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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of NCR Corporation

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of NCR Corporation and its subsidiaries (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2018, including the related notes, and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the "consolidated financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

Change in Accounting Principle

As discussed in Notes 1 and 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

Basis for Opinions

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on the Company's consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

As described in Management's Report on Internal Control over Financial Reporting appearing under Item 9A, management has excluded JetPay Corporation from its assessment of internal control over financial reporting as of December 31, 2018 because it was acquired by the Company in a purchase business combination during 2018. We have also excluded JetPay Corporation from our audit of internal control over financial reporting. JetPay Corporation is a wholly-owned subsidiary whose total assets and total revenues excluded from management's assessment and our audit of internal control over financial reporting represent 1% and 0.1%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2018.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Atlanta, Georgia

February 28, 2019

We have served as the Company's auditor since 1993.

NCR Corporation
Consolidated Statements of Operations

For the years ended December 31, (in millions, except per share amounts)	2018	2017	2016
Product revenue	$ 2,341	$ 2,579	$ 2,737
Service revenue	4,064	3,937	3,806
Total revenue	6,405	6,516	6,543
Cost of products	1,988	2,021	2,099
Cost of services	2,742	2,640	2,626
Selling, general and administrative expenses	1,005	923	904
Research and development expenses	252	241	225
Asset impairment charges	227	—	—
Restructuring-related charges	—	—	15
Total operating expenses	6,214	5,825	5,869
Income from operations	191	691	674
Interest expense	(168)	(163)	(170)
Other income (expense), net	16	(46)	(125)
Income (loss) from continuing operations before income taxes	39	482	379
Income tax expense	73	242	92
Income (loss) from continuing operations	(34)	240	287
Loss from discontinued operations, net of tax	(52)	(5)	(13)
Net income (loss)	(86)	235	274
Net income attributable to noncontrolling interests	2	3	4
Net income (loss) attributable to NCR	$ (88)	$ 232	$ 270
Amounts attributable to NCR common stockholders:			
Income (loss) from continuing operations	$ (36)	$ 237	$ 283
Series A convertible preferred stock dividends	(49)	(47)	(49)
Deemed dividend on modification of Series A convertible preferred stock	—	(4)	—
Deemed dividend on Series A convertible preferred stock related to redemption	—	(58)	—
Income (loss) from continuing operations attributable to NCR	(85)	128	234
Loss from discontinued operations, net of tax	(52)	(5)	(13)
Net income (loss) attributable to NCR common stockholders	$ (137)	$ 123	$ 221
Income (loss) per share attributable to NCR common stockholders:			
Income (loss) per common share from continuing operations			
Basic	$ (0.72)	$ 1.05	$ 1.86
Diluted	$ (0.72)	$ 1.01	$ 1.80
Net income (loss) per common share			
Basic	$ (1.16)	$ 1.01	$ 1.76
Diluted	$ (1.16)	$ 0.97	$ 1.71
Weighted average common shares outstanding			
Basic	118.4	121.9	125.6
Diluted (continuing operations)	118.4	127.0	157.4
Diluted (net income)	118.4	127.0	129.2

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

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NCR Corporation

Consolidated Balance Sheets

As of December 31 (in millions except per share amounts)	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 464	$ 537
Accounts receivable, net	1,356	1,270
Inventories	806	780
Other current assets	397	243
Total current assets	3,023	2,830
Property, plant and equipment, net	359	341
Goodwill	2,692	2,741
Intangibles, net	595	578
Prepaid pension cost	140	118
Deferred income taxes	448	460
Other assets	504	586
Total assets	$ 7,761	$ 7,654
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	$ 185	$ 52
Accounts payable	897	762
Payroll and benefits liabilities	238	219
Deferred service revenue and customer deposits	461	458
Other current liabilities	501	398
Total current liabilities	2,282	1,889
Long-term debt	2,980	2,939
Pension and indemnity plan liabilities	759	798
Postretirement and postemployment benefits liabilities	118	133
Income tax accruals	91	148
Other liabilities	259	200
Total liabilities	6,489	6,107
Commitments and Contingencies (Note 10)		
Redeemable noncontrolling interest	14	15
Series A convertible preferred stock: par value $0.01 per share, 3.0 shares authorized, 0.9 and 0.8 shares issued and outstanding as of December 31, 2018 and 2017, respectively; redemption amount and liquidation preference of $871 and $825 as of December 31, 2018 and 2017, respectively	859	810
Stockholders' equity		
NCR stockholders' equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of December 31, 2018 and 2017, respectively	—	—
Common stock: par value $0.01 per share, 500.0 shares authorized, 118.7 and 122.0 shares issued and outstanding as of December 31, 2018 and 2017, respectively	1	1
Paid-in capital	34	60
Retained earnings	606	857
Accumulated other comprehensive loss	(246)	(199)
Total NCR stockholders' equity	395	719
Noncontrolling interests in subsidiaries	4	3
Total stockholders' equity	399	722
Total liabilities and stockholders' equity	$ 7,761	$ 7,654

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

NCR Corporation

Notes to Consolidated Financial Statements

1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Description of Business NCR is a leading software- and services-led enterprise provider in the financial, retail, hospitality and telecommunications and technology industries, with business in 180 countries. NCR offers a range of solutions that help businesses of all sizes compete in an ever-evolving landscape of physical and digital consumers by providing software, advisory and consulting services, hardware, support and managed services that run businesses end to end. Our portfolio includes, but is not limited to, digital first offerings for banking, restaurants and retailers as well as payments, multi-vendor connected device services, automated teller machines (ATMs), point of sale (POS) terminals and self-service technologies. We also resell third-party networking products and provide related service offerings in the telecommunications and technology sectors. Our solutions create value for our customers by increasing productivity and allowing them to address consumer demand for convenience, value and individual service across different commerce channels using a digital first approach.

