NCR CORP
Form 10-Q
November 02, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2018
Commission File Number 001-00395

NCR CORPORATION
(Exact name of registrant as specified in its charter)

Maryland	31-0387920
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

864 Spring Street NW
Atlanta, GA 30308
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (937) 445-5000

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 þ 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 þ 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	þ	Accelerated filer	o
Non-accelerated filer	o (Do not check if a smaller reporting company)	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 transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of October 19, 2018, there were approximately 118.2 million shares of the registrant's common stock issued and outstanding.

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Part I. Financial Information

Item 1. FINANCIAL STATEMENTS
NCR Corporation
Condensed Consolidated Statements of Operations (Unaudited)

In millions, except per share amounts	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Product revenue	$534	$657	$1,585	$1,829
Service revenue	1,016	1,006	3,019	2,905
Total revenue	1,550	1,663	4,604	4,734
Cost of products	473	528	1,344	1,430
Cost of services	667	663	2,027	1,959
Selling, general and administrative expenses	226	220	732	678
Research and development expenses	59	53	190	178
Asset impairment charges	—	—	183	—
Total operating expenses	1,425	1,464	4,476	4,245
Income from operations	125	199	128	489
Interest expense	(43)	(42)	(125)	(122)
Other (expense), net	(10)	(7)	(24)	(16)
Income (loss) from continuing operations before income taxes	72	150	(21)	351
Income tax (benefit) expense	(15)	31	(20)	78
Income (loss) from continuing operations	87	119	(1)	273
(Loss) income from discontinued operations, net of tax	(1)	—	(38)	5
Net income (loss)	86	119	(39)	278
Net income attributable to noncontrolling interests	2	1	2	1
Net (loss) income attributable to NCR	$84	$118	$(41)	$277
Amounts attributable to NCR common stockholders:				
Income (loss) from continuing operations	$85	$118	$(3)	$272
Series A convertible preferred stock dividends	(12)	(12)	(36)	(36)
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 common stockholders	73	106	(39)	174
(Loss) income from discontinued operations, net of tax	(1)	—	(38)	5
Net income (loss) attributable to NCR common stockholders	$72	$106	$(77)	$179
Income (loss) per share attributable to NCR common stockholders:				
Income (loss) per common share from continuing operations				
Basic	$0.62	$0.87	$(0.33)	$1.43
Diluted	$0.57	$0.77	$(0.33)	$1.37
Net income (loss) per common share				
Basic	$0.61	$0.87	$(0.65)	$1.47
Diluted	$0.56	$0.77	$(0.65)	$1.41
Weighted average common shares outstanding				
Basic	118.0	121.5	118.4	121.9
Diluted	149.3	153.1	118.4	126.9

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

In millions	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Net income (loss)	$86	$119	$(39)	$278
Other comprehensive (loss) income:				
Currency translation adjustments				
Currency translation (losses) gains	(13)	6	(43)	35
Derivatives				
Unrealized gains (losses) on derivatives	1	(5)	5	(15)
(Losses) gains on derivatives recognized during the period	(2)	1	(2)	(2)
Less income tax (benefit) provision	(1)	—	(1)	3
Employee benefit plans				
Amortization of prior service benefit	(2)	(1)	(7)	(6)
Amortization of actuarial loss (benefit)	—	(1)	1	(2)
Less income tax provision	—	—	1	2
Other comprehensive (loss) income	(17)	—	(46)	15
Total comprehensive income (loss)	69	119	(85)	293
Less comprehensive income (loss) attributable to noncontrolling interests:				
Net income	2	1	2	1
Currency translation gains (losses)	1	(2)	(2)	(2)
Amounts attributable to noncontrolling interests	3	(1)	—	(1)
Comprehensive income (loss) attributable to NCR	$66	$120	$(85)	294

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	$ 334	$ 537
Accounts receivable, net	1,309	1,270
Inventories	916	780
Other current assets	296	243
Total current assets	2,855	2,830
Property, plant and equipment, net	348	341
Goodwill	2,589	2,741
Intangibles, net	501	578
Prepaid pension cost	133	118
Deferred income taxes	488	460
Other assets	591	586
Total assets	$ 7,505	$ 7,654
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	$ 246	$ 52
Accounts payable	804	762
Payroll and benefits liabilities	225	219
Contract liabilities	427	458
Other current liabilities	302	398
Total current liabilities	2,004	1,889
Long-term debt	2,881	2,939
Pension and indemnity plan liabilities	803	798
Postretirement and postemployment benefits liabilities	130	133
Income tax accruals	118	148
Other liabilities	261	200
Total liabilities	6,197	6,107
Commitments and Contingencies (Note 9)		
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 September 30, 2018 and December 31, 2017, respectively; redemption amount and liquidation preference of $859 and $825 as of September 30, 2018 and December 31, 2017, respectively	846	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 September 30, 2018 and December 31, 2017, respectively	—	—
Common stock: par value $0.01 per share, 500.0 shares authorized, 118.0 and 122.0 shares issued and outstanding as of September 30, 2018 and December 31, 2017, respectively	1	1
Paid-in capital	19	60
Retained earnings	666	857
Accumulated other comprehensive loss	(242)	(199)
Total NCR stockholders' equity	444	719

Noncontrolling interests in subsidiaries	4	3
Total stockholders' equity	448	722
Total liabilities and stockholders' equity	$ 7,505	$ 7,654

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine months ended September 30	
	2018	2017
Operating activities		
Net (loss) income	$(39)	$278
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Income (loss) from discontinued operations	38	(5)
Depreciation and amortization	249	263
Stock-based compensation expense	55	60
Deferred income taxes	(15)	19
Gain on sale of property, plant and equipment	(2)	(2)
Impairment of goodwill and long-lived assets	193	1
Changes in assets and liabilities:		
Receivables	(102)	(107)
Inventories	(182)	(120)
Current payables and accrued expenses	31	(132)
Contract liabilities	(36)	20
Employee benefit plans	(18)	(13)
Other assets and liabilities	(9)	8
Net cash provided by operating activities	163	270
Investing activities		
Expenditures for property, plant and equipment	(104)	(81)
Proceeds from sale of property, plant and equipment	3	6
Additions to capitalized software	(130)	(125)
Other investing activities, net	(4)	—
Net cash used in investing activities	(235)	(200)
Financing activities		
Short term borrowings, net	7	10
Payments on term credit facilities	(51)	(37)
Payments on revolving credit facilities	(1,433)	(1,110)
Borrowings on revolving credit facilities	1,608	1,335
Repurchases of Company common stock	(210)	(350)
Proceeds from employee stock plans	16	11
Tax withholding payments on behalf of employees	(30)	(24)
Other financing activities	—	(1)
Net cash used in financing activities	(93)	(166)
Cash flows from discontinued operations		
Net cash used in operating activities	(23)	(14)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(12)	16
Decrease in cash, cash equivalents, and restricted cash	(200)	(94)
Cash, cash equivalents and restricted cash at beginning of period	543	507
Cash, cash equivalents and restricted cash at end of period	$343	$413

in millions	September 30	
	2018	2017

Reconciliation of cash, cash equivalents and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows		
Cash and cash equivalents	$334	$405
Restricted cash included in Other assets	9	8
Total cash, cash equivalents and restricted cash	$343	$413

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

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1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Condensed Consolidated Financial Statements have been prepared by NCR Corporation (NCR, the Company, we or us) without audit pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal, recurring adjustments, unless otherwise disclosed) necessary for a fair statement of the consolidated results of operations, financial position, and cash flows for each period presented. The consolidated results for the interim periods are not necessarily indicative of results to be expected for the full year. The 2017 year-end Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (GAAP). These financial statements should be read in conjunction with NCR's Form 10-K for the year ended December 31, 2017.

Use of Estimates The preparation of financial statements in accordance with 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 period reported. Actual results could differ from those estimates.

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

Planned Acquisition of JetPay Corporation On October 19, 2018, we entered into an Agreement and Plan of Merger (the “Merger Agreement”) with JetPay Corporation (“JetPay”), a provider of end-to-end payment processing and human capital management solutions, pursuant to which NCR agreed to purchase all of the outstanding shares of common stock of JetPay through a cash tender offer at a price per share of $5.05 for a total value of approximately $184 million.

NCR plans to finance the acquisition through existing cash and existing capacity under its revolving credit facility. The transaction has been approved by the Board of Directors of each company. The transaction, which is subject to approval by regulatory authorities and other customary closing conditions, is currently expected to close by the end of the fourth quarter of 2018. However, it is possible that factors outside of our control could require us to complete the transaction at a later time or not at all.

Reclassifications Certain prior-period amounts have been reclassified in the accompanying Condensed Consolidated Financial Statements and Notes thereto in order to conform to the current period presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Redeemable Noncontrolling Interests and Related Party Transactions In 2011, we sold a 49% voting equity interest in NCR Brasil - Indústria de Equipamentos para Automação S.A., a subsidiary of the Company (NCR Manaus), to Scopus Tecnologia Ltda. (Scopus). Under our investment agreements with Scopus, Scopus may elect to sell its shares in NCR Manaus at the then-current fair value to a third party that is not a competitor of NCR. If Scopus is unable to locate a buyer, Scopus may require NCR to purchase its noncontrolling interest for its then-current fair value.

We recognized revenue related to Banco Bradesco SA (Bradesco), the parent of Scopus, totaling $18 million and $25 million during the three and nine months ended September 30, 2018, respectively, as compared to $37 million and $43 million during the three and nine months ended September 30, 2017, respectively. As of September 30, 2018 and December 31, 2017, we had $12 million and $18 million, respectively, in receivables outstanding from Bradesco.

Recent Accounting Pronouncements

Issued

In February 2016, the Financial Accounting Standards Board (FASB) issued a new leasing standard that will supersede current guidance related to accounting for leases. The guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard will be effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. The standard is required to be adopted using the modified retrospective approach and NCR plans to apply the provisions of the new leasing standard at the effective date rather than at the beginning of the earliest period presented under the transition method provided. The standard also includes options to elect a number of practical expedients. We plan on electing the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and are evaluating the remaining practical expedients available under the guidance. As part of the adoption of the standard, we have selected and are in the process of implementing new lease accounting software. We are also in the process of identifying and designing appropriate changes to our business processes, systems and controls to support the new standard, and we are continuing to evaluate the impact of the standard on our consolidated financial statements and related disclosures. At this time the Company cannot estimate the quantitative impact of adopting the new standard, but it is expected to have a material effect to the total assets and total liabilities reported on the consolidated balance sheet, and is not expected to have a material effect to the consolidated statement of operations or the consolidated statement of cash flows.

In August 2018, the FASB issued an accounting standard update which require additional disclosures related to the weighted-average interest crediting rates for cash balance plans and an explanation for the reasons for significant gains and losses related to changes in the benefit obligation for the period. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 on a retrospective basis with early adoption permitted. The impact of adopting this guidance is not expected to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued an accounting standard update with new guidance on fair value measurement disclosure requirements which requires the disclosure of additions to and transfers into and out of Level 3 of the fair value hierarchy. The update also requires disclosure about the uncertainty in measurement as of the reporting date. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted. The impact of adopting this guidance is not expected to have a material impact on our consolidated financial statements.

In August 2018, the FASB issued additional guidance for an accounting update that was issued in April 2015 related to accounting for implementation costs incurred in a cloud computing arrangement that is also a service contract. If a cloud computing arrangement also includes an internal-use software, an intangible asset is recognized and a liability is recognized for any payments related to the software license. However, if a cloud computing arrangement does not include a software license, the entity should account for the arrangement as a service contract and any fees associated with the service are expensed as incurred. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The impact of adopting this guidance is not expected to have a material impact on our consolidated financial statements.

