NCR CORP
Form 10-Q
May 09, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2013
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.)

3097 Satellite Boulevard
Duluth, GA 30096
(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 x No o

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

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

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

As of April 15, 2013, there were approximately 164.4 million shares of 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 March 31	
	2013	2012
Product revenue	$667	$570
Service revenue	743	674
Total revenue	1,410	1,244
Cost of products	503	445
Cost of services	538	484
Selling, general and administrative expenses	229	191
Research and development expenses	55	46
Total operating expenses	1,325	1,166
Income from operations	85	78
Interest expense	(21)	(9)
Other income (expense), net	2	(2)
Income from continuing operations before income taxes	66	67
Income tax expense	2	7
Income from continuing operations	64	60
Loss from discontinued operations, net of tax	(1)	(9)
Net income	63	51
Net income attributable to noncontrolling interests	2	1
Net income attributable to NCR	$61	$50
Amounts attributable to NCR common stockholders:		
Income from continuing operations	$62	$59
Loss from discontinued operations, net of tax	(1)	(9)
Net income	$61	$50
Income per share attributable to NCR common stockholders:		
Income per common share from continuing operations		
Basic	$0.38	$0.37
Diluted	$0.37	$0.36
Net income per common share		
Basic	$0.37	$0.32
Diluted	$0.36	$0.31
Weighted average common shares outstanding		
Basic	163.7	158.2
Diluted	167.5	162.3

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 March 31	
	2013	2012
Net income	$63	$51
Other comprehensive income (loss):		
Currency translation adjustments	(22)	(1)
Unrealized gain (loss) on derivatives	4	(5)
Less income tax expense	(1)	—
Unrealized gain on securities	3	1
Employee benefit plans		
Amortization of prior service benefit	(18)	(5)
Net gain arising during the year	48	—
Actuarial loss included in benefits expense	2	4
Less income tax (expense) benefit	(12)	1
Total comprehensive income	67	46
Less comprehensive income attributable to noncontrolling interests:		
Net income	2	1
Currency translation adjustments	(1)	(2)
Amounts attributable to noncontrolling interests	1	(1)
Comprehensive income attributable to NCR common stockholders	$66	$47

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	March 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$483	$ 1,069
Accounts receivable, net	1,193	1,086
Inventories, net	847	797
Other current assets	490	454
Total current assets	3,013	3,406
Property, plant and equipment, net	327	308
Goodwill	1,453	1,003
Intangibles, net	502	304
Prepaid pension cost	372	368
Deferred income taxes	538	534
Other assets	450	448
Total assets	$6,655	$ 6,371
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	$77	$ 72
Accounts payable	593	611
Payroll and benefits liabilities	193	197
Deferred service revenue and customer deposits	558	455
Other current liabilities	416	407
Total current liabilities	1,837	1,742
Long-term debt	2,014	1,891
Pension and indemnity plan liabilities	814	812
Postretirement and postemployment benefits liabilities	194	246
Income tax accruals	140	138
Environmental liabilities	146	171
Other liabilities	119	79
Total liabilities	5,264	5,079
Commitments and Contingencies (Note 10)		
Redeemable noncontrolling interest	17	15
Stockholders' equity		
NCR stockholders' equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of March 31, 2013 and December 31, 2012	—	—
Common stock: par value $0.01 per share, 500.0 shares authorized, 164.3 and 162.8 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	2	2
Paid-in capital	381	358
Retained earnings	1,145	1,084
Accumulated other comprehensive loss	(192)	(197)
Total NCR stockholders' equity	1,336	1,247
Noncontrolling interests in subsidiaries	38	30

Total stockholders’ equity	1,374	1,277
Total liabilities and stockholders’ equity	$6,655	$ 6,371

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Three months ended March 31	
	2013	2012
Operating activities		
Net income	$63	$51
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	1	9
Depreciation and amortization	47	41
Stock-based compensation expense	10	11
Deferred income taxes	(9)	14
Gain on sale of property, plant and equipment and other assets	(4)	(1)
Impairment of long-lived and other assets	—	3
Changes in operating assets and liabilities (net of effects of acquisitions and divestitures):		
Receivables	9	(33)
Inventories	(47)	(34)
Current payables and accrued expenses	(36)	(17)
Deferred service revenue and customer deposits	73	85
Employee severance and pension	(34)	(13)
Other assets and liabilities	(52)	(27)
Net cash provided by operating activities	21	89
Investing activities		
Expenditures for property, plant and equipment	(24)	(13)
Additions to capitalized software	(21)	(18)
Business acquisitions, net	(681)	—
Other investing activities, net	5	(2)
Net cash used in investing activities	(721)	(33)
Financing activities		
Tax withholding payments on behalf of employees	(25)	(9)
Short term borrowings, net	1	—
Payments on term credit facility	(18)	—
Payments on revolving credit facility	(420)	(65)
Borrowings on revolving credit facility	565	40
Debt issuance costs	(2)	—
Proceeds from employee stock plans	18	7
Net cash provided by (used in) financing activities	119	(27)
Cash flows from discontinued operations		
Net cash provided by (used in) operating activities	1	(9)
Net cash used in investing activities	—	(1)
Net cash provided by (used in) discontinued operations	1	(10)
Effect of exchange rate changes on cash and cash equivalents	(6)	(3)
(Decrease) increase in cash and cash equivalents	(586)	16
Cash and cash equivalents at beginning of period	1,069	398
Cash and cash equivalents at end of period	$483	$414

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

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 2012 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, 2012.

On February 6, 2013, the Company, through its indirect wholly owned subsidiary, Moon S.P.V. (Subsidiary) Ltd., a private company formed under the laws of the State of Israel (Merger Sub), completed the acquisition of Retalix Ltd. (Retalix), pursuant to the previously announced Agreement and Plan of Merger, dated November 28, 2012, by and among the Company, Merger Sub, and Retalix. As a result of the acquisition, the results of Retalix are included for the period from February 6, 2013 to March 31, 2013. See Note 4, "Acquisitions," for additional information.

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 revenues 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 in Note 18, "Subsequent Events," no matters were identified that required adjustment of the Condensed Consolidated Financial Statements or additional disclosure.

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.

Related Party Transactions In 2011, concurrent with the sale of a noncontrolling interest in our subsidiary, NCR Brasil - Indústria de Equipamentos para Automação S.A., to Scopus Tecnologia Ltda. (Scopus), we entered into a Master Purchase Agreement (MPA) with Banco Bradesco SA (Bradesco), the parent of Scopus. Through the MPA, Bradesco agreed to purchase up to 30,000 ATMs from us over the 5-year term of the agreement. Pricing of the ATMs will adjust over the term of the MPA using certain formulas which are based on prevailing market pricing. We recognized revenue related to Bradesco totaling $41 million during the three months ended March 31, 2013 as compared to $27 million during the three months ended March 31, 2012. As of March 31, 2013 and December 31, 2012, we had $17 million and $9 million, respectively, in receivables outstanding from Bradesco.

Recent Accounting Pronouncements

Adopted

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update requiring new disclosures about reclassifications from accumulated other comprehensive loss to net income. These disclosures may be presented on the face of the consolidated financial statements or in the notes thereto. The standards update is

effective for fiscal years beginning after December 15, 2012. We adopted this standards update and included the additional disclosure, as required, in the first quarter of 2013. See Note 16, "Accumulated Other Comprehensive Income (Loss)," for additional information.