Use of Estimates The preparation of financial statements in accordance with generally accepted accounting principles in the United States (U.S. GAAP) requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the periods reported. Actual results could differ from those estimates.

Subsequent Events The Company evaluated subsequent events through the date that our Consolidated Financial Statements were issued. Except as described below, no matters were identified that required adjustment of the Consolidated Financial Statements or additional disclosure.

On January 1, 2019, NCR began management on an industry basis, changing from the previous model of management on a solution basis. In accordance with U.S. GAAP, the Company expects to report its results for industry segments beginning in the first quarter of 2019. The new model is intended to drive improved execution on our software- and services-led business model.

Basis of Consolidation The consolidated financial statements include the accounts of NCR and its majority-owned subsidiaries. Long-term investments in affiliated companies in which NCR owns between 20% and 50%, and therefore, exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which NCR does not exercise significant influence (generally, when NCR has an investment of less than 20% and no significant influence, such as representation on the investee's board of directors) are accounted for using the cost method. All significant inter-company transactions and accounts have been eliminated. In addition, the Company is required to determine whether it is the primary beneficiary of economic income or losses that may be generated by variable interest entities in which the Company has such an interest. In circumstances where the Company determined it is the primary beneficiary, consolidation of that entity would be required. For the periods presented, no variable interest entities have been consolidated.

Reclassifications Certain prior-period amounts have been reclassified in the accompanying Consolidated Financial Statements and Notes thereto in order to conform to the current period presentation.

Revenue Recognition The Company records revenue, net of sales tax, when the following five steps have been completed:

- Identification of the contract(s) with a customer
- Identification of the performance obligation(s) in the contract
- Determination of the transaction price
- Allocation of the transaction price to the performance obligations in the contract
- Recognition of revenue when, or as, we satisfy performance obligations

The Company records revenue when, or as, performance obligations are satisfied by transferring control of a promised good or service to the customer. The Company evaluates the transfer of control primarily from the customer's perspective where the customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service.

Our product revenue includes hardware and software which is generally recognized at a point in time, once all conditions for revenue recognition have been met. For hardware products, control is generally transferred when the customer has the ability to direct the use of and obtain substantially all of the remaining benefits of the products, which generally coincides with when the customer has assumed risk of loss of the goods sold. For software products, control is generally transferred when the customer takes possession of, or has complete access to, the software. In certain instances, customer acceptance is required prior to the

NCR Corporation
Notes to Consolidated Financial Statements-(Continued)

products have not been delivered or services have not been performed. As of December 31, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $3.2 billion. The Company expects to recognize revenue on approximately three-quarters of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. The majority of our professional services are expected to be recognized over the next 12 months but this is contingent upon a number of factors, including customers' needs and schedules.

The Company has made two elections which affect the value of remaining performance obligations described above. We do not disclose remaining performance obligations for SaaS contracts where variable consideration is directly allocated based on usage or when the original expected length is one year or less.

Warranty and Sales Returns Provisions for product warranties and sales returns and allowances are recorded in the period in which NCR becomes obligated to honor the related right, which generally is the period in which the related product revenue is recognized. The Company accrues warranty reserves based upon historical factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. When a sale is consummated, a warranty reserve is recorded based upon the estimated cost to provide the service over the warranty period. The Company accrues sales returns and allowances using percentages of revenue to reflect the Company's historical average of sales return claims.

Research and Development Costs Research and development costs primarily include payroll and benefit-related costs, contractor fees, facilities costs, infrastructure costs, and administrative expenses directly related to research and development support and are expensed as incurred, except certain software development costs are capitalized after technological feasibility of the software is established.

Advertising Advertising costs are recognized in selling, general and administrative expenses when incurred.

Stock Compensation Stock-based compensation represents the costs related to share-based awards granted to employees and non-employee directors. The Company's outstanding stock-based compensation awards are classified as equity. The Company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award and recognizes the cost over the requisite service period. See Note 7, "Stock Compensation Plans" for further information on NCR's stock-based compensation plans.

Income Taxes Income tax expense is provided based on income before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are determined based on the enacted tax rates expected to apply in the periods in which the deferred assets or liabilities are expected to be settled or realized. NCR records valuation allowances related to its deferred income tax assets when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being sustained upon examination by authorities. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law and until such time that the related tax benefits are recognized.

On December 22, 2017, the U.S. enacted the Tax Cuts and Jobs Act of 2017 ("U.S. Tax Reform") that instituted fundamental changes to the taxation of multinational corporations. See Note 7, "Income Taxes" for additional information on the Company's assessment and related impacts.

Earnings Per Share Basic earnings per share (EPS) is calculated by dividing net income, less any dividends, accretion or decretion, redemption or induced conversion on our Series A Convertible Preferred Stock, by the weighted average number of shares outstanding during the reported period.

In computing diluted EPS, we adjust the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared) applicable to the Series A Convertible Preferred Stock. Such add-back would also include any adjustments to equity in the period to accrete the Series A Convertible Preferred Stock to its redemption price, or recorded upon a redemption or induced conversion. We adjust the denominator used in the basic EPS computation, subject to anti-dilution requirements, to include the dilution from potential shares resulting from the issuance of the Series A Convertible Preferred Stock, restricted stock units, and stock options.