In October 2018, the FASB issued an accounting standards update for hedge accounting guidance that was issued in August 2017 which we adopted during the first quarter of the this year. This guidance allows for the use of a broad Treasury repurchase agreement financing rate which is referred to as the Secured Overnight Financing Rate (SOFR) to be used as an additional benchmark rate for hedge accounting purposes. This guidance is effective for entities that have already adopted the amendments of the hedge accounting guidance referenced above for fiscal years beginning after December 15, 2018 on a prospective basis for qualifying new or re-designated hedging relationships entered into on or after the date of adoption. The adoption of this accounting standard update is not expected to have a material effect on our consolidated financial statements.

Adopted

In May 2014, the FASB issued a new revenue recognition standard that superseded existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard was effective for the first interim period within annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented ("full retrospective method") or as a cumulative effect adjustment as of the date of adoption ("modified retrospective method"). Effective January 1, 2018, we adopted the standard using the modified retrospective method applied to contracts that were not complete as of the date of adoption and recorded a cumulative adjustment to increase retained earnings by $2 million. Adoption of the new standard resulted in changes to our accounting policies for revenue recognition and deferred commissions. Refer to Note 2. Accounting Policies related to Revenue with Contracts with Customers, for the updated policy disclosures, and Note 3. Revenue Recognized under Previous Guidance, for presentation of what revenue would have been in the current periods had the Company continued to recognize revenue under the previous accounting guidance.

In August 2016, the FASB issued an accounting standards update which provides guidance regarding the classification of certain cash receipts and cash payments on the statement of cash flows, where specific guidance is provided for issues not previously addressed. This guidance is effective for annual reporting periods, including interim reporting within those periods, beginning after December 15, 2017, with early adoption permitted, and is required to be adopted using a retrospective approach. The adoption of this accounting standards update did not have a material effect on the Company's statement of cash flows.

In October 2016, the FASB issued an accounting standards update which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This standard is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. Effective January 1, 2018, we adopted the standard using the modified retrospective method and recorded a cumulative adjustment to increase retained earnings by $13 million.

In November 2016, the FASB issued an accounting standards update which clarifies how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. The guidance requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The accounting standards update is required to be adopted for annual periods beginning after December 15, 2017, including interim periods within that annual period. The amendment is to be applied retrospectively with early adoption permitted. The adoption of this accounting standards update did not have a material effect on the Company's statement of cash flows.

In January 2017, the FASB issued an accounting standards update which clarifies the definition of a business which is used across several areas of accounting. The area expected to see the most change is the evaluation of whether a transaction should be accounted for as an acquisition (or disposal) of assets, or as a business combination. The new guidance clarifies that to be a business there must also be at least one substantive process, and narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue recognition standard. The accounting standards update is required to be adopted for annual periods beginning after December 15, 2017, including interim periods within that annual period. The amendment is to be applied prospectively with early adoption permitted. The adoption of this standard did not have a material effect on our financial condition, results of operations or disclosures, as the standard applies only to businesses acquired after the adoption date.

In January 2017, the FASB issued an accounting standards update with new guidance intended to simplify the subsequent measurement of goodwill. The standards update eliminates the requirement for an entity to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an entity will perform its annual, or interim, goodwill impairment testing by comparing the fair value of a reporting unit with its carrying amount and recording an impairment charge for the amount by which the carrying amount exceeds the fair value. The standards update is effective prospectively for annual and interim goodwill impairment testing performed in fiscal years beginning after December 15, 2019, which we early adopted as of January 1, 2018. Refer to Note 4. Goodwill and Long-Lived Assets for further discussion.

In March 2017, the FASB issued an accounting standards update with new guidance on an employer's presentation of defined benefit retirement costs in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods therein, with early adoption permitted. The adoption of this accounting standards update did not have a material effect on the Company's net income, cash flows or financial condition.

In May 2017, the FASB issued an accounting standards update which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. This update requires modification only if the fair value, vesting conditions or the classification of the award changes as a result of the change in terms or conditions. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods therein, with early adoption permitted. The adoption of this accounting standards update did not have a material effect on the Company's net income, cash flows or financial condition.

In August 2017, the FASB issued an accounting standards update which simplifies certain aspects of hedge accounting and improves disclosures of hedging arrangements through the elimination of the requirement to separately measure and report hedge ineffectiveness. This update generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item in order to align financial reporting of hedge relationships with economic results. Entities must apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements must be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein, with early adoption permitted. The adoption of this accounting standards update did not have a material effect on the Company's net income, cash flows or financial condition.

In February 2018, the FASB issued an accounting standards update which permits entities to reclassify tax effects stranded in accumulated other comprehensive income as a result of the enactment of the Tax Cuts and Jobs Act (U.S. Tax Reform) to retained earnings. Entities can elect to apply the guidance retrospectively or in the period of adoption. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein, with early adoption permitted. The adoption of this accounting standards update did not have a material effect on the Company's net income, cash flows or financial condition.

In March 2018, the FASB issued an accounting standards update which allowed SEC registrants to record provisional amounts in earnings for the year ended December 31, 2017 due to the complexities involved in accounting for the enactment of U.S. Tax Reform. The standard was effective upon issuance. The Company recognized the estimated income tax effects of U.S. Tax Reform in its 2017 Consolidated Financial Statements in accordance with SEC Staff Accounting Bulletin No. 118 (SAB No. 118). Refer to Note 6. Income Taxes, for further information regarding the provisional amounts recorded by the Company as of December 31, 2017.

2. ACCOUNTING POLICIES RELATED TO REVENUE WITH CONTRACTS WITH CUSTOMERS

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 passage of title and risk of loss of the delivered products. In such cases, revenue is not recognized until the customer acceptance is obtained. Delivery, acceptance, and transfer of title and risk of loss generally occur in the same reporting period. NCR's customers may request that delivery and passage of title and risk of loss occur on a bill and hold basis.

Our services revenue includes software as a service (SaaS), professional consulting, installation and maintenance support. SaaS primarily consists of fees to provide our customers access to our platform and cloud-based applications. Revenue from SaaS contracts is recognized as variable consideration directly allocated based on customer usage or on a ratable basis over the contract term beginning on the date that our service is made available to the customer. Professional consulting primarily consists of software implementation, integration, customization and optimization services. Revenue from professional consulting contracts that involve significant production, modification or customization of the software is recognized over time as the services are performed. Revenue from professional consulting contracts that does not involve significant production, modification or customization of the software is recognized when the services are completed or customer acceptance of the service is received, if required. For installation and maintenance, control is transferred as the services are provided or ratably over the service period, or, if applicable, after customer acceptance of the service. We apply the 'as invoiced' practical expedient, for performance obligations satisfied over time, if the amount we may invoice corresponds directly with the value to the customer of the Company's performance to date. This expedient permits us to recognize revenue in the amount we invoice the customer.

NCR frequently enters contracts that include multiple performance obligations, including hardware, software, professional consulting services, installation services and maintenance support services. For these arrangements, the Company allocates the transaction price, at contract inception, to each performance obligation on a relative standalone selling price basis. The primary method used to estimate standalone selling price is the price that the Company charges for that good or service when the Company sells it separately in similar circumstances to similar customers. If a contract includes software and services that involve significant production, modification or customization of the software, the services are not distinct from the software. For these contracts, both the software and professional services revenue is recognized over time using costs incurred to date relative to total estimated costs at completion to measure progress toward satisfying our performance obligations. Incurred cost represents work performed, which corresponds with, and thereby best depicts, the transfer of control to the customer. Estimated losses, if any, are recognized as soon as such losses become known.

The nature of our arrangements gives rise to several types of variable consideration including service level agreement credits, stock rotation rights, trade-in credits and volume-based rebates. At contract inception, we include this variable consideration in our transaction price when there is a basis to reasonably estimate the amount of the fee and it is probable there will not be a significant reversal. These estimates are generally made using the expected value method and a portfolio approach, based on historical experience, anticipated performance and our best judgment at the time. These estimates are reassessed at each reporting date. Because of our confidence in estimating these amounts, they are included in the transaction price of our contracts and the associated remaining performance obligations.

As a practical expedient, we do not adjust the promised amount of consideration for the effects of a significant financing component when we expect, at contract inception, that the period between our transfer of a promised product or service to a customer and when the customer pays for that product or service will be one year or less. Payment terms with our customers are established based on industry and regional practices and generally do not exceed 30 days. We do not typically include extended payment terms in our contracts with customers.

The Company also does not adjust the transaction price for taxes collected from customers, as those amounts are netted against amounts remitted to government authorities.

We account for shipping and handling activities related to contracts with customers as costs to fulfill our promise to transfer the associated products, rather than as a separate performance obligation. Accordingly, we record amounts billed for shipping and handling costs as a component of net product sales, and classify such costs as a component of cost of products.

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.

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 Condensed 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 Condensed Consolidated Balance Sheet.

The following table presents the net contract asset and contract liability balances as of September 30, 2018 and January 1, 2018:

In millions	Location in the Condensed Consolidated Balance Sheet	September 30, 2018	January 1, 2018

Current portion of contract assets	Other current assets	$ 18	$ 28
Current portion of contract liabilities	Contract liabilities	$ 427	$ 458
Non-current portion of contract liabilities	Other liabilities	$ 95	$ 95

During the nine months ended September 30, 2018, the Company recognized $326 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 Condensed Consolidated Balance Sheet as of September 30, 2018. Amortization of deferred commissions is included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 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 five 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 seven years.

Remaining Performance Obligations

Remaining performance obligations represent the transaction price of orders for which products have not been delivered or services have not been performed. As of September 30, 2018, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $3.5 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.

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3. REVENUE RECOGNIZED UNDER PREVIOUS GUIDANCE

As noted in Note 1. Basis of Presentation and Summary of Significant Accounting Policies, the Company adopted the new revenue recognition guidance effective January 1, 2018, using the modified retrospective approach. As a result, we recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings as of January 1, 2018. Adopting the new standard primarily impacted the deferral of incremental commission costs of obtaining SaaS contracts with customers. Other changes impact the timing of recognition for term-based software license sales and renewals, and estimating variable consideration at contract inception.

The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. As such, the following table presents the results for the three and nine months ended September 30, 2018 under the previous guidance:

In millions, except per share amounts	Three months ended September 30, 2018 Under Current Guidance	Adjustments	Under Previous Guidance
Condensed Consolidated Statement of Operations			
Product revenue	$534	$ (20)	$ 514
Cost of products	473	(12)	461
Income from operations	125	(8)	117
Income from continuing operations before income taxes	72	(8)	64
Income tax benefit	(15)	(3)	(18)
Income from continuing operations	87	(5)	82
Net income	86	(5)	81
Net income attributable to NCR	$84	$ (5)	$ 79
Loss per common share from continuing operations			
Basic	$0.62	$ (0.04)	$ 0.58
Diluted	$0.57	$ (0.03)	$ 0.54
Net loss per common share			
Basic	$0.61	$ (0.04)	$ 0.57
Diluted	$0.56	$ (0.03)	$ 0.53

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In millions, except per share amounts	Nine months ended September 30, 2018 Under Current Guidance	Adjustments	Under Previous Guidance
Condensed Consolidated Statement of Operations			
Product revenue	$1,585	$ (30)	$ 1,555
Cost of products	1,344	(14)	1,330
Income (loss) from operations	128	(16)	112
Loss from continuing operations before income taxes	(21)	(16)	(37)
Income tax benefit	(20)	(5)	(25)
Loss from continuing operations	(1)	(11)	(12)
Net loss	(39)	(11)	(50)
Net loss attributable to NCR	$(41)	$ (11)	$ (52)
Loss per common share from continuing operations			
Basic	$(0.33)	$ (0.09)	$ (0.42)
Diluted	$(0.33)	$ (0.09)	$ (0.42)
Net loss per common share			
Basic	$(0.65)	$ (0.09)	$ (0.74)
Diluted	$(0.65)	$ (0.09)	$ (0.74)

The following table presents balances as of September 30, 2018 under the current and previous guidance:

In millions	Under Current Guidance	Adjustments	Under Previous Guidance
Condensed Consolidated Balance Sheet			
Assets			
Accounts receivable, net	$ 1,309	$ 13	$ 1,322
Other current assets	296	(7)	289
Total current assets	2,855	6	2,861
Deferred income taxes	488	6	494
Other assets	591	(27)	564
Total Assets	$ 7,505	$ (15)	$ 7,490
Liabilities			
Contract liabilities	$ 427	$ 1	$ 428
Other current liabilities	302	(2)	300
Total current liabilities	2,004	(1)	2,003
Total liabilities	6,197	(1)	6,196
Retained earnings	666	(14)	652
Total NCR stockholders' equity	444	(14)	430
Total stockholders' equity	448	(14)	434
Total liabilities and stockholders' equity	$ 7,505	$ (15)	$ 7,490

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Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

4. GOODWILL AND LONG-LIVED ASSETS

In addition to our annual goodwill impairment test performed in the fourth quarter, we perform interim impairment tests for long-lived and intangible assets, including goodwill, whenever events or changes in circumstances indicate that the carrying amount of the asset (group), which is the reporting unit for goodwill purposes, may not be recoverable. As noted in the Company’s 2017 Annual Report on Form 10-K, our annual impairment test indicated that the Company's hardware segment had the least amount of excess fair value over the carrying value, where the excess of fair value over carrying value was approximately 20%.