Issued

In February 2013, the FASB issued changes to the accounting for obligations resulting from joint and several liability arrangements. These changes require an entity to measure these joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The total amount of the obligations is determined as the sum of (i) the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors, and (ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. Examples of obligations subject to these requirements include debt arrangements, settled litigation and judicial rulings. The amendments are effective for fiscal years, and interim periods within those years,

beginning after December 15, 2013, with early adoption permitted. The implementation of the amended accounting guidance on January 1, 2014 is not expected to have a material impact on our consolidated financial statements.

In March 2013, the FASB issued amendments to address the accounting for the cumulative translation adjustment when a parent either sells a part or all of its investment in a foreign entity or no longer holds a controlling financial interest in a subsidiary or group of assets that is a nonprofit activity or a business within a foreign entity. The amendments are effective prospectively for fiscal years, and interim reporting periods within those years, beginning after December 15, 2013, with early adoption permitted. The initial adoption on January 1, 2014 is not expected to have a material impact our consolidated financial statements.

2. PENSION BENEFIT PLAN ACCOUNTING METHODOLOGY CHANGES

Effective in the first quarter of 2013, we elected to change our accounting methodology for recognizing costs for all of our company-sponsored U.S. and international pension benefit plans. Previously, net actuarial gains or losses (except those differences not yet reflected in the market-related value) were only amortized to the extent that they exceeded 10% of the higher of the market-related value or the projected benefit obligation of each respective plan. Beginning in 2012, the losses associated with the U.S. qualified pension plan and our largest UK pension plan were amortized over the expected remaining lifetime of plan participants instead of the expected service period of active plan participants, because almost all of the participants were inactive. For our other U.S. and international plans, the gains or losses were amortized over the expected service period of the active plan participants. Further, the expected return on plan assets component of pension expense for our U.S. pension plan was previously determined using the expected rate of return and a calculated value of assets, referred to as the “market-related value.” Differences between the assumed and actual returns were reflected in market-related value on a straight-line basis over a 5-year period. Differences in excess of 10% of the market value were recognized immediately. Similar approaches were employed in determining expense for NCR's international plans.

Under our new accounting methods, we will recognize changes in the fair value of plan assets and net actuarial gains or losses upon remeasurement, which is at least annually in the fourth quarter of each year. These new accounting methods will result in changes in the fair value of plan assets and net actuarial gains and losses being recognized in expense faster than under our previous amortization method. The remaining components of pension expense, primarily net service cost, interest cost, and the expected return on plan assets, will be recorded on a quarterly basis as ongoing pension expense. While our previous policy of recognizing pension expense was acceptable, we believe that these new policies are preferable as they accelerate the recognition in our operating results of changes in the fair value of plan assets and actuarial gains and losses.

These changes have been reported through retrospective application of the new policies to all periods presented. We recorded a cumulative reduction of retained earnings as of December 31, 2012 (the most recent measurement date prior to the change) of $1,050 million related to these changes in accounting methodology. The impact of all adjustments made to the financial statements presented is summarized below (amounts in millions, except per share data):

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

In millions, except per share amounts	Three months ended March 31, 2013		Three months ended March 31, 2012	
	Previous Accounting Method	As Reported	Previously Reported	Adjusted
Condensed Consolidated Statements of Operations (Unaudited):				
Cost of products	$505	$503	$446	$445
Cost of services	562	538	500	484
Selling, general and administrative expenses	241	229	199	191
Research and development expenses	59	55	50	46
Total operating expenses	1,367	1,325	1,195	1,166
Income from operations	43	85	49	78
Income from continuing operations before income taxes	24	66	38	67
Income tax expense (benefit)	(10)	2	(1)	7
Income from continuing operations	34	64	39	60
Net income	33	63	30	51
Net income attributable to NCR	$31	$61	$29	$50
Amounts attributable to NCR common stockholders:				
Income from continuing operations	32	62	38	59
Income per share attributable to NCR common stockholders:				
Income per common share from continuing operations				
Basic	$0.20	$0.38	$0.24	$0.37
Diluted	$0.19	$0.37	$0.23	$0.36
Net income per common share				
Basic	$0.19	$0.37	$0.18	$0.32
Diluted	$0.19	$0.36	$0.18	$0.31
Condensed Consolidated Statements of Comprehensive Income (Unaudited):				
Net income	$33	$63	$30	$51
Employee benefit plans				
Net gain arising during the year	58	48	—	—
Actuarial loss included in benefits expense	31	2	31	4
Less income tax effect	(22)	(12)	(6)	1
Total comprehensive income	66	67	45	46
Comprehensive income attributable to NCR common stockholders	$65	$66	$46	$47
Condensed Consolidated Statements of Cash Flows (Unaudited):				
Net income	$33	$63	$30	$51
Deferred income taxes	(21)	(9)	6	14
Employee severance and pension	8	(34)	16	(13)

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

Condensed Consolidated Balance Sheets (Unaudited):	March 31, 2013 Previous Accounting Method	As Reported
Prepaid pension cost	371	372
Deferred income tax assets	540	538
Total assets	6,656	6,655
Other current liabilities	419	416
Total current liabilities	1,840	1,837
Total liabilities	5,267	5,264
Retained earnings	1,975	1,145
Accumulated other comprehensive loss	(1,024)	(192)
Total NCR stockholders' equity	1,334	1,336
Total stockholders' equity	1,372	1,374
Total liabilities and stockholders' equity	6,656	6,655

Condensed Consolidated Balance Sheets (Unaudited):	December 31, 2012 Previously Reported	Adjusted
Retained earnings	2,134	1,084
Accumulated other comprehensive loss	(1,247)	(197)

3. SUPPLEMENTAL FINANCIAL INFORMATION

The components of accounts receivable are summarized as follows:

In millions	March 31, 2013	December 31, 2012
Accounts receivable		
Trade	$1,170	$1,056
Other	43	46
Accounts receivable, gross	1,213	1,102
Less: allowance for doubtful accounts	(20)	(16)
Total accounts receivable, net	$1,193	$1,086

The components of inventory are summarized as follows:

In millions	March 31, 2013	December 31, 2012
Inventories, net		
Work in process and raw materials	$180	$187
Finished goods	211	167
Service parts	456	443
Total inventories, net	$847	$797

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4. ACQUISITIONS

2013 Acquisitions

Acquisition of Retalix Ltd. On February 6, 2013, NCR, through its indirect wholly owned subsidiary, Moon S.P.V. (Subsidiary) Ltd., a private company formed under the laws of the State of Israel (Merger Sub), completed its acquisition of Retalix, pursuant to the previously announced Agreement and Plan of Merger, dated November 28, 2012, by and among NCR, Merger Sub, and Retalix. In the acquisition, NCR paid an aggregate cash purchase price of $791 million which includes $3 million to be recognized as compensation expense within selling, general and administrative expenses over a period of approximately three years from the acquisition date. The purchase price was paid from the net proceeds from the December 2012 offer and sale of NCR's 4.625% senior unsecured notes and borrowing under NCR's senior secured credit facility. As a result of the acquisition, Retalix is now an indirect wholly owned subsidiary of NCR.

Retalix is a leading global provider of innovative retail software and services that transact billions of dollars in annual retail sales across its platform. The acquisition is consistent with NCR's continued transformation to a hardware-enabled, software-driven business model. Retalix's strength with blue-chip retailers is highly complementary and provides additional sales opportunities across the combined installed base.

Recording of Assets Acquired and Liabilities Assumed

The fair value of consideration transferred to acquire Retalix was allocated to the identifiable assets acquired and liabilities assumed based upon their estimated fair market values as of the date of the acquisition as set forth below. The Company's purchase price allocation for Retalix is preliminary and subject to revision as additional information about fair value of the assets and liabilities becomes available. Additional information that existed as of the acquisition date but at that time was unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred.