NCR Corporation
Notes to Consolidated Financial Statements-(Continued)

The components of diluted earnings (loss) per share are as follows:

	Year ended December 31		
In millions, except per share amounts	**2018**	**2017**	**2016**
Income (loss) from continuing operations	$ (36)	$ 237	$ 283
Series A convertible preferred stock dividends	(49)	(47)	—
Deemed dividend on modification of Series A Convertible Preferred Stock	—	(4)	—
Deemed dividend on Series A Convertible Preferred Stock redemption	—	(58)	—
Net income (loss) from continuing operations attributable to NCR common stockholders	(85)	128	283
Loss from discontinued operations, net of tax	(52)	(5)	(13)
Series A convertible preferred stock dividends	—	—	(49)
Net income (loss) attributable to NCR common stockholders	$ (137)	$ 123	$ 221
Basic weighted average number of shares outstanding	118.4	121.9	125.6
Dilutive effect of as-if Series A Convertible Preferred Stock	—	—	28.2
Dilutive effect of employee stock options and restricted stock units	—	5.1	3.6
Denominator - from continuing operations	118.4	127.0	157.4
Basic weighted average number of shares outstanding	118.4	121.9	125.6
Dilutive effect of employee stock options and restricted stock units	—	5.1	3.6
Denominator - total	118.4	127.0	129.2
Diluted earnings (loss) per share:			
From continuing operations	$ (0.72)	$ 1.01	$ 1.80
From discontinued operations	(0.44)	(0.04)	(0.10)
Total diluted earnings (loss) per share	$ (1.16)	$ 0.97	$ 1.71

For 2018, diluted earnings (loss) per share from continuing operations and total diluted earnings (loss) per share, it is more dilutive to assume the Series A Convertible Preferred Stock is not converted to common stock and therefore weighted average outstanding shares of common stock are not adjusted by the as-if converted Series A Convertible Preferred Stock shown above because the effect would be anti-dilutive. If the as-if converted Series A Convertible Preferred Stock had been dilutive, approximately 28.3 million additional shares would have been included in the diluted weighted average number of shares outstanding for the year ended December 31, 2018. For 2018, there were 6.5 million weighted anti-dilutive restricted stock units outstanding.

For 2017, diluted earnings (loss) per share from continuing operations and total diluted earnings (loss) per share, it is more dilutive to assume the Series A Convertible Preferred Stock is not converted to common stock and therefore weighted average outstanding shares of common stock are not adjusted by the as-if converted Series A Convertible Preferred Stock shown above because the effect would be anti-dilutive. If the as-if converted Series A Convertible Preferred Stock had been dilutive, approximately 27.4 million additional shares, considering the existing and redeemed shares, would have been included in the diluted weighted average number of shares outstanding for the year ended December 31, 2017. For 2017, there were 0.8 million weighted anti-dilutive restricted stock units outstanding.

For 2016, diluted earnings (loss) per share from continuing operations, it is more dilutive to assume the Series A Convertible Preferred Stock is converted to common stock and therefore weighted average outstanding shares of common stock are adjusted by the as-if converted Series A Convertible Preferred Stock. For 2016, total diluted earnings (loss) per share, it is more dilutive to assume the Series A Convertible Preferred Stock is not converted to common stock and therefore weighted average outstanding shares of common stock are not adjusted by the as-if converted Series A Convertible Preferred Stock shown above because the effect would be anti-dilutive. Therefore, total diluted earnings (loss) per share less diluted earnings (loss) per share from continuing operations does not equal diluted earnings (loss) per share from discontinued operations. For 2016, there were 0.4 million weighted anti-dilutive restricted stock units outstanding.

Cash and Cash Equivalents All short-term, highly liquid investments having original maturities of three months or less, including time deposits, are considered to be cash equivalents.

Accounts Receivable, net Accounts receivable, net includes amounts billed and currently due from customers as well as amounts unbilled which typically result from sales under contracts where revenue recognized exceeds the amount billed to the customer and where the Company has an unconditional right to consideration. The amounts due are stated at their net estimated realizable value. NCR establishes provisions for doubtful accounts using percentages of accounts receivable balances to reflect historical average credit losses and specific provisions for known issues, such as risks of default.

Allowance for Doubtful Accounts NCR establishes provisions for doubtful accounts using percentages of accounts receivable balances to reflect historical average credit losses and specific provisions for known issues.

Inventories Inventories are stated at the lower of cost or net realizable value, using the average cost method. Cost includes materials, labor and manufacturing overhead related to the purchase and production of inventories. Service parts are included in inventories and include reworkable and non-reworkable service parts. The Company regularly reviews inventory quantities on hand, future purchase commitments with suppliers and the estimated utility of inventory. If the review indicates a reduction in utility below carrying value, inventory is reduced to a new cost basis. Excess and obsolete write-offs are established based on forecasted usage, orders, technological obsolescence and inventory aging.

Contract Assets and Liabilities Contract assets include unbilled amounts where right to payment is not solely subject to the passage of time. Amounts may not exceed their net realizable value. Contract liabilities consist of advance payments, billings in excess of revenue recognized and deferred revenue.

Our contract assets and liabilities are reported in a net position on a contract-by-contract basis at the end of each reporting period. If the net position is a contract asset, the current portion is included in other current assets and the non-current portion is included in other assets in the Consolidated Balance Sheet. If the net position is a contract liability, the current portion is included in contract liabilities and the non-current portion is included in other liabilities in the Consolidated Balance Sheet.