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.

For goodwill, consistent with the annual impairment test, fair value of the Hardware reporting unit was estimated using a weighted methodology considering the output from both the income and market approaches. The income approach incorporates the use of discounted cash flow (DCF) analysis. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market shares, sales volumes and prices, costs to produce, tax rates, capital spending, discount rate and working capital changes. The market approach is performed using the Guideline Public Companies (GPC) method which is based on earnings multiple data. Under both approaches, the fair value of the Hardware reporting unit was determined to be below the net asset value. Accordingly, we recorded an impairment charge up to the value of the goodwill assigned to the Hardware reporting unit which was the full amount recorded. Refer to Note 1. Basis of Presentation and Summary of Significant Accounting Policies for disclosure of adoption of new accounting guidance which eliminates the requirement to measure the implied fair value of goodwill to measure a goodwill impairment charge.

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 Condensed Consolidated Statement of Operations for the nine months ended September 30, 2018.

The carrying amounts of goodwill by segment as of September 30, 2018 and December 31, 2017 are included in the table below. Foreign currency fluctuations are included within other adjustments.

	December 31, 2017						September 30, 2018		
In millions	Goodwill	Accumulated Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Accumulated Impairment Losses	Total
Software	$1,944	$ (7)	$1,937	$ —	$ —	$ (6)	$1,938	$ (7)	$1,931
Services	658	—	658	—	—	—	658	—	658

Hardware	162	(16)	146	—	(146)	—	162	(162)	—
Total goodwill	$2,764	$ (23)	$2,741	$ —	$ (146)	$ (6)	$2,758	$ (169)	$2,589

NCR’s purchased intangible assets, reported in intangibles, net in the Condensed Consolidated Balance Sheets, were specifically identified when acquired, and are deemed to have finite lives. 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)	September 30, 2018 Gross Carrying Amount	September 30, 2018 Accumulated Amortization	December 31, 2017 Gross Carrying Amount	December 31, 2017 Accumulated Amortization
Identifiable intangible assets					
Reseller & customer relationships	1 - 20	$659	$ (205)	$659	$ (170)
Intellectual property	2 - 8	397	(369)	410	(351)
Customer contracts	8	89	(85)	89	(81)
Tradenames	2 - 10	73	(58)	73	(51)
Total identifiable intangible assets		$1,218	$ (717)	$1,231	$ (653)

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

In millions	Three months ended September 30, 2018	Nine months ended September 30, 2018	Remainder of 2018 (estimated)
Amortization expense	$ 20	$ 64	$ 21

	For the years ended December 31 (estimated)				
In millions	2019	2020	2021	2022	2023
Amortization expense	$76	$ 58	$ 50	$ 45	$ 43

5. DEBT OBLIGATIONS

The following table summarizes the Company's short-term borrowings and long-term debt:

In millions, except percentages	September 30, 2018 Amount	September 30, 2018 Weighted-Average Interest Rate	December 31, 2017 Amount	December 31, 2017 Weighted-Average Interest Rate
Short-Term Borrowings				
Current portion of Senior Secured Credit Facility [(1)]	$62	3.92%	$51	3.21%
Trade Receivables Securitization Facility	175	3.11%	—	
Other [(2)]	9	31.33%	1	3.71%
Total short-term borrowings	$246		$52	
Long-Term Debt				
Senior Secured Credit Facility:				
Term loan facility [(1)]	$698	3.92%	$759	3.21%
Revolving credit facility	—		—	
Senior notes:				
5.00% Senior Notes due 2022	600		600	

4.625% Senior Notes due 2021	500		500	
5.875% Senior Notes due 2021	400		400	
6.375% Senior Notes due 2023	700		700	
Deferred financing fees	(19)		(23)	
Other [2]	2	0.96%	3	1.62%
Total long-term debt	$2,881		$2,939	

[1] Interest rates are weighted-average interest rates as of September 30, 2018 and December 31, 2017.

(2) Interest rates are weighted-average interest rates as of September 30, 2018 and December 31, 2017 primarily related to various international credit facilities.

Senior Secured Credit Facility On March 31, 2016, the Company amended and restated its senior secured credit facility with and among certain foreign subsidiaries of NCR (the Foreign Borrowers), the lenders party thereto and JPMorgan Chase Bank, NA (JPMCB) as the administrative agent, and refinanced its term loan facility and revolving credit facility thereunder (the Senior Secured Credit Facility). As of September 30, 2018, the Senior Secured Credit Facility consisted of a term loan facility with an aggregate principal amount outstanding of $760 million and a revolving credit facility with an aggregate principal amount of $1.1 billion, of which zero was outstanding. The revolving credit facility also allows a portion of the availability to be used for outstanding letters of credit, and as of September 30, 2018, there were no letters of credit outstanding.

Up to $400 million of the revolving credit facility is available to the Foreign Borrowers. Term loans were made to the Company in U.S. Dollars, and loans under the revolving credit facility are available in U.S. Dollars, Euros and Pound Sterling.

The outstanding principal balance of the term loan facility is required to be repaid in equal quarterly installments of approximately $17 million beginning June 30, 2018, and $23 million beginning June 30, 2019, with the balance being due at maturity on March 31, 2021. Borrowings under the revolving portion of the credit facility are due March 31, 2021. Amounts outstanding under the Senior Secured Credit Facility bear interest at LIBOR (or, in the case of amounts denominated in Euros, EURIBOR), or, at NCR’s option, in the case of amounts denominated in U.S. Dollars, at a base rate equal to the highest of (a) the federal funds rate plus 0.50%, (b) JPMCB’s “prime rate” and (c) the one-month LIBOR rate plus 1.00% (the Base Rate), plus, in each case, a margin ranging from 1.25% to 2.25% for LIBOR-based loans that are either term loans or revolving loans and EURIBOR-based revolving loans and ranging from 0.25% to 1.25% for Base Rate-based loans that are either term loans or revolving loans, in each case, depending on the Company’s consolidated leverage ratio. The terms of the Senior Secured Credit Facility also require certain other fees and payments to be made by the Company, including a commitment fee on the undrawn portion of the revolving credit facility.

The obligations of the Company and Foreign Borrowers under the Senior Secured Credit Facility are guaranteed by certain of the Company's wholly-owned domestic subsidiaries. The Senior Secured Credit Facility and these guarantees are secured by a first priority lien and security interest in certain equity interests owned by the Company and the guarantor subsidiaries in certain of their respective domestic and foreign subsidiaries, and a perfected first priority lien and security interest in substantially all of the Company's U.S. assets and the assets of the guarantor subsidiaries, subject to certain exclusions. These security interests would be released if the Company achieves an “investment grade” rating, and will remain released so long as the Company maintains that rating.
The Senior Secured Credit Facility includes affirmative and negative covenants that restrict or limit the ability of the Company and its subsidiaries to, among other things, incur indebtedness; create liens on assets; engage in certain fundamental corporate changes or changes to the Company's business activities; make investments; sell or otherwise dispose of assets; engage in sale-leaseback or hedging transactions; repurchase stock, pay dividends or make similar distributions; repay other indebtedness; engage in certain affiliate transactions; or enter into agreements that restrict the Company's ability to create liens, pay dividends or make loan repayments. The Senior Secured Credit Facility also includes financial covenants that require the Company to maintain:

- a consolidated leverage ratio on the last day of any fiscal quarter, not to exceed (i) in the case of any fiscal quarter ending after December 31, 2017 and on or prior to December 31, 2019, (a) the sum of 4.00 and an amount (not to exceed 0.50) to reflect debt used to reduce NCR’s unfunded pension liabilities to (b) 1.00, and (ii) in the case of any fiscal quarter ending after December 31, 2019, the sum of (a) 3.75 and an amount (not to exceed 0.50) to reflect debt used to reduce NCR’s unfunded pension liabilities to (b) 1.00; and

- an interest coverage ratio on the last day of any fiscal quarter greater than or equal to 3.50 to 1.00.

At September 30, 2018, the maximum consolidated leverage ratio under the Senior Secured Credit Facility was 4.10 to 1.00.

The Senior Secured Credit Facility also includes provisions for events of default, which are customary for similar financings. Upon the occurrence of an event of default, the lenders may, among other things, terminate the loan commitments, accelerate all loans and require cash collateral deposits in respect of outstanding letters of credit. If the Company is unable to pay or repay the amounts due, the lenders could, among other things, proceed against the collateral granted to them to secure such indebtedness.

The Company may request, at any time and from time to time, but the lenders are not obligated to fund, the establishment of one or more incremental term loans and/or revolving credit facilities (subject to the agreement of existing lenders or additional financial institutions to provide such term loans and/or revolving credit facilities) with commitments in an aggregate amount not to exceed the greater of (i) $150 million, and (ii) such amount as would not (a) prior to the date that the Company obtains an investment grade rating cause the leverage ratio under the Senior Secured Credit Facility, calculated on a pro forma basis including the incremental facility and assuming that it and the revolver are fully drawn, to exceed 2.50 to 1.00, and (b) on and after the date that the Company obtains an investment grade rating cause the leverage ratio under the Senior Secured Credit Facility, calculated on a pro forma basis including the incremental facility and assuming that it and the revolver are fully drawn, to exceed a ratio that is 0.50 less than the leverage ratio then applicable under the financial covenants of the Senior Secured Credit Facility, the proceeds of which can be used for working capital requirements and other general corporate purposes.

Senior Unsecured Notes On September 17, 2012, the Company issued $600 million aggregate principal amount of 5.00% senior unsecured notes due in 2022 (the 5.00% Notes). The 5.00% Notes were sold at 100% of the principal amount and will mature on July 15, 2022. On December 18, 2012, the Company issued $500 million aggregate principal amount of 4.625% senior unsecured notes due in 2021 (the 4.625% Notes). The 4.625% Notes were sold at 100% of the principal amount and will mature on February 15, 2021. On December 19, 2013, the Company issued $400 million aggregate principal amount of 5.875% senior unsecured notes due in 2021 (the 5.875% Notes) and $700 million aggregate principal amount of 6.375% senior unsecured notes due in 2023 (the 6.375% Notes). The 5.875% Notes were sold at 100% of the principal amount and will mature on December 15, 2021 and the 6.375% Notes were sold at 100% of the principal amount and will mature on December 15, 2023. The senior unsecured notes are guaranteed, fully and unconditionally, on an unsecured senior basis, by our subsidiary, NCR International, Inc. Under the indentures for these notes, the Company has the option to redeem each series of notes, in whole or in part, at various times for specified prices, plus accrued and unpaid interest.