The preliminary allocation of the purchase price for Retalix is as follows:

In millions	Fair Value
Cash and cash equivalents	$127
Accounts receivable	112
Other tangible assets	57
Acquired goodwill	444
Acquired intangible assets other than goodwill	205
Deferred tax liabilities	(43)
Liabilities assumed	(114)
Total purchase consideration	$788

Goodwill represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the acquisition consists of the margin and cost synergies expected from combining the operations of NCR and Retalix. It is expected that approximately $20 million of the goodwill recognized in connection with the acquisition will be deductible for tax purposes. The goodwill arising

from the acquisition has been allocated to the Retail Solutions segment. Refer to Note 5, "Goodwill and Purchased Intangible Assets" for the carrying amounts of goodwill by segment as of March 31, 2013.

The intangible assets acquired in the acquisition include the following:

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

	Estimated Fair Value	Weighted Average Amortization Period[1]
	(In millions)	(years)
Direct customer relationships	$121	20
Technology - Software	74	5
Trademarks	10	6
Total acquired intangible assets	$205	14

(1) Determination of the weighted average amortization period of the individual categories of intangible assets was based on the nature of the applicable intangible asset and the expected future cash flows to be derived from the intangible asset. Amortization of intangible assets with definite lives is recognized over the period of time the assets are expected to contribute to future cash flows.

The Company has incurred a total of $9 million of transaction expenses to date relating to the acquisition, of which $6 million are included in selling, general and administrative expenses in the Company's Condensed Consolidated Statement of Operations for the three months ended March 31, 2013.

Unaudited Pro forma Information

The following unaudited pro forma information presents the consolidated results of NCR and Retalix for the three months ended March 31, 2013 and 2012. The unaudited pro forma information is presented for illustrative purposes only. It is not necessarily indicative of the results of operations of future periods, or the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results that the combined company will experience after the acquisition. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma information also does not include any integration costs or remaining future transaction costs that the companies may incur related to the acquisition as part of combining the operations of the companies.

The unaudited pro forma consolidated results of operations, assuming the acquisition had occurred on January 1, 2012, are as follows:

In millions	Three months ended March 31, 2013	Three months ended March 31, 2012
Revenue	$1,430	$1,310
Net income attributable to NCR	$58	$45

Other Acquisitions During the first quarter of 2013, the Company completed three additional acquisitions for aggregate cash consideration of approximately $16 million, plus related acquisition costs. Goodwill recognized related to these acquisitions was $10 million, of which it is expected that $7 million of the goodwill will be deductible for tax purposes. The goodwill arising from these acquisitions has been allocated to the Hospitality segment. Supplemental pro forma information and actual revenue and earnings since the acquisition dates have not been provided as these acquisitions did not have a material impact, individually or in the aggregate, on the Company's Condensed Consolidated Statements of Operations.

5. GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The carrying amounts of goodwill by segment as of March 31, 2013 and December 31, 2012 are included in the table below. Foreign currency fluctuations are included within other adjustments.

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

	December 31, 2012						March 31, 2013		
In millions	Goodwill	Accumulated Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Accumulated Impairment Losses	Total
Financial Services	$202	$—	$202	$—	$—	$(1)	$201	$—	$201
Retail Solutions	120	(3)	117	444	—	—	564	(3)	561
Hospitality	659	—	659	10	—	(2)	667	—	667
Entertainment	5	(5)	—	—	—	—	5	(5)	—
Emerging Industries	25	—	25	—	—	(1)	24	—	24
Total goodwill	$1,011	$(8)	$1,003	$454	$—	$(4)	$1,461	$(8)	$1,453

Purchased Intangible Assets

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. The increase in the gross carrying amount is primarily due to the acquisitions detailed in Note 4, "Acquisitions."

In millions	Amortization Period (in Years)	March 31, 2013 Gross Carrying Amount	March 31, 2013 Accumulated Amortization	December 31, 2012 Gross Carrying Amount	December 31, 2012 Accumulated Amortization
Identifiable intangible assets					
Reseller & customer relationships	1 - 20	$306	$(21)	$179	$(17)
Intellectual property	2 - 7	255	(88)	180	(80)
Tradenames	4 - 9	59	(10)	49	(8)
Non-compete arrangements	2 - 5	8	(7)	8	(7)
Total identifiable intangible assets		$628	$(126)	$416	$(112)

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

In millions	Three months ended March 31, 2013	Remainder of 2013 (estimated)
Amortization expense	$14	$50

	For the years ended December 31 (estimated)				
In millions	2014	2015	2016	2017	2018
Amortization expense	$68	$67	$62	$53	$36

6. DEBT OBLIGATIONS

As of March 31, 2013, the Company's total debt was $2.09 billion, with $77 million included in short-term borrowings and $2.014 billion included in long-term debt, as follows:

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

In millions	March 31, 2013	December 31, 2012
Senior Secured Credit Facility:		
Term loan facility	$ 832	$ 850
Revolving credit facility	145	—
5.00% Senior Notes due July 15, 2022	600	600
4.625% Senior Notes due February 15, 2021	500	500
Other	14	13
Total debt	$ 2,091	$ 1,963

Senior Secured Credit Facility In August 2011, the Company entered into a $1.4 billion five-year senior secured credit facility with JPMorgan Chase Bank, N.A. (JPMCB), as administrative agent, and a syndicate of lenders, consisting of a term loan facility in an aggregate principal amount of $700 million and a revolving credit facility in an aggregate principal amount of $700 million. The senior secured credit facility was amended and restated on August 22, 2012, and was further amended on February 5, 2013 (as amended, the Senior Secured Credit Facility). On August 22, 2012, we entered into an Incremental Facility Agreement with and among the lenders party thereto and JPMCB, as administrative agent. The Incremental Facility Agreement relates to, and was entered into pursuant to, the Senior Secured Credit Facility. The Incremental Facility Agreement supplemented amounts available to us by $300 million by establishing a $150 million new tranche of term loan commitments and a $150 million new tranche of revolving loan commitments, bringing the total sum available under the Senior Secured Credit Facility and the Incremental Facility Agreement to $1.7 billion. The revolving credit facility also allows a portion of the availability to be used for outstanding letters of credit, and as of March 31, 2013, outstanding letters of credit totaled approximately $17 million. Of the outstanding principal balance of the term loan facility, $700 million is required to be repaid in quarterly installments of $17.5 million beginning March 31, 2013, with the balance of $455 million being due in August 2016, and $150 million is required to be repaid in quarterly installments of $3.75 million beginning March 31, 2014, with the balance of $97.5 million being due in August 2017. Borrowings under the revolving portion of the credit facility are due in August 2016 or, in the case of the Incremental Facility, in August 2017. Amounts outstanding under the Senior Secured Credit Facility bear interest, at the Company's option, at a base rate equal to the highest of (i) the federal funds rate plus 0.50%, (ii) the administrative agent's “prime rate” and (iii) the one-month LIBOR rate plus 1.00% (the Base Rate) or LIBOR, plus a margin ranging from 0.25% to 1.50% for Base Rate-based loans that are either term loans or revolving loans and ranging from 1.25% to 2.50% for LIBOR-based loans that are either term loans or revolving loans, 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.
The Company's obligations under the Senior Secured Credit Facility are guaranteed by certain of its 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. 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 us 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 prior to December 31, 2013, (a) the sum of (x) 3.50 and (y) an amount (not to exceed 1.00) to reflect new debt used to reduce NCR's unfunded pension liabilities, to (b) 1.00, (ii) in the case of any fiscal quarter ending on or after

December 31, 2013 and prior to December 31, 2015, (a) the sum of (x) 3.25 and (y) an amount (not to exceed 1.00) to reflect new debt used to reduce NCR's unfunded pension liabilities, to (b) 1.00, and (iii) in the case of any fiscal quarter ending on or after December 31, 2015 3.50 to 1.00; and

- an interest coverage ratio of at least (i) 3.50 to 1.00, in the case of any four consecutive fiscal quarters ending prior to December 31, 2013, and (ii) 4.00 to 1.00, in the case of any four consecutive fiscal quarters ending on or after December 31, 2013.