The following table presents the net contract asset and contract liability balances as of December 31, 2018 and January 1, 2018:

In millions	Location in the Consolidated Balance Sheet	December 31, 2018	January 1, 2018
Current portion of contract assets	Other current assets	$ 22	$ 28
Current portion of contract liabilities	Contract liabilities	$ 461	$ 458
Non-current portion of contract liabilities	Other liabilities	$ 85	$ 95

During the twelve months ended December 31, 2018, the Company recognized $355 million in revenue that was included in contract liabilities as of January 1, 2018.

Deferred Commissions Our incremental costs of obtaining a contract, which consist of certain sales commissions, primarily for our SaaS revenue, are deferred and amortized on a straight-line basis over the period of expected benefit. We determined the period of expected benefit by taking into consideration customer contracts, the estimated life of the customer relationship, including renewals when the renewal commission is not commensurate with the initial commission, the expected life of the underlying technology and other factors. We classify deferred commissions as current or non-current based on the timing of when we expect to recognize the expense. The current and non-current portions of deferred commissions are included in other current assets and other assets, respectively, in the Consolidated Balance Sheet as of December 31, 2018. Amortization of deferred commissions is included in selling, general and administrative expenses in the Consolidated Statements of Operations for the year ended December 31, 2018.

Set-up Fees and Costs Fees for the design, configuration, implementation and installation related to the software applications that are provided as a service are recognized over the contract term, which is generally 5 years. The related costs incurred that are determined to be incremental and recoverable contract-specific costs are deferred and amortized over the period of benefit, which is generally 7 years.

NCR Corporation
Notes to Consolidated Financial Statements-(Continued)

Settlement Processing Assets and Obligations Funds settlement refers to the process of transferring funds for sales and credits between card issuers and merchants. Depending on the type of transaction, either the credit card interchange system or the debit network is used to transfer the information and funds between the sponsoring bank and card issuing bank to complete the link between merchants and card issuers. In certain of our processing arrangements, merchant funding primarily occurs after the sponsoring bank receives the funds from the card issuer through the card networks, creating a net settlement obligation on the Company's Consolidated Balance Sheet. In a limited number of other arrangements, the sponsoring bank funds the merchants before it receives the net settlement funds from the card networks, creating a net settlement asset on the Company's Consolidated Balance Sheet. Additionally, certain of the Company's sponsoring banks collect the gross revenue from the merchants, pay the interchange fees and assessments to the credit card associations, collect their fees for processing and pay the Company a net residual payment representing the Company's fees for the services. In these instances, the Company does not reflect the related settlement processing assets and obligations in its Consolidated Balance Sheet.

Settlement processing assets consist primarily of our portion of settlement assets due from customers and receivables from merchants for the portion of the discount fee related to reimbursement of the interchange expense, our receivable from the processing bank for transactions we have funded merchants in advance of receipt of card association funding, merchant reserves held, sponsoring bank reserves and exception items, such as customer chargeback amounts receivable from merchants. Settlement processing obligations consist primarily of merchant reserves, our liability to the processing bank for transactions for which we have received funding from the members but have not funded merchants and exception items. Settlement processing assets are recorded within other current assets and settlement processing liabilities are recorded within other current liabilities in the Consolidated Balance Sheet. As of December 31, 2018, settlement processing assets were $30 million and settlement processing liabilities were $28 million. Settlement receivables are generally collected within four business days. Settlement obligations are generally paid within three business days, regardless of when the related settlement receivables are collected.

Capitalized Software Certain direct development costs associated with internal-use software are capitalized within other assets and amortized over the estimated useful lives of the resulting software. NCR typically amortizes capitalized internal-use software on a straight-line basis over four to seven years beginning when the asset is substantially ready for use, as this is considered to approximate the usage pattern of the software. When it becomes probable that internal-use software being developed will not be completed or placed into service, the internal-use software is reported at the lower of the carrying amount or fair value.

Costs incurred for the development of software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These costs are included within other assets and are amortized on a sum-of-the-years' digits or straight-line basis over the estimated useful lives ranging from three to five years, using the method that most closely approximates the sales pattern of the software. Amortization begins when the product is available for general release. Costs capitalized include direct labor and related overhead costs. Costs incurred prior to technological feasibility or after general release are expensed as incurred. NCR performs periodic reviews to ensure that unamortized program costs remain recoverable from future revenue. If future revenue does not support the unamortized program costs, the amount by which the unamortized capitalized cost of a software product exceeds the net realizable value is written off.

The following table identifies the activity relating to total capitalized software:

In millions	2018	2017	2016
Beginning balance as of January 1	$ 366	$ 345	$ 311
Capitalization	170	166	154
Amortization	(160)	(145)	(118)
Impairment	(51)	—	(2)
Ending balance as of December 31	$ 325	$ 366	$ 345

During the year ended December 31, 2018, we recorded the write-off of certain internal and external use software capitalization projects that are no longer considered strategic based on review by the new management team and as a result, the projects have been abandoned.