The terms of the indentures for these notes limit the ability of the Company and certain of its subsidiaries to, among other things, incur additional debt or issue redeemable preferred stock; pay dividends or make certain other restricted payments or investments; incur liens; sell assets; incur restrictions on the ability of the Company's subsidiaries to pay dividends to the Company; enter into affiliate transactions; engage in sale and leaseback transactions; and consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's or such subsidiaries' assets. These covenants are subject to significant exceptions and qualifications. For example, if these notes are assigned an investment grade rating by Moody's or S&P and no default has occurred or is continuing, certain covenants will be terminated.

Trade Receivables Securitization Facility In November 2014, the Company established a two-year revolving trade receivables securitization facility (the A/R Facility) with PNC Bank, National Association (PNC) as the administrative agent, and various lenders. In November 2016, the Company amended the A/R Facility to extend the maturity date to November 2018. The A/R Facility provides for up to $200 million in funding based on the availability of eligible receivables and other customary factors and conditions.

Under the A/R Facility, NCR sells and/or contributes certain of its U.S. trade receivables to a wholly-owned, bankruptcy-remote subsidiary as they are originated, and advances by the lenders to that subsidiary are secured by those trade receivables. The assets of this financing subsidiary are restricted as collateral for the payment of its obligations under the A/R Facility, and its assets and credit are not available to satisfy the debts and obligations owed to the creditors of the Company. The Company includes the assets, liabilities and results of operations of this financing subsidiary in its consolidated financial statements. The financing subsidiary owned $507 million and $491 million of outstanding accounts receivable as of September 30, 2018 and December 31, 2017, respectively, and these amounts are included in accounts receivable, net in the Company's Condensed Consolidated Balance Sheets.

The financing subsidiary pays annual commitment and other customary fees to the lenders, and advances by a lender under the A/R Facility accrue interest (i) at a reserve-adjusted LIBOR rate or a base rate equal to the highest of (a) the applicable lender's prime rate or (b) the federal funds rate plus 0.50%, if the lender is a committed lender, or (ii) based on commercial paper interest rates if the lender is a commercial paper conduit lender. Advances may be prepaid at any time without premium or penalty.

The A/R Facility contains various customary affirmative and negative covenants and default and termination provisions that provide for the acceleration of the advances under the A/R Facility in circumstances including, but not limited to, failure to pay interest or principal when due, breach of representation, warranty or covenant, certain insolvency events or failure to maintain the security interest in the trade receivables, and defaults under other material indebtedness.

Fair Value of Debt The Company utilized Level 2 inputs, as defined in the fair value hierarchy, to measure the fair value of the long-term debt, which, as of September 30, 2018 and December 31, 2017 was $3.15 billion and $3.07 billion, respectively.

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Management's fair value estimates were based on quoted prices for recent trades of NCR’s long-term debt, quoted prices for similar instruments, and inquiries with certain investment communities.

6. INCOME TAXES

Income tax provisions for interim (quarterly) periods are based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Income tax benefit was $15 million for the three months ended September 30, 2018 compared to income tax expense of $31 million for the three months ended September 30, 2017. The decrease in income tax expense was driven by lower income before taxes, tax method changes filed during the quarter that resulted in lower deferred tax assets subject to the downward rate remeasurement resulting from U.S. Tax Reform and an increase in discrete benefits in the three months ended September 30, 2018. The increase in discrete benefits was primarily driven by the impact of tax restructuring transactions.

In addition, during the three months ended September 30, 2018, the Company identified two out of period adjustments that net to $2 million of income tax benefit. The first adjustment was due to an error in the calculation of deferred tax liabilities associated with software capitalization resulting in $13 million of income tax benefit which should have been recorded in the fourth quarter of 2017 when deferred taxes were remeasured in connection with U.S. Tax Reform. The second adjustment was to write-off income tax assets related to expired foreign tax credits resulting in $11 million of income tax expense which should have been recorded between 2010 through 2017. The Company determined the impact of these errors was not material to the annual or interim financial statements of previous periods and the effect of correcting these errors was not material to the three and nine months ended September 30, 2018 and is not expected to be material to the 2018 annual financial statements.

Income tax benefit was $20 million for the nine months ended September 30, 2018 compared to income tax expense of $78 million for the nine months ended September 30, 2017. The decrease in income tax expense was driven by lower income before taxes, tax method changes filed during the quarter that resulted in lower deferred tax assets subject to the downward rate remeasurement resulting from U.S. Tax Reform and an increase in discrete benefits in the nine months ended September 30, 2018. The increase in discrete benefits was primarily driven by favorable audit settlements in international jurisdictions and the impact of tax restructuring transactions.

U.S. Tax Reform was enacted in December 2017. The SEC staff issued SAB 118 that allowed the Company to record provisional amounts for the impacts of the legislation, with the requirement that the accounting be completed in a period not to exceed one year from the date of enactment of the legislation. Pursuant to SAB 118, we had reverted to tax law that existed prior to U.S. Tax Reform on the realizability of deferred tax assets for foreign tax credit carryforwards and future repatriation of earnings from our foreign subsidiaries. As of September 30, 2018, the Company had not completed the accounting in its entirety for the tax effects of the legislation.
Due to the timing of the enactment and complexities in the tax legislation, we made reasonable estimates of the effects and recorded provisional amounts in our financial statements as of December 31, 2017. The provisional expense related to the re-measurement of our net U.S. deferred tax assets to the 21% corporate income tax rate and the repatriation tax, net of related foreign tax credits. In the nine months ended September 30, 2018, the Company has made a $40 million reduction primarily related to the rate remeasurement provisional amount. As we continue to evaluate the impact of U.S. Tax Reform and interpret any additional guidance issued by the U.S. Treasury Department or other standard-setting bodies, we may adjust the provisional amounts. Completion of our accounting could lead to a material increase or decrease in our effective tax rate during 2018.
The Company engages in regular discussions and negotiations with taxing authorities regarding tax matters, and the Company has determined that during 2018 it expects to resolve certain tax matters related to U.S. and foreign

jurisdictions. As a result, as of September 30, 2018, we estimate that it is reasonably possible that gross unrecognized tax benefits may decrease by $50 million to $55 million in 2018.

7. STOCK COMPENSATION PLANS

As of September 30, 2018, the Company’s primary type of stock-based compensation was restricted stock units and stock options. Stock-based compensation expense for the following periods were:

In millions	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Restricted stock units	$ 13	$ 18	$ 50	$ 57
Stock options	1	—	2	—
Employee stock purchase plan	1	1	3	3
Stock-based compensation expense	15	19	55	60
Tax benefit	—	(9)	(7)	(21)
Total stock-based compensation expense (net of tax)	$ 15	$ 10	$ 48	$ 39

Stock-based compensation expense is recognized in the financial statements based upon grant date fair value. During the nine months ended September 30, 2018, the Company granted stock options and the weighted average fair value of option grants was estimated based on the below weighted average assumptions, which was $9.80 for the nine months ended September 30, 2018. During the nine months ended September 30, 2017 the Company did not grant any stock options.

	Nine months ended September 30, 2018
Dividend yield	$ —
Risk-free interest rate	2.50 %
Expected volatility	34.88 %
Expected holding period (years)	3.8

Expected volatility is calculated as the historical volatility of the Company's stock over a period equal to the expected term of the options, as management believes this is the best representation of prospective trends. The Company uses historical data to estimate option exercise and employee terminations within the valuation model. The expected holding period represents the period of time that options are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on a blend of the three and five-year U.S. Treasury yield curve in effect at the time of grant.

As of September 30, 2018, the total unrecognized compensation cost of $92 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 1.0 year. As of September 30, 2018, the total unrecognized compensation cost of $18 million related to unvested stock option grants is expected to be recognized over a weighted average period of approximately 1.9 years.

Employee Stock Purchase Plan The Company's Employee Stock Purchase Plan ("ESPP") provides employees a 15% discount on stock purchases using a three-month look-back feature where the discount is applied to the stock price that represents the lower of NCR's closing stock price on either the first day or the last day of each calendar quarter. Participants can contribute between 1% and 10% of their compensation.

For the three months ended September 30, 2018, employees purchased 0.2 million shares, at a discounted price of $25.59. For the three months ended September 30, 2017, employees purchased 0.2 million shares, at a discounted price of $34.57.

8. EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost (income) of the pension plans for the three months ended September 30 were as follows:

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2018	2017	2018	2017	2018	2017
Net service cost	$ —	$ —	$ 2	$ 1	$ 2	$ 1
Interest cost	16	18	4	4	20	22
Expected return on plan assets	(10)	(14)	(9)	(9)	(19)	(23)
Amortization of prior service cost	—	—	1	1	1	1
Net periodic benefit cost (income)	$ 6	$ 4	$ (2)	$ (3)	$ 4	$ 1

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Components of net periodic benefit cost (income) of the pension plans for the nine months ended September 30 were as follows:

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2018	2017	2018	2017	2018	2017
Net service cost	$ —	$ —	$ 6	$ 5	$ 6	$ 5
Interest cost	46	54	15	14	61	68
Expected return on plan assets	(32)	(43)	(25)	(26)	(57)	(69)
Amortization of prior service cost	—	—	1	1	1	1
Net periodic benefit cost (income)	$ 14	$ 11	$ (3)	$ (6)	$ 11	$ 5

The benefit from the postretirement plan for the following periods were:

	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Interest cost	$ —	$ 1	$ —	$ 1
Amortization of:				
Prior service benefit	(1)	(1)	(4)	(4)
Actuarial loss	—	—	1	1
Net postretirement benefit	$ (1)	$ —	$ (3)	$ (2)

The net cost of the postemployment plan for the following periods were:

	Three months ended September 30		Nine months ended September 30	
In millions	2018	2017	2018	2017
Net service cost	$ 4	$ 7	$ 23	$ 26
Interest cost	—	1	2	2
Amortization of:				
Prior service benefit	(2)	(1)	(4)	(3)
Actuarial gain	—	(1)	—	(3)
Net benefit cost	$ 2	$ 6	$ 21	$ 22

The components of pension, postretirement and postemployment expense (benefit), other than net service cost, are included in other (expense), net in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017 .

Employer Contributions

Pension For the three and nine months ended September 30, 2018, NCR contributed $4 million and $17 million, respectively, to its international pension plans. NCR anticipates contributing an additional $13 million to its international pension plans for a total of $30 million in 2018.

Postretirement For the three and nine months ended September 30, 2018, NCR contributed zero and $1 million, respectively, to its U.S. postretirement plan. NCR anticipates contributing an additional $1 million to its U.S. postretirement plan for a total of $2 million in 2018.

Postemployment For the three and nine months ended September 30, 2018, NCR contributed $11 million and $29 million, respectively, to its postemployment plans. NCR anticipates contributing an additional $31 million to its postemployment plans for a total of $60 million in 2018.

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9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, NCR is subject to various proceedings, lawsuits, claims and other matters, including, for example, those that relate to the environment and health and safety, labor and employment, employee benefits, import/export compliance, intellectual property, data privacy and security, product liability, commercial disputes and regulatory compliance, among others. Additionally, NCR is subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, environmental safety and the discharge of materials into the environment, product safety, import and export compliance, data privacy and security, antitrust and competition, government contracting, anti-corruption, and labor and human resources, which are rapidly changing and subject to many possible changes in the future. Compliance with these laws and regulations, including changes in accounting standards, taxation requirements, and federal securities laws among others, may create a substantial burden on, and substantially increase costs to NCR or could have an impact on NCR's future operating results. The Company has reflected all liabilities when a loss is considered probable and reasonably estimable in the Condensed Consolidated Financial Statements. We do not believe there is a reasonable possibility that losses exceeding amounts already recognized have been incurred, but there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results. Other than as stated below, the Company does not currently expect to incur material capital expenditures related to such matters. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including, but not limited to the Fox River and Kalamazoo River environmental matters and other matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR’s Condensed Consolidated Financial Statements or will not have a material adverse effect on its consolidated results of operations, capital expenditures, competitive position, financial condition or cash flows.