Taking into account new debt used to reduce the Company's unfunded pension liabilities, the current maximum consolidated leverage ratio under the Senior Secured Credit Facility is 4.50 to 1.00.

The Senior Secured Credit Facility also contains 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.

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 term loans and/or revolving credit facilities, the proceeds of which can be used for working capital requirements and other general corporate purposes. The aggregate capacity for additional incremental term loans and/or incremental revolving commitments under the Senior Secured Credit Facility is:

- prior to the date that the Company obtains an investment grade rating, the greater of (i) the remaining existing incremental facility capacity (currently $200 million), and (ii) an aggregate amount that would not cause the secured 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 2.75 to 1.00;
- and after the date that the Company obtains an investment grade rating, an aggregate amount that would not 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 level that is 0.50 less than the then-applicable leverage ratio covenant.

In connection with the Senior Secured Credit Facility, the Company deferred approximately $29 million of debt issuance costs in 2011, which are being amortized to interest expense over the life of the debt. The August 22, 2012 amendment and restatement and Incremental Facility Agreement were considered modifications, not extinguishments of our credit facility, and therefore the unamortized debt issuance costs continue to be deferred. In connection with the August 22, 2012 amendment and restatement and Incremental Facility Agreement, the Company deferred an additional $3 million of debt issuance costs, which are being amortized to interest expense over the life of the new debt.

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. The 5.00% and 4.625% Notes are unsecured senior obligations of the Company and are guaranteed, on an unsecured senior basis, by our subsidiaries, NCR International, Inc. and Radiant Systems, Inc., which also guarantee our obligations under the Senior Secured Credit Facility.

We have the option to redeem the 5.00% Notes, in whole or in part, at any time on or after July 15, 2017, at a redemption price of 102.5%, 101.667%, 100.833% and 100% during the 12-month periods commencing on July 15, 2017, 2018, 2019 and 2020 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to July 15, 2017, we may redeem the 5.00% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date. Prior to July 15, 2015, we may redeem the 5.00% Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the notes originally issued at a redemption price of 105% plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more qualified equity offerings under certain further requirements.

We have the option to redeem the 4.625% Notes, in whole or in part, at any time on or after February 15, 2017, at a redemption price of 102.313%, 101.156% and 100% during the 12-month periods commencing on February15, 2017, 2018 and 2019 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to February

15, 2017, we may redeem the 4.625% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date. Prior to February 15, 2016, we may redeem the 4.625% Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the notes originally issued at a redemption price of 104.625% plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more qualified equity offerings under certain further requirements.

The terms of the indentures for these notes, among other things, limit the ability of the Company and certain of its subsidiaries to 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 our subsidiaries to pay dividends to us; enter into affliliate transactions; engage in sale and leaseback transactions; and consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

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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.
In connection with the issuances of the 5.00% Notes and the 4.625% Notes, the Company entered into registration rights agreements with J.P. Morgan Securities LLC as representative of the initial purchasers of the applicable notes, and NCR International, Inc. and Radiant Systems, Inc. in their capacities as subsidiary guarantors. Each registration rights agreement requires the Company and the subsidiary guarantors, at their cost, to among other things:

- use their commercially reasonable efforts to file a registration statement on an appropriate registration form with respect to a registered offer to exchange the notes for new notes that are guaranteed by the guarantors with terms substantially identical in all material respects to the notes (except that the exchange notes will not contain terms with respect to transfer restrictions or any increase in annual interest rate);
- use their commercially reasonable efforts to cause the registration statement to become effective under the Securities Act of 1933, as amended; and
- promptly after the applicable registration statement is effective, commence an exchange offer.

In addition, under certain circumstances, the Company and the subsidiary guarantors may be required to file shelf registration statements to cover sales of the notes by their holders.

If the Company and the subsidiary guarantors do not comply with their registration statement and exchange offer obligations under a registration rights agreement, then additional interest shall accrue on the principal amount of the notes that are registrable securities (as defined in each registration rights agreement) at a rate of 0.25% per annum for the first 90-day period beginning on the day immediately following such registration default (which rate will be increased by an additional 0.25% per annum for each subsequent 90-day period that such additional interest continues to accrue, provided that the rate at which such additional interest accrues may in no event exceed 1.00% per annum).

On March 26, 2013 the Company filed registration statements on Forms S-4 with the SEC with respect to registered offers to exchange the 5.00% Notes and the 4.625% Notes in accordance with the requirements of the applicable registration rights agreements. See Note 18, "Subsequent Events," for additional information.

Additionally, in connection with the 5.00% Notes and the 4.625% Notes, the Company deferred approximately $11 million and $7 million of debt issuance costs, respectively, which are being amortized to interest expense over the life of the debt.

Fair Value of Debt The fair value of debt is based on a discounted cash flow model that incorporates a market yield curve based on the Company’s credit rating with adjustments for duration. As of March 31, 2013 and December 31, 2012, the fair value of debt was $2.09 billion and $1.97 billion, respectively.

7. INCOME TAXES

Income tax provisions for interim (quarterly) periods are based on estimated annual income taxes calculated separately from the effect of significant, infrequent or unusual items. Income tax represented an expense of $2 million for the three months ended March 31, 2013 compared to an expense of $7 million for the three months ended March 31, 2012. The decrease in income tax expense was primarily driven by a one-time benefit of approximately $16 million in connection with the American Taxpayer Relief Act of 2012 that was signed into law in January 2013 and the related retroactive tax relief for certain provisions of law that expired in 2012. Additionally, the decrease was driven by a favorable mix of earnings in continuing operations offset by a less favorable change in uncertain tax positions. The

three months ended March 31, 2012 included a favorable settlement with the Canada Revenue Agency for the 2003 tax year which resulted in a $14 million tax benefit.

8. STOCK COMPENSATION PLANS

As of March 31, 2013, the Company’s primary types of stock-based compensation were restricted stock and stock options. Stock-based compensation expense for the following periods was:

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In millions	Three months ended March 31	
	2013	2012
Restricted stock	$9	$10
Stock options	1	1
Total stock-based compensation (pre-tax)	10	11
Tax benefit	(3)	(3)
Total stock-based compensation (net of tax)	$7	$8

Stock-based compensation expense is recognized in the financial statements based upon fair value. During the three months ended March 31, 2013 and 2012, the Company did not grant any stock options.

As of March 31, 2013, the total unrecognized compensation cost of $78 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 2 years. As of March 31, 2013, the total unrecognized compensation cost of $1 million related to unvested stock option grants is expected to be recognized over a weighted average period of approximately 1 year.

9. EMPLOYEE BENEFIT PLANS

Components of net periodic benefit cost for the three months ended March 31 were as follows:

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2013	2012	2013	2012	2013	2012
Net service cost	$—	$—	$4	$4	$4	$4
Interest cost	31	39	20	19	51	58
Expected return on plan assets	(27)	(31)	(25)	(22)	(52)	(53)
Special termination benefit cost	13	—	—	—	13	—
Curtailment gain	(10)	—	—	—	(10)	—
Amortization of prior service cost	—	—	1	1	1	1
Net benefit cost	$7	$8	$—	$2	$7	$10

In February 2013, the Compensation and Human Resource Committee of NCR's Board of Directors approved the termination of NCR's U.S. non-qualified pension plans, resulting in a curtailment of those plans. As a result, the liability associated with the U.S. non-qualified pension plans was reduced and a curtailment gain was recognized totaling $10 million.