Goodwill and Other Intangible Assets Goodwill represents the excess of purchase price over the fair value of the net tangible and identifiable intangible assets of businesses acquired. Goodwill is tested at the reporting unit level for impairment on an annual basis during the fourth quarter or more frequently if certain events occur indicating that the carrying value of goodwill may be impaired. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators

NCR Corporation
Notes to Consolidated Financial Statements-(Continued)

Other acquisitions

During the third quarter of 2018, we completed the acquisition of Zipscene LLC which aggregates and enriches data from hospitality customers to provide marketing insights back to our customers and will enable us to increase data monetization. During the fourth quarter of 2018, we completed its acquisition of StopLift Checkout Vision Systems ("StopLift"). StopLift designs Artificial Intelligence technology which identifies fraudulent behavior at the point-of-sale and in self-checkout systems.

4. GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The carrying amounts of goodwill by segment are included in the tables below. Foreign currency fluctuations are included within other adjustments.

	January 1, 2018						December 31, 2018		
In millions	Goodwill	Accumulated Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Accumulated Impairment Losses	Total
Software	$ 1,944	$ (7)	$ 1,937	$ 107	$ —	$ (10)	$ 2,041	$ (7)	$ 2,034
Services	658	—	658	—	—	—	658	—	658
Hardware	162	(16)	146	—	(146)	—	162	(162)	—
Total goodwill	$ 2,764	$ (23)	$ 2,741	$ 107	$ (146)	$ (10)	$ 2,861	$ (169)	$ 2,692

	January 1, 2017						December 31, 2017		
In millions	Goodwill	Accumulated Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Accumulated Impairment Losses	Total
Software	$ 1,930	$ (7)	$ 1,923	$ —	$ —	$ 14	$ 1,944	$ (7)	$ 1,937
Services	658	—	658	—	—	—	658	—	658
Hardware	162	(16)	146	—	—	—	162	(16)	146
Total goodwill	$ 2,750	$ (23)	$ 2,727	$ —	$ —	$ 14	$ 2,764	$ (23)	$ 2,741

Late in the quarter ended June 30, 2018, we determined there was an indication that the carrying value of the net assets assigned to the Hardware reporting unit may not be recoverable. This determination was based on the lowering of our full year forecast for 2018, driven by reduced revenue and gross margin rates expected for the third and fourth quarters of 2018, and the resulting impact on the current year and future cash flow projections of the Hardware reporting unit.

Given the undiscounted cash flows of the asset group, which we determined to be at the reporting unit level, were below the carrying value of the net assets, we recorded an impairment charge for the difference between the fair value and the carrying value of the long-lived assets. The fair value of the long-lived assets was determined based on the nature of the asset through either third party appraisals, replacement cost or discounted cash flow analysis.

As a result, in the three months ended June 30, 2018 the Company recorded impairment charges of $21 million related to property, plant and equipment held and used in NCR's hardware reporting unit, $16 million related to purchased intangibles and $146 million for goodwill assigned to the Hardware reporting unit. These charges were recorded in the line item asset impairment charges in our Consolidated Statement of Operations for the year ended December 31, 2018.

As discussed in Note 1, "Basis of Presentation and Significant Accounting Policies," NCR completed the annual goodwill impairment test during the fourth quarter of 2018, which did not indicate an impairment existed for the Software or Services segments.

Purchased Intangible Assets

NCR's purchased intangible assets were specifically identified when acquired, and are deemed to have finite lives. These assets are reported in intangibles, net in the Consolidated Balance Sheets. The gross carrying amount and accumulated amortization for NCR's identifiable intangible assets were as set forth in the table below:

In millions	Amortization Period (in Years)	December 31, 2018 Gross Carrying Amount	December 31, 2018 Accumulated Amortization	December 31, 2017 Gross Carrying Amount	December 31, 2017 Accumulated Amortization
Identifiable intangible assets					
Reseller & customer relationships	1 - 20	$ 726	$ (218)	$ 659	$ (170)
Intellectual property	2 - 8	443	(373)	410	(351)
Customer contracts	8	89	(87)	89	(81)
Tradenames	2 - 10	75	(60)	73	(51)
Total identifiable intangible assets		$ 1,333	$ (738)	$ 1,231	$ (653)

The aggregate amortization expense (actual and estimated) for identifiable intangible assets for the following periods is:

In millions	For the year ended December 31, 2018	For the years ended December 31 (estimated) 2019	2020	2021	2022	2023
Amortization expense	$ 85	$ 88	$ 69	$ 60	$ 55	$ 53

5. SERIES A PREFERRED STOCK

On December 4, 2015, NCR issued 820,000 shares of Series A Convertible Preferred Stock to certain entities affiliated with the Blackstone Group L.P. (collectively, Blackstone) for an aggregate purchase price of $820 million, or $1,000 per share, pursuant to an Investment Agreement between the Company and Blackstone, dated November 11, 2015. In connection with the issuance of the Series A Convertible Preferred Stock, the Company incurred direct and incremental expenses of $26 million, including financial advisory fees, closing costs, legal expenses and other offering-related expenses. These direct and incremental expenses originally reduced the Series A Convertible Preferred Stock, and will be accreted through retained earnings as a deemed dividend from the date of issuance through the first possible known redemption date, March 16, 2024. During the twelve months ended December 31, 2018, 2017 and 2016, the Company paid dividends-in-kind of $46 million, $45 million, and $47 million, respectively, associated with the Series A Convertible Preferred Stock. As of December 31, 2018 and 2017, the Company had accrued dividends of $3 million, respectively, associated with the Series A Convertible Preferred Stock. There were no cash dividends declared during the twelve months ended December 31, 2018 or 2017.