In June 2014, one of the Company’s Brazilian subsidiaries, NCR Manaus, was notified of a Brazilian federal tax assessment of R168 million, or approximately $41 million as of September 30, 2018, including penalties and interest regarding certain federal indirect taxes for 2010 through 2012. The assessment alleges improper importation of certain components into Brazil's free trade zone that would nullify related indirect tax incentives. We have not recorded an accrual for the assessment, as the Company believes it has a valid position regarding indirect taxes in Brazil and, as such, has filed an appeal in 2014. In December 2017, the Company prevailed in this appeal regarding substantially all of the disputed amounts. However, the Brazilian federal tax authority has further appealed this dispute to the next procedural level, so the dispute is ongoing. In further proceedings on this matter, an intermediate tribunal decided in NCR's favor in August 2018; a written opinion had not been issued as of September 30, 2018, but is expected soon. The Brazilian tax authorities will have the ability to appeal the decision. The Company estimated the aggregate risk related to this matter to be between zero to approximately $61 million as of September 30, 2018. Although the Company has not recorded an accrual, it is possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's Condensed Consolidated Financial Statements.

Environmental Matters NCR's facilities and operations are subject to a wide range of environmental protection laws, and NCR has investigatory and remedial activities underway at a number of facilities that it currently owns or operates, or formerly owned or operated, to comply, or to determine compliance, with such laws. Also, NCR has been identified, either by a government agency or by a private party seeking contribution to site clean-up costs, as a potentially responsible party (PRP) at a number of sites pursuant to various state and federal laws, including the Federal Water Pollution Control Act, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and comparable state statutes. Other than the Fox River matter and the Kalamazoo River matter discussed below, we currently do not anticipate material expenses and liabilities from these environmental matters.

Fox River NCR is one of eight entities that were formally notified by governmental and other entities, such as local Native American tribes, that they are PRPs for environmental claims (under CERCLA and other statutes) arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay in Wisconsin. The other Fox River PRPs that received notices include Appleton Papers Inc. (API; now known as Appvion, Inc.), P.H. Glatfelter Company ("Glatfelter"), Georgia-Pacific Consumer Products LP (GP, successor to Fort James Operating Company), and others. NCR was identified as a PRP because of alleged PCB discharges from two carbonless copy paper manufacturing facilities it previously owned, which were located along the Fox River. NCR sold its facilities in 1978 to API. The parties have also contended that NCR is responsible for PCB discharges from paper mills owned by other companies because NCR carbonless copy paper "broke" was allegedly purchased by those other mills as a raw material.

The United States Environmental Protection Agency (USEPA) and Wisconsin Department of Natural Resources (together, the Governments) developed clean-up plans for the upper and lower parts of the Fox River and for portions of the Bay of Green Bay. On November 13, 2007, the Governments issued a unilateral administrative order (the 2007 Order) under CERCLA to the eight original PRPs, requiring them to perform remedial work under the Governments' clean-up plan for the lower parts of the river (operable units 2 through 5). In April 2009, NCR and API formed a limited liability company (the LLC), which entered into an agreement with an environmental remediation contractor to perform the work at the Fox River site. In-water dredging and remediation under the clean-up plan commenced shortly thereafter.

NCR and API, along with B.A.T Industries p.l.c. (BAT), share among themselves a portion of the cost of the Fox River clean-up and natural resource damages (NRD) based upon a 1998 agreement (the Cost Sharing Agreement), a 2005 arbitration award (subsequently confirmed as a judgment), and a September 30, 2014 Funding Agreement (the Funding Agreement). The Cost Sharing Agreement and the arbitration resolved disputes that arose out of the Company's 1978 sale of its Fox River facilities to API. The Cost Sharing Agreement and arbitration award resulted in a 45% share for NCR of the first $75 million of such costs (a threshold that was reached in 2008), and a 40% share for amounts in excess of $75 million. The Funding Agreement arose out of a 2012 to 2014 arbitration dispute between NCR and API, and provides for regular, ongoing funding of NCR-incurred Fox River remediation costs via contributions, made to a new limited liability corporation created by the Funding Agreement, by BAT, API and, for 2014, API's indemnitor Windward Prospects. The Funding Agreement creates an obligation on BAT and API to fund 50% of NCR’s Fox River remediation costs from October 1, 2014 forward; (API’s Fox River-related obligations under the Funding Agreement were fully satisfied in 2016); the Funding Agreement also provides NCR contractual avenues for payment of, via direct and third-party sources, (1) the difference between BAT’s and API’s 60% obligation under the Cost Sharing Agreement and arbitration award on the one hand and their ongoing (since September 2014) 50% payments under the Funding Agreement on the other, as well as (2) the difference between the amount NCR received under the Funding Agreement and the amount owed to it under the Cost Sharing Agreement and arbitration award for the period from April 2012 through September 2014. As of September 30, 2018 and December 31, 2017, the receivable under the Funding Agreement was approximately $42 million and $38 million, respectively, and was included in other assets in the Condensed Consolidated Balance Sheet. The Company anticipates that it will collect sums related to the receivable in 2019 or later, likely after the remediation efforts related to the Fox River matter, described below, are complete. This receivable is not taken into account in calculating the Company’s Fox River net reserve.

The Company's litigations relating to contribution and enforcement claims concerning the Fox River have largely been concluded. A proposed consent decree settlement (the CD settlement) with respect to the contribution action (a case originally filed by NCR and API) and the government enforcement action (a case originally filed by the federal and state governments against several PRPs, including the Company) was successfully negotiated by NCR and the federal and state governments and was approved by the federal district court in Wisconsin, which had been presiding over those cases, on August 22, 2017. A final order of dismissal as to the Company in the contribution and government enforcement actions was subsequently entered; one party, Glatfelter, has appealed the approval of the CD settlement. That appeal remains pending.

The CD settlement, if approved on appeal, is expected to resolve the remaining Fox River-related claims against the Company. The key components of the approved CD settlement include (1) the Company’s commitment to complete the remediation of the Fox River, which is now expected to be completed in 2019 or 2020; (2) the Company’s conditional agreement to waive its contribution claims against the two remaining defendants in the case, GP and Glatfelter; (3) the Company’s agreement not to appeal the trial court’s decision on divisibility of harm; (4) the Governments’ agreement to include in the settlement so-called “contribution protection” in the Company’s favor as to GP’s and Glatfelter’s contribution claims against the Company, the effect of which will be to extinguish those claims; (5) the Governments’ agreement not to pursue the Company for the Governments’ past oversight costs; and (6) the Governments’ agreement to exercise prosecutorial discretion in pursuing other parties for future oversight costs and long-term monitoring and maintenance, with the Company retaining so-called “backstop” liability in the event that the other parties fail to pay future oversight costs or to perform long-term monitoring and maintenance. Additionally, although certain state law claims by GP and Glatfelter against the Company may not be affected directly by the CD settlement, the CD settlement provides that the Company’s contribution claims against those two parties will revive if those parties attempt to assert any claims against the Company relating to the Fox River, including any state law claims.

In the quarter ending September 30, 2017, the remediation general contractor commenced an arbitration against the LLC, in a dispute over contract interpretation. That dispute is scheduled for a hearing in mid-2019.

With respect to the Company’s prior dispute with API, which was generally superseded by the Funding Agreement, the Company received timely payments as they came due under the Funding Agreement. Although API filed for bankruptcy protection in October 2017, it had made all of the payments to the Company in connection with the Fox River that are required of it by the Funding Agreement.

NCR's eventual remediation liability, followed by long-term monitoring expected to be performed by others, will depend on a number of factors. In establishing the reserve, NCR attempts to estimate a range of reasonably possible outcomes for each of these factors, although each range is itself uncertain. NCR uses its best estimate within the range, if that is possible. Where there is a range of equally possible outcomes, and there is no amount within that range that is considered to be a better estimate than any other amount, NCR uses the low end of the range. The significant factors include: (1) the total remaining clean-up costs, including long-term monitoring following completion of the clean-up, and what parties are assigned to discharge the post-clean-up tasks (as noted, the Company no longer expects to bear long-term monitoring costs); (2) total NRD for the site and the share that NCR will bear (which is now resolved as to the Company); (3) the share of clean-up costs that NCR will bear (which is resolved under the CD settlement); (4) NCR's transaction and litigation costs to defend itself in this matter (with remaining litigation believed to be limited to the Glatfelter appeal and the claim brought by the general contractor, both referenced above); and (5) the share of NCR's payments that BAT will bear (which is governed by the Cost Sharing Agreement and the Funding Agreement, as discussed above; API is in bankruptcy and is not presumed likely to bear further shares of NCR's payments). With respect to NRD, in connection with a certain settlement entered into by other PRPs in 2015, the Government withdrew the NRD claims it had prosecuted on behalf of NRD trustees, including those NRD claims asserted against the Company.

Calculation of the Company's Fox River reserve is subject to several complexities, and it is possible there could be additional changes to some elements of the reserve over upcoming periods, although the Company is unable to predict or estimate such changes at this time. There can be no assurance that the clean-up and related expenditures and liabilities will not have a material effect on NCR's capital expenditures, earnings, financial condition, cash flows, or competitive position. As of September 30, 2018, the gross reserve for the Fox River matter was approximately $19 million, compared to $36 million as of December 31, 2017. As of September 30, 2018, the net reserve for the Fox River matter was approximately $18 million, compared to $35 million as of December 31, 2017. The change in the net reserve is due to payments for clean-up activities and litigation costs. NCR contributes to the LLC to fund remediation activities and generally, by contract, has funded certain amounts of remediation expenses in advance. As of September 30, 2018 and December 31, 2017, approximately zero remained from this funding. NCR's reserve for the Fox River matter is reduced as the LLC makes payments to the remediation contractor and other vendors with respect to remediation activities.

Under a 1996 agreement, AT&T Corp. (AT&T) and Nokia (as the successor to Lucent Technologies and Alcatel-Lucent USA) are responsible severally (not jointly) for indemnifying NCR for certain portions of the amounts paid by NCR for the Fox River matter over a defined threshold and subject to certain offsets. (The agreement governs certain aspects of AT&T's divestiture of NCR and of what was then known as Lucent Technologies.) Those companies have made the payments requested of them by the Company on an ongoing basis.

Kalamazoo River In November 2010, USEPA issued a "general notice letter" to NCR with respect to the Allied Paper, Inc./Portage Creek/Kalamazoo River Superfund Site (Kalamazoo River site) in Michigan. Three other companies - International Paper, Mead Corporation, and Consumers Energy - also received general notice letters at or about the same time. USEPA asserts that the site is contaminated by various substances, primarily PCBs, as a result of discharges by various paper mills located along the river. USEPA does not claim that the Company made direct discharges into the Kalamazoo River, and NCR never had facilities at or near the Kalamazoo River site, but USEPA indicated that "NCR may be liable under Section 107 of CERCLA ... as an arranger, who by contract or agreement, arranged for the disposal, treatment and/or transportation of hazardous substances at the Site." USEPA stated that it "may issue special notice letters to [NCR] and other PRPs for future RI/FS [remedial investigation / feasibility studies] and RD/RA [remedial design / remedial action] negotiations."