During the three months ended March 31, 2013, a select group of U.S. employees were offered the option to participate in a voluntary early retirement opportunity, which included incremental benefits for each employee who elected to participate. A special termination benefit charge of $13 million was recognized for those employees who irrevocably accepted the offer during the first quarter of 2013. For those employees who accepted the offer but have a deadline for irrevocably accepting the offer that is subsequent to March 31, 2013, a special termination benefit charge of approximately $12 million will be recognized in the three months ended June 30, 2013.

The income from the postretirement plan for the three months ended March 31 was:

In millions	Three months ended March 31	
	2013	2012
Interest cost	$—	$—
Amortization of:		

Prior service benefit	(5)	(4)
Actuarial loss	1	1
Net postretirement income	$(4)	$(3)

The cost of the postemployment plan for the three months ended March 31 was:

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In millions	Three months ended March 31	
	2013	2012
Net service cost	$4	$6
Interest cost	2	2
Amortization of:		
Prior service cost	(1)	(2)
Actuarial loss	1	3
Net benefit cost	6	$9
Restructuring severance cost	—	(1)
Curtailment gain	(13)	—
Total postemployment (benefit) cost	$(7)	$8

During the first quarter of 2013, NCR amended its U.S. separation plan to eliminate the accumulation of postemployment benefits, resulting in a $48 million reduction of the postemployment liability and a curtailment benefit of $13 million.

Employer Contributions

Pension For the three months ended March 31, 2013, NCR contributed approximately $18 million to its international pension plans and $2 million to its executive pension plan. In 2013, NCR anticipates contributing an additional $107 million to its international pension plans for a total of $125 million; and an additional $94 million to its executive pension plan for a total of $96 million in connection with the pension plan terminations discussed above. NCR may, in connection with the recently announced third phase of its pension strategy, make one or more discretionary contributions to the U.S. qualified plan over the next two years but no such contributions are scheduled as of this date. Refer to Note 18, "Subsequent Events," for additional information related to the recently announced third phase of NCR's pension strategy.

Postretirement For the three months ended March 31, 2013, NCR contributed $1 million to its U.S. postretirement plan. NCR anticipates contributing an additional $4 million to its U.S. postretirement plan for a total of $5 million in 2013.

Postemployment For the three months ended March 31, 2013, NCR contributed approximately $9 million to its postemployment plans. NCR anticipates contributing an additional $33 million to its postemployment plans for a total of $42 million in 2013.

10. 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, 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. NCR believes the amounts provided in its Condensed Consolidated Financial Statements, as prescribed by GAAP, are currently adequate in light of the probable and estimable liabilities with respect to such matters, 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. Any costs that may be incurred in excess of those amounts provided as of March 31, 2013 cannot currently be reasonably determined, or are not currently considered probable.

In 2012, NCR received anonymous allegations from a purported whistleblower regarding certain aspects of the Company's business practices in China, the Middle East and Africa. The principal allegations received in 2012 relate to the Company's compliance with the Foreign Corrupt Practices Act (FCPA) and federal regulations that prohibit U.S. persons from engaging in certain activities in Syria. NCR promptly retained experienced outside counsel and began an internal investigation that was completed in January 2013. On August 31, 2012, the Board of Directors received a demand letter from an individual shareholder demanding that the Board investigate and take action in connection with certain of the whistleblower allegations. The Board formed a Special Committee to investigate those matters, and that Special Committee also separately retained experienced outside counsel, and completed an investigation in January 2013. On January 23, 2013, upon the recommendation of the Special Committee following its review, the Board of Directors adopted a resolution rejecting the shareholder demand. As part of its resolution, the Board determined, among other things, that the officers and directors named in the demand had not breached their fiduciary duties and that the Company will not commence litigation against the named officers and directors. The Board further resolved to review measures proposed and implemented by management to strengthen the Company's compliance with trade embargos, export control laws and anti-bribery laws. In March 2013, the shareholder who sent the demand filed a derivative action in a Georgia state court, naming as defendants three Company officers, five members of the Board of Directors, and the Company as a nominal defendant. The Company and the officers and directors will vigorously contest the allegations.

With respect to Syria, in 2012 NCR voluntarily notified the U.S. Treasury Department, Office of Foreign Assets Control (OFAC) of potential violations and ceased operations in Syria, which were commercially insignificant. The notification related to confusion stemming from the Company's failure to register in Syria the transfer of the Company's Syrian branch to a foreign subsidiary and to deregister the Company's legacy Syrian branch, which was a branch of NCR Corporation. The Company received a license from OFAC on January 3, 2013, and a subsequent license on April 29, 2013, that permit the Company to take measures required to wind down its past operations in Syria. The Company also submitted a detailed report to OFAC regarding this matter, including a description of the Company's comprehensive export control program and related remedial measures.

With respect to the FCPA, the Company made a presentation in 2012 to the staff of the Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) providing the facts known to the Company related to the whistleblower's FCPA allegations, and advising the government that many of these allegations were unsubstantiated. The Company is responding to subpoenas of the SEC and requests of the DOJ for documents and information related to the FCPA, including matters related to the whistleblower's FCPA allegations. The Company's investigations of the whistleblower's FCPA allegations identified a few opportunities to strengthen the Company's comprehensive FCPA compliance program, and remediation measures were proposed and are being implemented. The Company is fully cooperating with the authorities with respect to all of these matters. There can be no assurance that the Company will not be subject to fines or other remedial measures as a result of OFAC's, the SEC's or the DOJ's investigations.

In relation to a patent infringement case filed by a company known as Automated Transactions LLC (ATL) the Company agreed to defend and indemnify its customers, 7-Eleven and Cardtronics. On behalf of those customers, the Company won summary judgment in the case in March 2011. ATL's appeal of that ruling was decided in favor of 7-Eleven and Cardtronics in 2012, and its petition for review by the United States Supreme Court was denied in January 2013. (There are further proceedings to occur in the trial court on the indemnified companies' counterclaims against ATL, such that the case is not fully resolved, although ATL's claims of infringement in that case have now been fully adjudicated.) ATL contends that Vcom terminals sold by the Company to 7-Eleven (Cardtronics ultimately purchased the business from 7-Eleven) infringed certain ATL patents that purport to relate to the combination of an ATM with an Internet kiosk, in which a retail transaction can be realized over an Internet connection provided by the kiosk. Independent of the litigation, the U.S. Patent and Trademark Office (USPTO) rejected the parent patent as invalid in view of certain prior art, although related continuation patents were not reexamined by the USPTO. ATL filed a second suit against the same companies with respect to a broader range of ATMs, based on the same patents

plus a more recently issued patent; that suit has been consolidated with the first case.

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 litigation expenses in the Kalamazoo River matter detailed below, we currently do not anticipate material expenses and liabilities from these environmental matters.

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. 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. Some parties contend that NCR is also responsible for PCB discharges from paper mills owned by other companies because NCR carbonless copy paper "broke" was allegedly purchased by those mills as a raw material for their paper making processes. NCR sold its facilities in 1978 to Appleton Papers Inc. (API). The other Fox River PRPs that received notices are P.H. Glatfelter Company, Georgia-Pacific Consumer Products LP (GP, successor to Fort James Operating Company), WTM I Co. (formerly Wisconsin Tissue Mills, now owned by Canal Corporation, formerly known as Chesapeake Corporation), CBC Corporation (formerly Riverside Paper Corporation), U.S. Paper Mills Corp. (owned by Sonoco Products Company), and Menasha Corporation.

