the Collateral pool, and any change to those provisions is a modification to the provisions of the applicable Secured Indenture "dealing with Collateral." Any modification to those provisions in order to remove assets from the Collateral pool (and into NewCo) would result in less credit support for the applicable Secured Notes. Most pertinently, *Section 418 – Limitation on Investments in Non-Guarantor Subsidiaries* (the "Non-Guarantor Investments Covenant") of each Secured Indenture generally provides a $370 million cap on investments in non-guarantor Restricted Subsidiaries. For the Company to move more than $370 million in assets into NewCo (a non-guarantor Restricted Subsidiary), it would have to amend the Non-Guarantor Investments Covenant, and this would have the effect of decreasing the pool of Collateral for each of the Secured Notes.

We think that there is a strong argument that these amendments could be characterized as materially modifying the "provisions of the applicable Secured Indenture dealing with Collateral" in a manner adverse to the holders of the applicable Secured Notes, meaning that the consent of 100% of the holders of the applicable Secured Notes (and not a bare majority) would arguably be required to implement these amendments.

Of course, the Company could raise counterarguments to such a bondholder argument.

First, the Company could argue for a narrow reading of the language of clause (ii)(A)(2) (of the third paragraph of Section 902) of each Secured Indenture, and argue that that it only applies to amendments

[9] We note that there are additional arguments that can be made as to why this pari-plus transaction would not be allowed under the Secured Indentures, but in the interests of brevity, we've addressed the definitive reason why that transaction could not be implemented under the Secured Indentures.

that *directly* deal with the Collateral in any manner adverse to the holders of the Secured Notes. The language of (ii)(A)(2) does not include the word "directly," but the Company could argue that this ought to be the implicit understanding of that provision. It's important to note that this question of whether to interpret a sacred right narrowly or broadly was litigated in TPC Group, where the Delaware Bankruptcy Court ruled that a liability management transaction did not violate a sacred right relating to the Collateral. [10]

We briefly note that the language at issue in TPC Group was different from the language at issue here. The TPC language required 100% consent to change provisions "dealing with the application of proceeds of Collateral." The TPC court ruled that the only provision "dealing with the application of proceeds of Collateral" was the waterfall. The Company might similarly argue that (ii)(A)(2) in the Secured Indentures is limited to a narrow set of provisions in the Secured Indentures, such as all of Article XIV, which is entitled "Collateral." (Of course, the language of clause (ii)(A)(2) does not contain a reference to Article XIV or any other specific provision.)

Second, the Company could argue that this broad read of Section 902(ii)(A)(2) would render Section 902(i) and 902(ii)(A)(1) (of the third full paragraph of Section 902) of the Secured Indentures as "surplusage." Section 902(i) generally provides that affected holder consent is required to release all or substantially all of the Collateral or to adversely change lien priority on the Collateral. 902(ii)(A)(1) is a provision that tracks the TPC language above and requires 100% consent to modify provisions "dealing with the application of the proceeds of the Collateral." According to this surplusage argument, a broad reading of Section 902(ii)(A)(2) would strip those two provisions of their meaning, because any action covered by those provisions would also be covered by (ii)(A)(2). Despite these surplusage arguments, we still think that (ii)(A)(2) says what it says and any overlap with other provisions is not enough to read (ii)(A)(2) inconsistently with its plain meaning.

Finally, we are confident that Section 902(ii)(A)(2) of each Secured Indenture is a bespoke provision that was specifically negotiated to provide extraordinary protection against other changes to Collateral that would be materially adverse to holders of the applicable Secured Notes. The language of Section 902(ii)(A)(2) is extremely rare. In a search of our library of indentures (which dates back nearly 20 years), we identified only eight issuers (across nine different bond issues) in the U.S. market that have used this language. In all nine of those instances where this language was included, the applicable threshold required was 66 2/3%. Only in the Secured Indentures do we find this language paired with a threshold requirement of 100% of the outstanding applicable Secured Notes. Bondholders could point to this language as evidence that this language was specifically negotiated and agreed to by the parties to provide extraordinary protection, over and above what has been observed in comparable instruments. It's very clear from closely reading the bespoke sacred right provisions that the drafters meant to tightly limit the Company's ability to engage in future LMEs by amending the documents.

Accordingly, we think that there is a strong argument that Xerox could not amend the Secured Indentures with a bare majority of each series of Secured Notes to implement an LME whereby the Company transfers assets to NewCo and RemainCo incurs new first lien debt that is guaranteed by NewCo on a first lien basis where NewCo does not guarantee the Secured Notes.

[10] For more information on the TPC Group ruling, please see our report here.

We are continuing to monitor this developing situation and will publish additional research as further developments emerge.

— *Covenant Review*

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