In connection with the Kalamazoo River site, in December 2010 the Company, along with two other defendants, was sued in federal court by three Georgia-Pacific (GP) affiliate corporations in a private-party contribution and cost recovery action for alleged pollution. The suit, pending in Michigan, asks that the Company and the other defendants to pay a "fair portion" of these companies' costs. Various removal and remedial actions remain to be decided upon and performed at the Kalamazoo River site, the costs for which generally have not yet been determined; in 2017 Records of Decisions were issued for two parts of the river, but such decisions for the majority of the work are expected to be made only over the next several years. The suit alleges that the Company is liable to the GP entities as an "arranger" under CERCLA. The initial phase of the case was tried in a Michigan federal court in February 2013; on September 26, 2013 the court issued a decision that held NCR was liable as an “arranger” as of at least March 1969. (PCB-containing carbonless copy paper was produced from approximately 1954 to April 1971, and the majority of contamination at the Kalamazoo River site had occurred prior to 1969). NCR preserved its right to appeal the September 2013 decision.

In the 2013 decision the Court did not determine NCR's share of overall liability. Relative shares of liability for the four companies were tried to the court in a subsequent phase of the case in December 2015. In a ruling issued on March 29, 2018, the court addressed responsibility for the costs that GP had incurred in the past, totaling to approximately $50 million; NCR and GP were each assigned a 40% share of those costs, and the other two companies were assigned 15% and 5% as their allocations. The court entered a judgment in the case on June 19, 2018, in which it indicated that it would not, allocate future costs, but would enter a declaratory judgment that the four companies together had responsibility for future costs, in amounts and shares to be determined. NCR expects to have claims against BAT and API under the Funding Agreement, discussed above for Kalamazoo River remediation expenses. API filed for bankruptcy protection in October 2017, and thus payment of its potential share under the Funding Agreement for so-called "future sites," which would include the Kalamazoo River site, may be at risk, but as liability under the Cost Sharing Agreement and the Funding Agreement is joint and several, the bankruptcy is not anticipated to affect the Company's ability to seek that amount from BAT. The Company will also have indemnity or reimbursement claims against AT&T and Nokia under the arrangement discussed above in connection with the Fox River matter after expenses have met a contractual threshold set out in the 1996 agreement referenced above in the Fox River discussion.

In light of the 2018 decision, the Company has increased its reserve for the Kalamazoo River matter to $46 million as of September 30, 2018; as many aspects of the costs of remediation will not be determined for several years (and thus the high end of a range of possible costs for many areas of the site cannot be quantified at this time). The Company has made what it considers to be reasonable estimates of the low end of a range for such costs where remedies are identified, and/or of the costs of investigations and studies for areas of the river where remedies have not yet been determined, and the reserve is informed by those estimates. The extent of NCR's potential liability remains subject to many uncertainties, particularly inasmuch as the work to be performed will take place in the 2020s and 2030s. Under other assumptions or estimates for possible costs of remediation, which the Company does not at this point consider to be reasonably estimable or verifiable, it is possible that the charge the Company has taken to discontinued operations reflected in this paragraph could approximately double.

In July 2018 the Company appealed to the United States Court of Appeals for the Seventh Circuit both the 2013 court decision, which it believes is in conflict with a decision from the Fox River trial court as to Operable Unit 1 of that site and an affirmance of that decision from the Court of Appeals for the Sixth Circuit, and the 2018 court decision, on various legal grounds.

Environmental-Related Insurance Recoveries In connection with the Fox River and other environmental sites, through September 30, 2018, NCR has received a combined gross total of approximately $202 million in settlements reached with its principal insurance carriers. Portions of many of these settlements agreed in the 2010 through 2013 timeframe are payable to a law firm that litigated the claims on the Company's behalf. Some of the settlements cover not only the Fox River but also other environmental sites; some are limited to the Kalamazoo River site. Some of the settlements are directed to defense costs and some are directed to indemnity costs. The Company does not anticipate the material insurance recoveries specific to Kalamazoo River remediation costs will be available to it, owing to considerations under applicable Michigan law. Claims with respect to Kalamazoo River defense costs have now been settled, with the amounts of those settlements included in the sum reported above.

Environmental Remediation Estimates It is difficult to estimate the future financial impact of environmental laws, including potential liabilities. NCR records environmental provisions when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. Provisions for estimated losses from environmental restoration and remediation are, depending on the site, based generally on internal and third-party environmental studies, estimates as to the number and participation level of other PRPs, the extent of contamination, estimated amounts for attorney and other fees, and the nature of required clean-up and restoration actions. Reserves are adjusted as further information develops or circumstances change. Management expects that the amounts reserved from time to time will be paid out over the period of investigation, negotiation, remediation and restoration for the applicable sites. The amounts provided for environmental matters in NCR's Condensed Consolidated Financial Statements are the estimated gross undiscounted amounts of such liabilities, without deductions for indemnity insurance, third-party indemnity claims or recoveries from other PRPs, except as qualified in the following sentences. In those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectability of such amounts is probable, the amounts are recorded in the Condensed Consolidated Financial Statements. For the Fox River and Kalamazoo River sites, as described above, assets relating to the AT&T and Nokia indemnities and to the BAT obligations are recorded as payment is supported by contractual agreements, public filings and/or payment history.

Guarantees and Product Warranties In the ordinary course of business, NCR may issue performance guarantees on behalf of its subsidiaries to certain of its customers and other parties. Some of those guarantees may be backed by standby letters of credit, surety bonds, or similar instruments. In general, under the guarantees, NCR would be obligated to perform, or cause performance, over the term of the underlying contract in the event of an unexcused, uncured breach by its subsidiary, or some other specified triggering event, in each case as defined by the applicable guarantee. NCR believes the likelihood of having to perform under any such guarantee is remote. As of September 30, 2018 and December 31, 2017, NCR had no material obligations related to such guarantees, and therefore its Condensed Consolidated Financial Statements do not have any associated liability balance.

NCR provides its customers a standard manufacturer’s warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are 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, the total customer revenue is recognized, provided that all revenue recognition criteria are otherwise satisfied, and the associated warranty liability is recorded using pre-established warranty percentages for the respective product classes.

From time to time, product design or quality corrections are accomplished through modification programs. When identified, associated costs of labor and parts for such programs are estimated and accrued as part of the warranty reserve.

The Company recorded the activity related to the warranty reserve for the nine months ended September 30 as follows:

In millions	2018	2017
Warranty reserve liability		
Beginning balance as of January 1	$26	$27
Accruals for warranties issued	27	29
Settlements (in cash or in kind)	(32)	(31)
Ending balance as of September 30	$21	$25

In addition, NCR provides its customers with certain indemnification rights. In general, NCR agrees to indemnify the customer if a third party asserts patent or other infringement on the part of its customers for its use of the Company's products subject to certain conditions that are generally standard within the Company's industries. On limited occasions the Company will undertake additional indemnification obligations for business reasons. From time to time, NCR also enters into agreements in connection with its acquisition and divestiture activities that include indemnification obligations by the Company. The fair value of these indemnification obligations is not readily determinable due to the conditional nature of the Company's potential obligations and the specific facts and circumstances involved with each particular agreement. The Company has not recorded a liability in connection with these indemnifications, and no current indemnification instance is material to the Company's financial position. Historically, any payments made by the Company under these types of agreements have not had a material effect on the Company's consolidated financial condition, results of operations or cash flows.

10. SERIES A CONVERTIBLE 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. 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 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. 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. During the three months ended September 30, 2018 and 2017, the Company paid dividends-in-kind of $11 million, respectively, associated with the Series A Convertible Preferred Stock. During the nine months ended September 30, 2018 and 2017, the Company paid dividends-in-kind of $34 million, respectively, associated with the Series A Convertible Preferred Stock. As of September 30, 2018 and December 31, 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 three and nine months ended September 30, 2018 or 2017.

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, or a conversion rate of 33.333 shares of common stock per share of Series A Convertible Preferred Stock.

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 nine months ended September 30, 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 nine months ended September 30, 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 12. Earnings per Share for additional discussion.

As of September 30, 2018 and December 31, 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 28.6 million and 27.5 million shares, respectively.

11. STOCKHOLDER'S EQUITY

Changes in stockholders' equity in the nine months ended September 30, 2018 were as follows:

in millions	NCR Stockholders' Equity	Non-Redeemable Noncontrolling Interests in Subsidiaries	Total Stockholders' Equity
Balance at December 31, 2017	$ 719	$ 3	$ 722
Adoption of accounting standard updates	15	—	15
Balance at January 1, 2018	734	3	737
Net loss	(41)	1	(40)
Other comprehensive loss	(44)	—	(44)
Repurchases of Company common stock	(210)	—	(210)
Series A Convertible Preferred Stock dividends	(36)	—	(36)
Employee stock compensation expense	55	—	55
Tax witholdings related to vesting of stock based awards	(30)	—	(30)
Proceeds from employee stock plans	16	—	16
Balance at September 30, 2018	$ 444	$ 4	$ 448

During the nine months ended September 30, 2018, the Company repurchased 6.1 million shares of its common stock for $210 million. Upon repurchase, the shares were retired. Refer to Note 1. Basis of Presentation and Summary of Significant Accounting Policies for further discussion of the adoption of accounting standard updates.

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12. EARNINGS PER SHARE

Basic earnings per share (EPS) is calculated by dividing net income or loss attributable to NCR, less any dividends (declared or cumulative undeclared), deemed 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 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), deemed dividends, accretion or decretion, redemption or induced conversion on our Series A Convertible Preferred Stock. We adjust the denominator used in the basic EPS computation, subject to anti-dilution requirements, to include the dilution from potential shares related to the Series A Convertible Preferred Stock and stock-based compensation plans.

The holders of Series A Convertible Preferred Stock, unvested restricted stock units and stock options do not have nonforfeitable rights to common stock dividends or common stock dividend equivalents. Accordingly, the Series A Convertible Preferred Stock, unvested restricted stock units and stock options do not qualify as participating securities. See Note 7. Stock Compensation Plans for share information on NCR's stock compensation plans.

The components of basic earnings per share are as follows:

In millions, except per share amounts	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Numerator				
Income (loss) from continuing operations	$85	$118	$(3)	$272
Series A Convertible Preferred Stock dividends	(12)	(12)	(36)	(36)
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	73	106	(39)	174
(Loss) income from discontinued operations, net of tax	(1)	—	(38)	5
Net income (loss) attributable to NCR common stockholders	$72	$106	$(77)	$179
Denominator				
Basic weighted average number of shares outstanding	118.0	121.5	118.4	121.9
Basic earnings (loss) per share:				
From continuing operations	$0.62	$0.87	$(0.33)	$1.43
From discontinued operations	(0.01)	—	(0.32)	0.04
Total basic earnings (loss) per share	$0.61	$0.87	$(0.65)	$1.47

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The components of diluted earnings per share are as follows:

In millions, except per share amounts	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Numerator				
Income (loss) from continuing operations	$85	$118	$(3)	$272
Series A Convertible Preferred Stock dividends	—	—	(36)	(36)
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	118	(39)	174
(Loss) income from discontinued operations, net of tax	(1)	—	(38)	5
Net income (loss) attributable to NCR common stockholders	$84	$118	$(77)	$179
Basic weighted average number of shares outstanding	118.0	121.5	118.4	121.9
Dilutive effect of as-if converted Series A Convertible Preferred Stock	28.4	26.9	—	—
Dilutive effect of restricted stock units	2.9	4.7	—	5.0
Denominator	149.3	153.1	118.4	126.9
Diluted earnings (loss) per share:				
From continuing operations	$0.57	$0.77	$(0.33)	$1.37
From discontinued operations	(0.01)	—	(0.32)	0.04
Total diluted earnings (loss) per share	$0.56	$0.77	$(0.65)	$1.41

For the three months ended September 30, 2018, it was more dilutive to assume the Series A Convertible Preferred Stock was converted to common stock and therefore weighted average outstanding shares of common stock were adjusted by the as-if converted Series A Convertible Preferred Stock and the diluted earnings per share was calculated excluding the quarterly dividend. Weighted average restricted stock units and stock options of 3.0 million were excluded from the diluted share count because their effect would have been anti-dilutive.