In the October 2010 Government enforcement action discussed below, the federal and state governments asserted certain claims against the eight parties referenced above as well as four other entities. (As set out below, the claims against API were subsequently dismissed.) These claims, filed under CERCLA and other statutes, relate to the presence of PCBs at the Fox River site, and as a result the four newly named parties are also properly viewed as PRPs with respect to the site. Those entities are NewPage Wisconsin Systems, Inc., Neenah-Menasha Sewerage Commission, Kimberly-Clark Corporation, and the City of Appleton, Wisconsin.

During the past several years, the United States Environmental Protection Agency (USEPA) and Wisconsin Department of Natural Resources (WDNR) (together, the Governments) assessed and developed clean-up plans for the upper and lower parts of the Fox River and for portions of the Bay of Green Bay, contained in various Records of Decisions (RODs) issued in January 2003, July 2003 and June 2007 (the last is referred to as the Amended ROD). In general, the clean-up plan or remedy calls for a combination of dredging and capping to remediate the sediments in the river, and for monitored natural attenuation in the Bay of Green Bay. Since 2004, the Company has been involved in certain aspects of the clean-up project, including performance, with GP, of engineering design work for the clean-up under an Administrative Order on Consent (AOC) entered into with the Governments. In addition, the Company, with U.S. Paper Mills, performed specific remedial action involving an area of elevated PCB incidence downriver of the De Pere Dam (Phase 1 work), pursuant to a consent decree with the Governments that was approved in November 2006.

On November 13, 2007, the Governments issued a unilateral administrative order (the 2007 Order) under Section 106 of CERCLA to all eight of the original PRPs identified above. The 2007 Order required these PRPs to implement the remedial work in the lower river in accordance with the requirements of the Amended ROD. NCR and, until April 2012, API has worked with the Governments to implement certain provisions of the 2007 Order. In-water work began on schedule in April 2009, following construction of a facility to house the remediation operations in Green Bay, Wisconsin.

In April 2009, the NCR Board of Directors approved the terms of a contract with Tetra Tech, an environmental remediation contractor, to perform the remediation work at the Fox River consistent with the requirements of the Amended ROD. Also in April 2009, the Board of Directors approved the formation of a limited liability company (LLC), which NCR and API formed on April 27, 2009. The LLC entered into a remediation contract with Tetra Tech on April 27, 2009, and in-water dredging and remediation by Tetra Tech commenced thereafter. The Company has funded the LLC's operations on a regular basis tied to the remediation schedule, consistent with the Company's Fox River reserve, discussed below. The Tetra Tech contract also requires that the LLC members provide promissory notes to provide Tetra Tech financial assurance against the prospect that the LLC will terminate the contract before completion of the remediation for reasons other than “cause.” The current maximum obligation under the Company's note, originally $20 million, is now approximately $13 million; the amount will vary based on a formula tied to conditions set forth in the contract, and generally is expected to decrease over time.

NCR and API, along with B.A.T Industries p.l.c., share a portion of the cost of the Fox River clean-up and natural resource damages based upon an agreement and an arbitration award, which was subsequently confirmed as a judgment, both arising out of the previously referenced 1978 sale of certain facilities located on the Fox River. The

agreement and award result 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 balance is shared jointly and severally by API and B.A.T Industries p.l.c.

In 2008, NCR and API filed a lawsuit in federal court in Green Bay, Wisconsin, seeking a judicial ruling determining the allocable responsibility of several PRPs for the cost of performing the remedial work at the Fox River (the “allocation litigation”). A number of counterclaims seeking contribution under CERCLA and under various state law theories were filed against NCR and API. On September 23, 2008, the court issued a Case Management Decision and Scheduling Order setting a “Phase I trial” limited to the questions of (i) when each party knew or should have known that recycling NCR-brand carbonless copy paper would result in the discharge of PCBs to a waterbody, thereby risking environmental damage; and (ii) what, if any, actions each party took upon acquiring such knowledge to avoid the risk of further PCB contamination. The court's order also limited initial discovery proceedings to the same questions.

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On December 16, 2009, the court issued a ruling canceling the Phase I trial and granting motions for summary judgment filed by certain of the defendants with respect to NCR's and API's claims. The court held that NCR and API could not recover from these defendants any costs that NCR and API have incurred in the Fox River cleanup (the ruling does not affect the Governments' potential claims against such parties). In a further ruling dated February 28, 2011, the court granted partial summary judgment to the defendants on certain of their contribution counterclaims against NCR and API, with respect to certain Fox River response costs incurred by them. The Company intends to appeal both rulings to the United States Court of Appeals for the Seventh Circuit, after entry of a final judgment in the case. A trial in that case took place in February 2012 to address what were then the primary remaining issues in the case, including whether the Company has so-called "arranger" liability in the portion of the Fox River that is upriver of the area where the Company's former facilities were located, the amount of certain insurance setoffs to be applied to the counterclaims, and the amount of recoverable counterclaim damages. The trial was to the judge, without a jury. On July 3, 2012, the Wisconsin federal court issued its ruling on the issues that were the subject of the February 2012 trial. The court ruled in NCR's favor on the issue of “arranger” liability as applied to Operable Unit 1 of the Fox River, and held, among other things, that the Company's predecessor companies at the Fox River did not, in the sale of carbonless copy paper “broke,” intend to arrange for the disposal of hazardous substances. The court issued other rulings regarding insurance offsets and certain aspects of counterclaim damages. The court's decision required no additions to the Company's Fox River reserve. Additional issues were resolved by further court orders later in 2012 and by party stipulations in 2013. The court has indicated that it expects to issue a final judgment in the allocation litigation after it reaches a decision in the phase 1 trial of the separate Government enforcement action described below. When a final judgment is entered, the Company will pursue an appeal to the United States Court of Appeals for the Seventh Circuit with respect to certain of the court's orders, including the orders of December 2009 and February 2011.
On October 14, 2010, the Governments filed a lawsuit (the "Government enforcement action") in federal court in Wisconsin against twelve parties, including the companies named in the 2007 Order mandating the cleanup (i.e., the eight original PRPs), and NewPage Wisconsin Systems, Inc., Neenah-Menasha Sewerage Commission, Kimberly-Clark Corporation, and the City of Appleton, Wisconsin (the four additional PRPs), with respect to the presence of PCBs at the Fox River. The Government enforcement action seeks payment of the Governments' unreimbursed response costs in connection with the Fox River matter as well as compensation for natural resource damages. The Governments also request a judicial declaration that the remaining seven 2007 Order recipients (as noted herein, the claims against API were subsequently dismissed) are required to comply with its provisions, and an injunction mandating such compliance. With respect to NCR, there are no claims asserted against the Company in the Government enforcement action that were not previously contemplated in the Company's Fox River reserve, as discussed herein. A trial of the first phase of the Government enforcement action took place in December 2012 to address the Governments' request for a declaratory judgment that all recipients of the 2007 Order must comply with its terms (other than the terms relating to reimbursement of Government response costs, which will be deferred to a subsequent phase). The case was tried to the court, without a jury. See Note 18, "Subsequent Events," for additional information related to this matter.
On April 10, 2012, the court granted an API motion for reconsideration in connection with its motion for summary judgment in the Government enforcement action, and ruled that API did not have direct liability to the Governments under CERCLA, without disturbing API's continuing obligation to pay under the above-referenced agreement, arbitration award and judgment. Accordingly, the court dismissed the Governments' claims against API. API sought to withdraw from the LLC as a result of this decision. API and the Company disagree whether the court's decision allows API to withdraw from the LLC. Following the court's decision, and API's unilateral withdrawal from the LLC, the Company funded the full cost of the 2012 remediation activity that had been ordered by the court and sought payment from API under the referenced agreement, arbitration award and judgment. The total of the payment demands made by NCR of API in 2012 and outstanding as of March 31, 2013 is approximately $40 million; the Company expects to make further demands of API as future obligations become due. The court has observed that “the arbitration award set in stone the 60% figure” (referring to API's 60% payment obligation discussed herein), but has stated that the amount