Under the Investment Agreement, Blackstone agreed not to sell or otherwise transfer its shares of Series A Convertible Preferred Stock (or any shares of common stock issued upon conversion thereof) without the Company's consent until June 4, 2017. In March 2017, we provided Blackstone with an early release from this lock-up, allowing Blackstone to sell approximately 49% of its shares of Series A Convertible Preferred Stock, and in return, Blackstone agreed to amend the Investment Agreement to extend the lock-up on the remaining 51% of its shares of Series A Convertible Preferred Stock for six months until December 1, 2017.

In connection with the early release of the lock-up, Blackstone offered for sale 342,000 shares of Series A Convertible Preferred Stock in an underwritten public offering. In addition, Blackstone converted 90,000 shares of Series A Convertible Preferred Stock into shares of our common stock and we repurchased those shares of common stock for $48.47 per share. The underwritten offering and the stock repurchase were consummated on March 17, 2017.

The repurchase of the common shares immediately upon conversion is considered a redemption of the related preferred shares. As a result, the excess of the fair value of consideration transferred over the carrying value, of $58 million, was included as a deemed dividend in adjusting the income from common stockholders in calculating earnings per share for the year ended December 31, 2017. Additionally, we determined that the changes to the lock-up period were considered a modification of the Series A Convertible Preferred Stock. The impact of the modification, calculated as the difference in the fair value immediately before and immediately after the changes, of $4 million, was included as a deemed dividend in adjusting the income from common stockholders in calculating earnings per share for the year ended December 31, 2017. This adjustment was recorded as an increase to the Series A Convertible Preferred Shares and will reduce the accretion of the direct and incremental expenses associated with the original offering as described above. Refer to Note 1, "Basis of Presentation and Significant Accounting Policies" for additional discussion.

Dividend Rights The Series A Convertible Preferred Stock ranks senior to the shares of the Company's common stock, with respect to dividend rights and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of the affairs of the Company. The Series A Convertible Preferred Stock has a liquidation preference of $1,000 per share. Holders of Series A Convertible Preferred Stock are entitled to a cumulative dividend at the rate of 5.5% per annum, payable quarterly in arrears and payable in-kind for the first sixteen dividend payments, after which, beginning in the first quarter of 2020, dividends will be payable in cash or in-kind at the option of the Company. If the Company does not declare and pay a dividend, the dividend rate will increase to 8.0% per annum until all accrued but unpaid dividends have been paid in full. Dividends are paid in-kind, through the issuance of additional shares of Series A Convertible Preferred Stock, for the first sixteen dividend payment dates, after which dividends will be payable in cash or in-kind at the option of the Company.

Conversion Features The Series A Convertible Preferred Stock is convertible at the option of the holders at any time into shares of common stock at a conversion price of $30.00 per share and a conversion rate of 33.333 shares of common stock per share of Series A Convertible Preferred Stock. As of December 31, 2018 and 2017, the maximum number of common shares that could be required to be issued upon conversion of the outstanding shares of Series A Convertible Preferred Stock was 29.0 million and 27.5 million shares, respectively. The conversion rate is subject to the following customary anti-dilution and other adjustments:

- the issuance of common stock as a dividend or the subdivision, combination, or reclassification of common stock into a greater or lesser number of shares of common stock;
- the dividend, distribution or other issuance of rights, options or warrants to holders of Common Stock entitling them to subscribe for or purchase shares of common stock at a price per share that is less than the volume-weighted average price per share of common stock;
- the completion of a tender offer or exchange offer of shares of common stock at a premium to the volume-weighted average price per share of common stock and certain other above-market purchases of common stock;
- the issuance of a dividend or similar distribution in-kind, which can include shares of any class of capital stock, evidences of the Company's indebtedness, assets or other property or securities, to holders of common stock;
- a transaction in which a subsidiary of the Company ceases to be a subsidiary of the Company as a result of the distribution of the equity interests of the subsidiary to the holders of the Company's common stock; and
- the payment of a cash dividend to the holders of common stock.

At any time after December 4, 2018, all outstanding shares of Series A Convertible Preferred Stock are convertible at the option of the Company if the volume-weighted average price of the common stock exceeds $54.00 for at least 30 trading days in any period of 45 consecutive trading days. The $54.00 may be adjusted pursuant to the anti-dilution provisions above.

The Series A Convertible Preferred Stock, and the associated dividends for the first sixteen payments, did not generate a beneficial conversion feature (BCF) upon issuance as the fair value of the Company's common stock was greater than the conversion price. The Company will determine and, if required, measure a BCF based on the fair value of our stock price on the date dividends are declared subsequent to the sixteenth dividend. If a BCF is recognized, a reduction to retained earnings and the Series A Convertible Preferred Stock will be recorded, and then subsequently accreted through the first redemption date.

Additionally, the Company determined that the nature of the Series A Convertible Preferred Stock was more akin to an equity instrument and that the economic characteristics and risks of the embedded conversion options were clearly and closely related to the Series A Convertible Preferred Stock. As such, the conversion options were not required to be bifurcated from the host under ASC 815, *Derivatives and Hedging*.

Redemption Rights On any date during the three months commencing on and immediately following March 16, 2024 and the three months commencing on and immediately following every third anniversary of March 16, 2024, holders of Series A Convertible Preferred Stock have the right to require the Company to repurchase all or any portion of the Series A Convertible Preferred Stock at 100% of the liquidation preference thereof plus all accrued but unpaid dividends. Upon certain change of control events involving the Company, holders of Series A Convertible Preferred Stock can require the Company to repurchase, subject to certain exceptions, all or any portion of the Series A Convertible Preferred Stock at the greater of (1) an amount in cash equal to 100% of the liquidation preference thereof plus all accrued but unpaid dividends and (2) the consideration the holders would have received if they had converted their shares of Series A Convertible Preferred Stock into common stock immediately prior to the change of control event.