For the three months ended September 30, 2017, it was more dilutive to assume the Series A Convertible Preferred Stock was converted to common stock and therefore weighted average outstanding shares of common stock were adjusted by the as-if converted Series A Convertible Preferred Stock and the diluted earnings per share was calculated excluding the quarterly dividends. For the three months ended September 30, 2017, weighted average restricted stock units of 0.8 million were excluded from the diluted share count because their effect would have been anti-dilutive.

For the nine months ended September 30, 2018, shares related to the as-if converted Series A Convertible Preferred Stock were excluded from the diluted share count because their effect would have been anti-dilutive. The weighted shares related to as-if converted Series A Convertible Preferred Stock excluded were 28.1 million. Weighted average restricted stock units of 6.7 million were excluded from the diluted share count because their effect would have been anti-dilutive.

For the nine months ended September 30, 2017, shares related to the as-if converted Series A Convertible Preferred Stock were excluded from the diluted share count because their effect would have been anti-dilutive. The weighted shares related to as-if converted Series A Convertible Preferred Stock, considering the existing and redeemed shares, excluded were 27.5 million. Weighted average restricted stock units of 0.8 million were excluded from the diluted share count because their effect would have been anti-dilutive.

13. DERIVATIVES AND HEDGING INSTRUMENTS

NCR is exposed to risks associated with changes in foreign currency exchange rates and interest rates. NCR utilizes a variety of measures to monitor and manage these risks, including the use of derivative financial instruments. NCR has exposure to approximately 50 functional currencies. Since a substantial portion of our operations and revenue occur outside the U.S., and in currencies other than the U.S. Dollar, our results can be significantly impacted, both positively and negatively, by changes in foreign currency exchange rates.

Foreign Currency Exchange Risk

The accounting guidance for derivatives and hedging requires companies to recognize all derivative instruments as either assets or liabilities at fair value in the Condensed Consolidated Balance Sheets. The Company designates foreign exchange contracts as cash flow hedges of forecasted transactions when they are determined to be highly effective at inception.

Our risk management strategy includes hedging, on behalf of certain subsidiaries, a portion of our forecasted, non-functional currency denominated cash flows for a period of up to 15 months. As a result, some of the impact of currency fluctuations on non-functional currency denominated transactions (and hence on subsidiary operating income, as stated in the functional currency), is mitigated in the near term. The amount we hedge and the duration of hedge contracts may vary significantly. In the longer term (greater than 15 months), the subsidiaries are still subject to the effect of translating the functional currency results to U.S. Dollars. To manage our exposures and mitigate the impact of currency fluctuations on the operations of our foreign subsidiaries, we hedge our main transactional exposures through the use of foreign exchange forward and option contracts. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by NCR's marketing units and the foreign currency denominated inputs to our manufacturing units. The related foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses on these hedges are deferred in accumulated other comprehensive income (AOCI) and reclassified to income when the underlying hedged transaction is recorded in earnings. As of September 30, 2018, the balance in AOCI related to foreign exchange derivative transactions was a gain of $1 million, net of tax. The gains or losses from derivative contracts related to inventory purchases are recorded in cost of products when the inventory is sold to an unrelated third party.

We also utilize foreign exchange contracts to hedge our exposure of assets and liabilities denominated in non-functional currencies. We recognize the gains and losses on these types of hedges in earnings as exchange rates change. We do not enter into hedges for speculative purposes.

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The following tables provide information on the location and amounts of derivative fair values in the Condensed Consolidated Balance Sheets:

Fair Values of Derivative Instruments
September 30, 2018

In millions	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedging instruments						
Foreign exchange contracts	Other current assets	$ 80	$ 3	Other current liabilities	$ —	$ —
Total derivatives designated as hedging instruments			$ 3			$ —
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	$ 164	$ 1	Other current liabilities	$ 227	$ 1
Total derivatives not designated as hedging instruments			1			1
Total derivatives			$ 4			$ 1

Fair Values of Derivative Instruments
December 31, 2017

In millions	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedging instruments						
Foreign exchange contracts	Other current assets	$ 104	$ —	Other current liabilities	$ 142	$ 1
Total derivatives designated as hedging instruments			$ —			$ 1
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	$ 101	$ 1	Other current liabilities	$ 292	$ 1
Total derivatives not designated as hedging instruments			1			1
Total derivatives			$ 1			$ 2

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The effects of derivative instruments on the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2018 and 2017 were as follows:

In millions	Amount of Gain (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative			Amount of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations	
Derivatives in Cash Flow Hedging Relationships	For the three months ended September 30, 2018	For the three months ended September 30, 2017	Location of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations	For the three months ended September 30, 2018	For the three months ended September 30, 2017
Foreign exchange contracts	$ 1	$ (5)	Cost of products	$ (2)	$ 1

In millions	Amount of Gain (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative			Amount of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations	
Derivatives in Cash Flow Hedging Relationships	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017	Location of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations (Effective Portion)	For the nine months ended September 30, 2018	For the nine months ended September 30, 2017
Foreign exchange contracts	$ 5	$ (15)	Cost of products	$ (2)	$ (2)

In millions	Amount of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations

Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations	Three months ended September 30		Nine months ended September 30	
		2018	2017	2018	2017
Foreign exchange contracts	Other (expense), net	$(1)	$(1)	$(4)	$(3)

Concentration of Credit Risk

NCR is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the Condensed Consolidated Balance Sheets. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. NCR's business often involves large transactions with customers, and if one or more of those customers were to default on its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses are adequate. As of September 30, 2018, we did not have any significant concentration of credit risk related to financial instruments.

14. FAIR VALUE OF ASSETS AND LIABILITIES

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities recorded at fair value on a recurring basis as of September 30, 2018 and December 31, 2017 are set forth as follows:

In millions	September 30, 2018 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deposits held in money market mutual funds (1)	$25	$ 25	$ —	$ —
Foreign exchange contracts (2)	4	—	4	—
Total	$29	$ 25	$ 4	$ —
Liabilities:				
Foreign exchange contracts (3)	$1	$ —	$ 1	$ —
Total	$1	$ —	$ 1	$ —

In millions	December 31, 2017 Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deposits held in money market mutual funds (1)	$90	$ 90	$ —	$ —
Foreign exchange contracts (2)	1	—	1	—
Total	$91	$ 90	$ 1	$ —
Liabilities:				
Foreign exchange contracts (3)	2	—	2	—
Total	$2	$ —	$ 2	$ —

(1) Included in Cash and cash equivalents in the Condensed Consolidated Balance Sheets.
(2) Included in Other current assets in the Condensed Consolidated Balance Sheets.
(3) Included in Other current liabilities in the Condensed Consolidated Balance Sheets.

Deposits Held in Money Market Mutual Funds A portion of the Company's excess cash is held in money market mutual funds which generate interest income based on prevailing market rates. Money market mutual fund holdings are measured at fair value using quoted market prices and are classified within Level 1 of the valuation hierarchy.

Foreign Exchange Contracts As a result of our global operating activities, we are exposed to risks from changes in foreign currency exchange rates, which may adversely affect our financial condition. To manage our exposures and mitigate the impact of currency fluctuations on our financial results, we hedge our primary transactional exposures through the use of foreign exchange forward and option contracts. The foreign exchange contracts are valued using the market approach based on observable market transactions of forward rates and are classified within Level 2 of the valuation hierarchy.

Assets Measured at Fair Value on a Non-recurring Basis

From time to time, certain assets are measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). NCR reviews the carrying values of investments when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary declines. Other than the impairment charges described in Note 4. Goodwill and Long-Lived Assets, no material impairment charges or non-recurring fair value adjustments were recorded during the three and nine months ended September 30, 2018 and 2017.

15. SEGMENT INFORMATION AND CONCENTRATIONS

The Company manages and reports the following three segments:

- Software - Our software offerings include industry-based software platforms, applications and application suites for the financial services, retail, hospitality and small business industries. We also offer a portfolio of other industry-oriented software applications including cash management software, video banking software, fraud and loss prevention applications, check and document imaging, remote-deposit capture and customer-facing mobile and digital banking applications for the financial services industry; and secure electronic and mobile payment solutions, sector-specific point of sale software applications, and back-office inventory and store and restaurant management applications for the retail and hospitality industries. Additionally, we provide ongoing software support and maintenance services, as well as consulting and implementation services for our software solutions.

- Services - Our global end-to-end services solutions include assessment and preparation, staging, installation, implementation, and maintenance and support for our solutions. We also provide systems management and complete managed services for our product offerings. In addition, we provide installation, maintenance and servicing for third party networking products and computer hardware from select manufacturers.
- Hardware - Our hardware solutions include our suite of financial-oriented self-service ATM-related hardware, and our retail- and hospitality-oriented point of sale (POS) terminal, self-checkout (SCO) kiosk and related hardware. We also offer other self-service kiosks, such as self-check in/out kiosks for airlines, and wayfinding solutions for buildings and campuses.

These segments represent components of the Company for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker in assessing segment performance and in allocating the Company's resources. Management evaluates the performance of the segments based on revenue and segment operating income. Assets are not allocated to segments, and thus are not included in the assessment of segment performance, and consequently, we do not disclose total assets by reportable segment.

The accounting policies used to determine the results of the operating segments are the same as those utilized for the consolidated financial statements as a whole. Intersegment sales and transfers are not material.

To maintain operating focus on business performance, non-operational items are excluded from the segment operating results utilized by our chief operating decision maker in evaluating segment performance and are separately delineated to reconcile back to total reported income from operations.

The following table presents revenue and operating income by segment:

In millions	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Revenue by segment				
Software License	$80	$79	$218	$241
Software Maintenance	92	95	276	278
Cloud	158	149	468	436
Professional Services	150	153	448	437
Software	480	476	1,410	1,392
Services	616	609	1,827	1,754
ATM	237	273	612	709
SCO	60	79	236	276
POS	157	221	519	588
IPS	—	5	—	15
Hardware	454	578	1,367	1,588
Consolidated revenue	1,550	1,663	4,604	4,734
Operating income (loss) by segment				
Software	127	148	351	399
Services	90	88	229	206

Hardware	(56)	(2)	(106)	(1)
Subtotal - segment operating income	161	234	474	604
Other adjustments [1]	36	35	346	115
Income from operations	$125	$199	$128	$489

[1] The following table presents the other adjustments for NCR:

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In millions	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Transformation and restructuring costs	$ 16	$ 5	$98	$26
Asset impairment charges	—	—	183	—
Acquisition-related amortization of intangible assets	20	29	64	86
Acquisition-related costs	—	1	1	3
Total other adjustments	$ 36	$ 35	$346	$115

The following table presents revenue by geography for NCR:

In millions	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Americas	$898	$989	$2,662	$2,751
Europe, Middle East and Africa (EMEA)	414	448	1,240	1,324
Asia Pacific (APJ)	238	226	702	659
Total revenue	$1,550	$1,663	$4,604	$4,734

The following table presents revenue from products and services for NCR:

In millions	Three months ended September 30		Nine months ended September 30	
	2018	2017	2018	2017
Product revenue	$534	$657	$1,585	$1,829
Professional services and installation services revenue	276	278	803	766
Recurring revenue, including maintenance and cloud revenue	740	728	2,216	2,139
Total revenue	$1,550	$1,663	$4,604	$4,734

16. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (AOCI)

Changes in AOCI by Component

In millions	Currency Translation Adjustments	Changes in Employee Benefit Plans	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance as of December 31, 2017	$ (183)	$ (15)	$ (1)	$(199)
Impact of adoption of new accounting standard [(1)]	—	1	—	1
Other comprehensive income (loss) before reclassifications	(41)	—	—	(41)
Amounts reclassified from AOCI	—	(5)	2	(3)
Net current period other comprehensive (loss) income	(41)	(5)	2	(44)

Balance as of September 30, 2018	$ (224)	$ (19)	$ 1	$(242)

[(1)] See Note 1. Basis of Presentation and Summary of Significant Accounting Policies for further discussion on the adoption of a new accounting standard related to stranded tax affects in AOCI as a result of U.S. Tax Reform.