to which the 60% obligation applies “must be determined through agreement of the parties or some other means.” As a result, the Company and API are engaged in formal dispute resolution procedures under the 1998 agreement referenced above, which included, in March 2013, the Company's initiation of arbitration proceedings against API. In connection with the dispute, the Company notes that in public filings in March 2013, API stated that the Wisconsin federal court's rulings “do not affect Appleton's rights or obligations to share defense and liability costs with NCR in accordance with the terms of a 1998 agreement and a 2005 arbitration determination . . .” Appleton also reports in the same filing that “[t]he current carrying amount of Appleton's liability under the [a]rbitration is $65 million, which represents Appleton's best estimate of amounts to be paid for 2012 and 2013.” The Company believes that the court's decision dismissing the Governments' claims against API has no effect on API's independent contractual and judgment-based obligations to NCR with respect to the Fox River.

In the quarter ended December 31, 2010, the Governments publicly announced proposed monetary settlements of Fox River - related claims with four entities: GP, Brown County (Wisconsin), the City of Green Bay, and the United States itself (with respect to potential liabilities asserted against the Army Corps of Engineers for certain dredging and disposal activities, and against other

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federal agencies for certain carbonless copy paper recycling activities). All of those entities are defendants in the allocation litigation case described above. The GP settlement, which has received court approval, releases GP from liability for, and provides contribution protection for, claims relating to government oversight costs and certain claims relating to clean-up actions upriver of GP's facilities (it does not affect claims for clean-up actions in that portion of the river near those facilities). The settlement with Brown County, the City of Green Bay and the United States, if approved, would release those entities and provide contribution protection for all claims relating to the Fox River site.
The extent of NCR's potential liability remains subject to many uncertainties. NCR's eventual remediation liability, which is expected to be paid out over a period extending through approximately 2017, followed by long-term monitoring for several decades, will depend on a number of factors. In general, the most significant factors include: (1) the total clean-up costs for the remaining segments of the river; (2) the total natural resource damages for the site; (3) the share NCR (and, whether directly or indirectly, API) will bear of future clean-up costs and natural resource damages; (4) the share of NCR's payments for such clean-up costs and natural resource damages that API or B.A.T Industries p.l.c., will bear; and (5) NCR's transaction and litigation costs to defend itself in this matter, including participation in the allocation litigation, the Government enforcement actions, and the arbitration against API. In establishing the reserve, NCR attempts to estimate a range of reasonably possible outcomes for each of these factors, although each range is itself highly 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. These factors are discussed below.
For the first factor described above, NCR utilizes a best estimate of $827 million as the total of the clean-up costs for the segments of the river. The estimated total cost amount of $827 million includes estimates for the Operable Unit (OU) 1 through OU 5 work, including the remaining amount of work to be performed under the April 2009 Tetra Tech remediation contract, the Phase 1 work and the remedial design work. It adds to these estimates a 5% contingency for probable cost overruns based on historical experience; an estimate for the Governments' future oversight costs; an amount for the Governments' past oversight costs; an estimate for long-term monitoring extending over several decades; an estimate for value engineering savings (potential projects intended to reduce the cost of the remediation) and the Company's share of estimated natural resource damages. There can be no assurances that this estimated total cost amount will not be significantly higher as remediation work progresses.
Second, for total natural resource damages (NRD), NCR uses a best estimate of $76 million. NCR believes the range of reasonably possible outcomes for NRD, if it were to be litigated, is between zero and $246 million. The federal government indicated, in a 2009 filing in a PRP's bankruptcy proceeding, that claims for NRD could be as high as $382 million. The Government enforcement action filed in October 2010 does not set forth a particular amount for the NRD claim.
Third, for the NCR share of NRD, which is discussed above, NCR uses a best estimate. In a ruling dated September 30, 2011, the Wisconsin federal court ruled that the defendants in the allocation litigation could seek recovery against NCR and API for overpayments of NRD. Whether the federal government is entitled to NRD recovery on behalf of NRD trustees is an issue that is not expected to be determined before later in 2013 or 2014, when that phase of the Government enforcement action is reached.
The NCR share of remaining clean-up costs is expected to be determined in the allocation litigation (including appeals). In light of the Wisconsin federal court's December 16, 2009, February 28, 2011, April 10, 2012, and July 3, 2012 rulings described above, NCR's reserve at March 31, 2013 assumed that NCR (subject to the obligations of its co-obligors and indemnitors discussed below) will be responsible for the full extent of the cleanup activities in OUs 2 through 5, which the Company considers a best estimate, and for the counterclaim damages determined in the February 2012 trial.
The Company will seek to overturn the trial court's prior summary judgment rulings on appeal and believes that the NCR allocable share of total site costs is less than 100%, based on equitable factors, principles of divisibility as developed under applicable law, and/or an apportionment of the claimed harm. NCR's reserve does not at present assume any payments or reduction of exposure based either on the forthcoming appeal or on Government enforcement

against the other 2007 Order recipients or defendants. See Note 18, "Subsequent Events," for additional information related to this matter.

Fourth, for the payment by API of its share of payments made by NCR, as discussed above relative percentage shares were established by a 1998 agreement between NCR and API and by a subsequent award in a 2005 allocation arbitration, which was subsequently confirmed as a judgment. (The 1998 agreement and the 2005 arbitration award resolved disputes that arose out of certain agreements entered into in connection with the Company's 1978 sale of the facilities on the Fox River to API.) As a result of unrelated transactions, API is itself indemnified by Windward Prospects Limited, which has funded and managed most of API's liability to date. NCR's analysis of this factor assumes that API is financially viable and pays its percentage share. As noted above, in April 2012 the court ruled that API has no direct CERCLA liability to the Governments. The Company believes that the court's ruling on this point has no effect on API's contractual and judgment-based obligations to contribute to NCR's funding for the remediation, nor on the Company's Fox River reserve. API's obligation to NCR is shared on a joint and several basis by a third

party, B.A.T Industries p.l.c., which, by virtue of various prior corporate transactions and other agreements not specifically directed to the Fox River matter, is a co-party to the same 1998 agreement and the subsequent arbitration award to which API is a party. This analysis also assumes that B.A.T Industries p.l.c. would be financially viable and willing to pay the joint and several obligation if API does not.

Finally, NCR estimated the transaction costs it is likely to incur to defend this matter through approximately 2017, the time period NCR's engineering consultants believe it will take to implement the remedy for the river. This estimate is based on an analysis of NCR's costs since this matter first arose in 1995 and estimates of what NCR's defense and transaction costs will be in the future. NCR expects that the bulk of these transaction costs have been and will be incurred in the 2008-2014 time period. The costs incurred and expected to be incurred during that period include, in particular, transaction costs and fees related to completion of the design work, equipment purchases, commencement and continuation of clean-up activities in the river, and the allocation litigation, Government enforcement action, the API arbitration, and other legal matters discussed above.