The Company has the right, upon certain change of control events involving the Company, to redeem the Series A Convertible Preferred Stock at the greater of (1) an amount in cash equal to the sum of the liquidation preference of the Series A Convertible Preferred Stock, all accrued but unpaid dividends and the present value, discounted at a rate of 10%, of any remaining scheduled dividends through the fifth anniversary of the first dividend payment date, assuming the Company chose to pay such dividends in

Deferred income tax assets and liabilities included in the Consolidated Balance Sheets as of December 31 were as follows:

In millions	2018	2017
Deferred income tax assets		
Employee pensions and other benefits	$ 223	$ 230
Other balance sheet reserves and allowances	141	185
Tax loss and credit carryforwards	682	525
Capitalized research and development	53	50
Property, plant and equipment	11	6
Other	38	27
Total deferred income tax assets	1,148	1,023
Valuation allowance	(485)	(415)
Net deferred income tax assets	663	608
Deferred income tax liabilities		
Intangibles	151	129
Capitalized software	78	27
Other	7	16
Total deferred income tax liabilities	236	172
Total net deferred income tax assets	$ 427	$ 436

NCR recorded valuation allowances related to certain deferred income tax assets due to the uncertainty of the ultimate realization of the future benefits from those assets. The valuation allowances cover deferred tax assets, primarily tax loss carryforwards and foreign tax credits, in tax jurisdictions where there is uncertainty as to the ultimate realization of those tax losses and credits. If we are unable to generate sufficient future taxable income of the proper source in the time period within which the temporary differences underlying our deferred tax assets become deductible, or before the expiration of our loss and credit carryforwards, additional valuation allowances could be required.

As of December 31, 2018, NCR had U.S. federal, U.S. state (tax effected), and foreign tax attribute carryforwards of approximately $1.6 billion. The net operating loss carryforwards that are subject to expiration will expire in the years 2019 through 2037. This includes U.S. tax credit carryforwards of $301 million. Approximately $10 million of the credit carryforwards will be refunded by 2022 due to U.S. Tax Reform, and $291 million of the credit carryforwards expire in the years 2019 through 2038. As a result of stock ownership changes our U.S. tax attributes could be subject to limitations under Section 382 of the U.S. Internal Revenue Code of 1986, as amended, if further material stock ownership changes occur.

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows for the years ended December 31:

In millions	2018	2017	2016
Gross unrecognized tax benefits - January 1	$ 196	$ 183	$ 209
Increases related to tax positions from prior years	9	3	3
Decreases related to tax positions from prior years	(50)	(1)	(34)
Increases related to tax provisions taken during the current year	9	23	23
Settlements with tax authorities	(45)	(4)	(6)
Lapses of statutes of limitation	(9)	(8)	(12)
Total gross unrecognized tax benefits - December 31	$ 110	$ 196	$ 183

Of the total amount of gross unrecognized tax benefits as of December 31, 2018, $84 million would affect NCR's effective tax rate if realized. The Company's liability arising from uncertain tax positions is recorded in income tax accruals and other current liabilities in the Consolidated Balance Sheets.

We recognized interest and penalties associated with uncertain tax positions as part of the provision for income taxes in our Consolidated Statements of Operations of $9 million of benefit, $2 million of expense, and zero for the years ended December

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31, 2018, 2017, and 2016, respectively. The gross amount of interest and penalties accrued as of December 31, 2018 and 2017 was $33 million and $45 million, respectively.

In the U.S., NCR files consolidated federal and state income tax returns where statutes of limitations generally range from three to five years. The Company resolved examinations for the tax years of 2011, 2012 and 2013 with the IRS in 2018, and U.S. federal tax years remain open from 2014 forward. Years beginning on or after 2001 are still open to examination by certain foreign taxing authorities, including India, Egypt, and other major taxing jurisdictions.

During 2019, the Company expects to resolve certain tax matters related to U.S. and foreign jurisdictions. As of December 31, 2018, we estimate that it is reasonably possible that unrecognized tax benefits may decrease by $5 million to $10 million in the next 12 months due to the resolution of these tax matters.

8. STOCK COMPENSATION PLANS

The Company recognizes all share-based payments as compensation expense in its financial statements based on their fair value.

As of December 31, 2018, the Company's stock-based compensation consisted of restricted stock units, employee stock purchase plan and stock options. The Company recorded stock-based compensation expense for the years ended December 31 as follows:

In millions	2018	2017	2016
Restricted stock units	$ 65	$ 73	$ 61
Employee stock purchase plan	4	4	—
Stock options	4	—	—
Stock-based compensation expense	73	77	61
Tax benefit	(10)	(22)	(18)
Total stock-based compensation (net of tax)	$ 63	$ 55	$ 43

Approximately 22 million shares remain authorized to be issued under the 2013 Stock Incentive Plan (SIP). Details of the Company's stock-based compensation plans are discussed below.