Reclassifications Out of AOCI

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In millions	For the three months ended September 30, 2018 Employee Benefit Plans Amortization of Actuarial Loss (Gain)	Amortization of Prior Service Benefit	Effective Cash Flow Hedge Loss (Gain)	Total
Affected line in Condensed Consolidated Statement of Operations:				
Cost of products	$—	$—	$(2)	$(2)
Cost of services	—	(2)	—	(2)
Selling, general and administrative expenses	—	(1)	—	(1)
Research and development expenses	—	1	—	1
Total before tax	$—	$(2)	$(2)	$(4)
Tax expense				—
Total reclassifications, net of tax				$(4)

In millions	For the three months ended September 30, 2017 Employee Benefit Plans Amortization of Actuarial Loss (Gain)	Amortization of Prior Service Benefit	Effective Cash Flow Hedge Loss (Gain)	Total
Affected line in Condensed Consolidated Statement of Operations:				
Cost of products	$—	$—	$1	$1
Cost of services	—	(2)	—	(2)
Research and development expenses	(1)	1	—	—
Total before tax	$(1)	$(1)	$1	$(1)
Tax expense				—
Total reclassifications, net of tax				$(1)

In millions	For the nine months ended September 30, 2018 Employee Benefit Plans Amortization of Actuarial	Amortization of Prior Service	Effective Cash Flow	Total

	Loss (Gain)	Benefit	Hedge Loss (Gain)	
Affected line in Condensed Consolidated Statement of Operations:				
Cost of products	$ —	$ —	$ (2)	$ (2)
Cost of services	1	(5)	—	(4)
Selling, general and administrative expenses	—	(2)	—	(2)
Total before tax	$ 1	$ (7)	$ (2)	$ (8)
Tax expense				1
Total reclassifications, net of tax				$ (7)

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In millions	For the nine months ended September 30, 2017 Employee Benefit Plans Amortization of Actuarial Loss (Gain)	Amortization of Prior Service Benefit	Effective Cash Flow Hedge Loss (Gain)	Total
Affected line in Condensed Consolidated Statement of Operations:				
Cost of products	$—	$ —	$ (2)	$(2)
Cost of services	—	(4)	—	(4)
Selling, general and administrative expenses	(1)	(2)	—	(3)
Research and development expenses	(1)	—	—	(1)
Total before tax	$(2)	$ (6)	$ (2)	$(10)
Tax expense				2
Total reclassifications, net of tax				$(8)

17. RESTRUCTURING PLAN

In the second quarter of 2018, we announced a hardware transformation initiative to streamline our manufacturing operations that will help us reduce our exposure to variable hardware demand as well as increase global utilization rates and optimize our supply chain network. As a part of this initiative, we plan to reduce the number of manufacturing plants and move the manufacturing operations at those plants to other existing NCR facilities and current third party suppliers.

As a result of the restructuring plan, the Company recorded a total charge of $9 million and $33 million in the three and nine months ended September 30, 2018, respectively. The Company expects that it may incur additional charges during 2018 related to this restructuring program. Such additional charges will be expensed as incurred. The restructuring program is scheduled to be completed by the end of 2019.

Severance and other employee related costs The Company recorded $2 million as a discrete benefit in accordance with ASC 712, Employers’ Accounting for Postemployment Benefits, when the severance liability was determined to be probable and reasonably estimable. The Company also recorded $2 million of employee related costs in accordance with ASC 420, Exit or Disposal Cost Obligations. The Company made no severance-related payments under ASC 712 in the three and nine months ended September 30, 2018. The Company made $2 million and $3 million in severance-related payments under ASC 420 in the three and nine months ended September 30, 2018, respectively.

Inventory related charges The Company recorded $7 million and $24 million 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 in the three and nine months ended September 30, 2018, respectively.

Other exit costs The Company recorded $2 million and $4 million in the three and nine months ended September 30, 2018, respectively, for costs primarily related to moving inventory and fixed assets from the plant locations that will be closed. Of these costs, $2 million and $3 million, respectively, were included in selling, general and administrative expenses in the three and nine months ended September 30, 2018 and zero and $1 million were included in cost of products in the three and nine months ended September 30, 2018, respectively.

The results by segment, as disclosed in Note 15. 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 September 30, 2018, which are included in the Condensed Consolidated Balance Sheet in Other Current Liabilities.

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Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

In millions	September 30, 2018
Employee Severance and Other Exit Costs	
Beginning balance as of January 1	$ —
Cost recognized during the period	9
Utilization	(7)
Ending balance as of September 30	$ 2

18. SUPPLEMENTAL FINANCIAL INFORMATION
The components of accounts receivable are summarized as follows:

In millions	September 30, 2018	December 31, 2017
Accounts receivable		
Trade	$ 1,307	$ 1,270
Other	28	37
Accounts receivable, gross	1,335	1,307
Less: allowance for doubtful accounts	(26)	(37)
Total accounts receivable, net	$ 1,309	$ 1,270

The components of inventory are summarized as follows:

In millions	September 30, 2018	December 31, 2017
Inventories		
Work in process and raw materials	$ 273	$ 185
Finished goods	261	190
Service parts	382	405
Total inventories	$ 916	$ 780

19. CONDENSED CONSOLIDATING SUPPLEMENTAL GUARANTOR INFORMATION

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 5. Debt Obligations for additional information.

In connection with the previously completed registered 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 Condensed Consolidating Financial Statements in accordance with Rule 3-10(f) of SEC Regulation S-X.

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Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

The following supplemental information sets forth, on a consolidating basis, the condensed statements of operations and comprehensive income (loss), the condensed balance sheets and the condensed 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.

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
For the three months ended September 30, 2018

In millions	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Product revenue	$234	$ 7	$ 348	$ (55)	$ 534
Service revenue	541	9	466	—	1,016
Total revenue	775	16	814	(55)	1,550
Cost of products	225	4	299	(55)	473
Cost of services	357	4	306	—	667
Selling, general and administrative expenses	132	1	93	—	226
Research and development expenses	40	—	19	—	59
Asset impairment charges	1	—	(1)	—	—
Total operating expenses	755	9	716	(55)	1,425
Income (loss) from operations	20	7	98	—	125
Interest expense	(42)	—	(4)	3	(43)
Other (expense) income, net	—	2	(9)	(3)	(10)
Income (loss) from continuing operations before income taxes	(22)	9	85	—	72
Income tax expense (benefit)	(80)	2	63	—	(15)
Income (loss) from continuing operations before earnings in subsidiaries	58	7	22	—	87
Equity in earnings of consolidated subsidiaries	26	38	—	(64)	—
Income (loss) from continuing operations	84	45	22	(64)	87
Income (loss) from discontinued operations, net of tax	—	—	(1)	—	(1)
Net income (loss)	$84	$ 45	$ 21	$ (64)	$ 86
Net income (loss) attributable to noncontrolling interests	—	—	2	—	2
Net income (loss) attributable to NCR	$84	$ 45	$ 19	$ (64)	$ 84
Total comprehensive income (loss)	66	40	5	(42)	69
Less comprehensive income (loss) attributable to noncontrolling interests	—	—	3	—	3
Comprehensive income (loss) attributable to NCR common stockholders	$66	$ 40	$ 2	$ (42)	$ 66

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NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
For the three months ended September 30, 2017

In millions	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Product revenue	$338	$ 13	$ 357	$ (51)	$ 657
Service revenue	518	6	482	—	1,006
Total revenue	856	19	839	(51)	1,663
Cost of products	264	8	307	(51)	528
Cost of services	340	1	322	—	663
Selling, general and administrative expenses	110	1	109	—	220
Research and development expenses	43	—	10	—	53
Total operating expenses	757	10	748	(51)	1,464
Income (loss) from operations	99	9	91	—	199
Interest expense	(41)	—	(3)	2	(42)
Other (expense) income, net	(13)	1	7	(2)	(7)
Income (loss) from continuing operations before income taxes	45	10	95	—	150
Income tax expense (benefit)	14	1	16	—	31
Income (loss) from continuing operations before earnings in subsidiaries	31	9	79	—	119
Equity in earnings of consolidated subsidiaries	87	73	—	(160)	—
Income (loss) from continuing operations	118	82	79	(160)	119
Income (loss) from discontinued operations, net of tax	—	—	—	—	—
Net income (loss)	$118	$ 82	$ 79	$ (160)	$ 119
Net income (loss) attributable to noncontrolling interests	—	—	1	—	1
Net income (loss) attributable to NCR	$118	$ 82	$ 78	$ (160)	$ 118
Total comprehensive income (loss)	120	95	81	(177)	119
Less comprehensive income (loss) attributable to noncontrolling interests	—	—	(1)	—	(1)
Comprehensive income (loss) attributable to NCR common stockholders	$120	$ 95	$ 82	$ (177)	$ 120

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Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
For the nine months ended September 30, 2018

In millions	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Product revenue	$769	$ 36	$ 936	$ (156)	$ 1,585
Service revenue	1,577	25	1,417	—	3,019
Total revenue	2,346	61	2,353	(156)	4,604
Cost of products	690	15	795	(156)	1,344
Cost of services	1,053	10	964	—	2,027
Selling, general and administrative expenses	426	2	304	—	732
Research and development expenses	115	—	75	—	190
Asset impairment charges	166	—	17	—	183
Total operating expenses	2,450	27	2,155	(156)	4,476
Income (loss) from operations	(104)	34	198	—	128
Interest expense	(121)	—	(10)	6	(125)
Other (expense) income, net	(15)	4	(7)	(6)	(24)
Income (loss) from continuing operations before income taxes	(240)	38	181	—	(21)
Income tax expense (benefit)	(56)	6	30	—	(20)
Income (loss) from continuing operations before earnings in subsidiaries	(184)	32	151	—	(1)
Equity in earnings of consolidated subsidiaries	179	159	—	(338)	—
Income (loss) from continuing operations	(5)	191	151	(338)	(1)
Income (loss) from discontinued operations, net of tax	(36)	—	(2)	—	(38)
Net income (loss)	$(41)	$ 191	$ 149	$ (338)	$ (39)
Net income (loss) attributable to noncontrolling interests	—	—	2	—	2
Net income (loss) attributable to NCR	$(41)	$ 191	$ 147	$ (338)	$ (41)
Total comprehensive income (loss)	(85)	148	102	(250)	(85)
Less comprehensive income (loss) attributable to noncontrolling interests	—	—	—	—	—
Comprehensive income (loss) attributable to NCR common stockholders	$(85)	$ 148	$ 102	$ (250)	$ (85)

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NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)
For the nine months ended September 30, 2017

In millions	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Product revenue	$948	$ 66	$ 1,030	$ (215)	$ 1,829
Service revenue	1,522	20	1,363	—	2,905
Total revenue	2,470	86	2,393	(215)	4,734
Cost of products	728	30	887	(215)	1,430
Cost of services	1,013	6	940	—	1,959
Selling, general and administrative expenses	373	3	302	—	678
Research and development expenses	115	—	63	—	178
Total operating expenses	2,229	39	2,192	(215)	4,245
Income (loss) from operations	241	47	201	—	489
Interest expense	(118)	—	(8)	4	(122)