Restricted Stock Units

The SIP provides for the grant of several different forms of stock-based compensation, including restricted stock units. Restricted stock units can have service-based and/or performance-based vesting with performance goals being established by the Compensation and Human Resource Committee of the Company's Board of Directors. Any grant of restricted stock units is generally subject to a vesting period of 12 months to 48 months, to the extent permitted by the SIP. Performance-based grants conditionally vest upon achievement of future performance goals based on performance criteria such as the Company's achievement of specific return on capital and/or other financial metrics (as defined in the SIP) during the performance period. Performance-based grants must be earned, based on performance, before the actual number of shares to be awarded is known. The Compensation and Human Resource Committee considers the likelihood of meeting the performance criteria based upon estimates and other relevant data, and certifies performance based on its analysis of achievement against the performance criteria. A recipient of restricted stock units does not have the rights of a stockholder and is subject to restrictions on transferability and risk of forfeiture. Other terms and conditions applicable to any award of restricted stock units will be determined by the Compensation and Human Resource Committee and set forth in the agreement relating to that award.

The following table reports restricted stock unit activity during the year ended December 31, 2018:

Shares in thousands	Number of Units	Weighted Average Grant-Date Fair Value per Unit
Unvested shares as of January 1	7,158	$ 29.78
Shares granted	3,440	$ 26.25
Shares vested	(2,980)	$ 27.45
Shares forfeited	(1,652)	$ 30.58
Unvested shares as of December 31	5,966	$ 28.69

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Inventory related charges The Company recorded $37 million in the year ended December 31, 2018 of inventory related charges for rationalizing its product portfolio and writing down inventory to be sold to third party suppliers to the lower cost or net realizable value. Inventory related charges are recorded within cost of products in the Consolidated Statement of Operations.

Other exit costs The Company recorded $6 million in the year ended December 31, 2018 for costs primarily related to moving inventory and fixed assets from the plant locations that will be closed. Of these costs, $3 million were included in cost of products and selling, general and administrative expenses, respectively, in the year ended December 31, 2018 in the Consolidated Statement of Operations.

The results by segment, as disclosed in Note 13, "Segment Information and Concentrations", exclude the impact of these costs, which is consistent with the manner by which management assesses the performance and evaluates the results of each segment. The following table summarizes the costs recorded in accordance with ASC 420, *Exit or Disposal Cost Obligations*, and ASC 712, *Employers' Accounting for Postemployment Benefits*, and the remaining liabilities as of December 31, 2018, which are included in the Consolidated Balance Sheet in other current liabilities.

In millions	2018
Employee Severance and Other Exit Costs	
Beginning balance as of January 1	$—
Cost recognized during the period	13
Change in estimated payments	—
Utilization	(11)
Currency translation adjustments	—
Ending balance as of December 31	$2

16. SUPPLEMENTAL FINANCIAL INFORMATION

The components of other income (expense), net are summarized as follows for the years ended December 31:

In millions	2018	2017	2016
Other income (expense), net			
Interest income	$ 5	$ 3	$ 4
Foreign currency fluctuations and foreign exchange contracts	(26)	(26)	(40)
Employee benefit plans	45	(15)	(75)
Bank-related fees	(8)	(8)	(8)
Divestiture and liquidation losses	—	—	(6)
Total other income (expense), net	$ 16	$ (46)	$ (125)

The components of accounts receivable are summarized as follows:

In millions	December 31, 2018	December 31, 2017
Accounts receivable		
Trade	$ 1,364	$ 1,270
Other	23	37
Accounts receivable, gross	1,387	1,307
Less: allowance for doubtful accounts	(31)	(37)
Total accounts receivable, net	$ 1,356	$ 1,270

The components of inventory are summarized as follows:

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Notes to Consolidated Financial Statements-(Continued)

In millions	December 31, 2018	December 31, 2017
Inventories		
Work in process and raw materials	$ 237	$ 185
Finished goods	214	190
Service parts	355	405
Total inventories	$ 806	$ 780

The components of property, plant and equipment are summarized as follows:

In millions	December 31, 2018	December 31, 2017
Property, plant and equipment		
Land and improvements	$ 6	$ 7
Buildings and improvements	273	278
Machinery and other equipment	650	633
Property, plant and equipment, gross	929	918
Less: accumulated depreciation	(570)	(577)
Total property, plant and equipment, net	$ 359	$ 341

17. GUARANTOR FINANCIAL STATEMENTS

The Company's 5.00% Notes, 4.625% Notes, 5.875% Notes and 6.375% Notes are guaranteed by the Company's subsidiary, NCR International, Inc. (Guarantor Subsidiary), which is 100% owned by the Company and has guaranteed fully and unconditionally the obligations to pay principal and interest for these senior unsecured notes. The guarantees are subject to release under certain circumstances as described below:

- the designation of the Guarantor Subsidiary as an unrestricted subsidiary under the indenture governing the notes;
- the release of the Guarantor Subsidiary from its guarantee under the Senior Secured Credit Facility;
- the release or discharge of the indebtedness that required the guarantee of the notes by the Guarantor Subsidiary;
- the permitted sale or other disposition of the Guarantor Subsidiary to a third party; and
- the Company's exercise of its legal defeasance option of its covenant defeasance option under the indenture governing the notes.

Refer to Note 6, "Debt Obligations" for additional information.

In connection with the previously completed exchange offers for the 5.00% Notes, 4.625% Notes, 5.875% Notes and 6.375% Notes, the Company is required to comply with Rule 3-10 of SEC Regulation S-X (Rule 3-10), and has therefore included the accompanying Consolidating Financial Statements in accordance with Rule 3-10(f) of SEC Regulation S-X.

The following supplemental information sets forth, on a consolidating basis, the statements of operations and comprehensive income (loss), the balance sheets and the statements of cash flows for the parent issuer of these senior unsecured notes, for the Guarantor Subsidiary and for the Company and all of its consolidated subsidiaries.