In light of several factors, among them, the remedial design work conducted by NCR and GP; settlement possibilities; the efforts to implement the 2007 Order for clean-up of the lower river; the pending allocation litigation and the prospective appeals; whether there will be judicial recognition of divisible harm at the Fox River site and thus of allocable shares of liability among the various parties; the extent to which the Governments press claims against the parties in the Government enforcement actions or otherwise for NRD, government oversight costs and remediation liability; change orders, cost overruns or contractor disputes that may result from the ongoing remediation efforts; the continued viability and willingness to pay of NCR's various indemnitors and co-obligors, and the outcome of any related disputes; and the subsequent value engineering efforts designed to make the cleanup more efficient and less costly, calculation of the Company's Fox River reserve has become subject to added layers of complexities, and it is possible there could be additional changes to some elements of the reserve over upcoming periods, although we are unable to predict or estimate such changes at this time. There can be no assurance that the clean-up and related expenditures will not have a material effect on NCR's capital expenditures, earnings, financial condition, cash flows, or competitive position.

As of March 31, 2013, the net reserve for the Fox River matter was approximately $114 million, compared to $115 million as of December 31, 2012. The decrease in the reserve is due to payments for clean-up activities and litigation costs. NCR regularly re-evaluates the assumptions used in determining the appropriate reserve for the Fox River matter as additional information becomes available and, when warranted, makes appropriate adjustments. NCR contributes to the LLC in order to fund remediation activities and generally, by contract, funds three months' worth of remediation activities in advance. As of March 31, 2013 and December 31, 2012, approximately zero and $3 million, respectively, remained from this funding and was recorded in other current assets in the Consolidated Balance Sheets. NCR's reserve for the Fox River matter is reduced as the LLC makes payments to Tetra Tech and other vendors with respect to remediation activities.

Under a 1996 agreement, AT&T and Alcatel-Lucent 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 Corp.'s divestiture of NCR, then known as AT&T Global Information Solutions Company, and of what was formerly known as Lucent Technologies, and specifically relates to contingent gains and liabilities of the former constituent companies within AT&T.) NCR's estimate of what AT&T and Alcatel-Lucent will pay under the indemnity is recorded as a long-term asset of approximately $77 million as of March 31, 2013 and $84 million as of December 31, 2012, and is deducted in determining the net reserve discussed above. The Company reached the indemnity threshold in the quarter ended December 31, 2012 and invoiced AT&T and Alcatel-Lucent. Payment was received in the quarter ended December 31, 2012, and additional payments on subsequent invoices were received in the quarter ended March 31, 2013. The Company expects to continue such invoicing on a regular basis as expenses are incurred.

In connection with the Fox River and other matters, through March 31, 2013, NCR has received a combined total of approximately $162 million in connection with settlements reached with its principal insurance carriers. Portions of

most of these settlements 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. Of the total amount collected to date, $9 million is subject to competing claims by API, and NCR and API have agreed that these funds will be used for Fox River costs and will be shared on an agreed-upon basis (subject to reallocation at a later date). NCR's agreed-upon share of the $9 million is estimated to be $4 million.

As of March 31, 2013, NCR had reached settlement with all but one of the insurance companies against which it had advanced claims with respect to the Fox River. The Company will pursue its claim against this remaining insurance company vigorously.

In November 2010, the United States Environmental Protection Agency (EPA) 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 parties - International Paper, Mead Corporation, and Consumers Energy - also received general notice letters at or about the same time. The EPA asserts that the site is contaminated by various substances, primarily PCBs as a result of discharges by various paper

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mills located along the river. The EPA does not claim that the Company made direct discharges into the Kalamazoo River, but 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." The EPA 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." The Company disagrees that it may have liability at the Kalamazoo River Site, and will dispute such claims if formally asserted by the EPA. If the Company were to be found liable with respect to the Kalamazoo River, it would have claims against API and B.A.T Industries p.l.c. under the agreement, arbitration award and judgment discussed above in connection with the Fox River matter.

Also in connection with the Kalamazoo River Site, in December 2010 the Company was sued in federal court by three GP entities in a contribution and cost recovery action for alleged pollution at the site. The suit, pending in Michigan, asks that the Company pay a "fair portion" of the GP entities' costs, which are represented as $79 million to date; various removal and remedial actions remain to be performed at the Kalamazoo River Site. The suit alleges that the Company is liable as an "arranger" under CERCLA and under other theories. The Company is contesting the allegations in the GP suit vigorously. The case was tried in Michigan federal court in February 2013; a decision is expected in 2013. As of March 31, 2013, there are a total of three defendants in the case; the other two defendants have asserted cross-claims against the Company.

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 primarily on internal and third-party environmental studies (except for the Fox River site, where the estimated costs and natural resource damages are estimated as described above), estimates as to the number and participation level of any other PRPs, the extent of the 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 Consolidated Financial Statements are the estimated gross undiscounted amounts of such liabilities, without deductions for insurance, third-party indemnity claims or recoveries from the other PRPs, except as qualified in the following sentences. Except for the sharing agreement with API described above with respect to a particular insurance settlement, in those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectibility of such amounts is probable, the amounts are recorded in the Consolidated Financial Statements. For the Fox River site, as described above, assets relating to the AT&T and Alcatel-Lucent indemnity and to the API/BAT joint and several obligation, are recorded because payment is considered probable and is supported by contractual agreements and/or public filings.

Guarantees and Product Warranties Guarantees associated with NCR's business activities are reviewed for appropriateness and impact to the Company's Condensed Consolidated Financial Statements. As of March 31, 2013 and December 31, 2012, 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 three months ended March 31 as follows:

In millions	2013	2012
Warranty reserve liability		
Beginning balance as of January 1	$26	$23
Accruals for warranties issued	8	10
Settlements (in cash or in kind)	(10)	(10)
Ending balance as of March 31	$24	$23

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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, payments made by the Company under these types of agreements have not had a material effect on the Company's condensed consolidated financial condition, results of operations or cash flows.

11. EARNINGS PER SHARE AND SHARE REPURCHASES

Basic earnings per share is calculated by dividing net income or loss attributable to NCR by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic earnings per share, except that the weighted average number of shares outstanding includes the dilution from potential shares added from unvested restricted stock awards and stock options. The holders of unvested restricted stock awards do not have nonforfeitable rights to dividends or dividend equivalents and therefore, such unvested awards do not qualify as participating securities.

The components of basic and diluted earnings per share are as follows:

In millions, except per share amounts	Three months ended March 31	
	2013	2012
Amounts attributable to NCR common stockholders:		
Income from continuing operations	$62	$59
Loss from discontinued operations, net of tax	(1)	(9)
Net income applicable to common shares	$61	$50
Weighted average outstanding shares of common stock	163.7	158.2
Dilutive effect of employee stock options and restricted stock	3.8	4.1
Common stock and common stock equivalents	167.5	162.3
Earnings per share attributable to NCR common stockholders:		
Basic earnings per share:		
From continuing operations	$0.38	$0.37
From discontinued operations	$(0.01)	$(0.05)
Net earnings per share (Basic)	$0.37	$0.32
Diluted earnings per share:		
From continuing operations	$0.37	$0.36
From discontinued operations	$(0.01)	$(0.05)
Net earnings per share (Diluted)	$0.36	$0.31

For the three months ended March 31, 2012, outstanding options to purchase approximately 2.2 million shares of common stock were not included in the diluted share count because the options' exercise prices were greater than the average market price of the underlying common shares and, therefore, the effect would have been anti-dilutive. During the three months ended March 31, 2013 there were no anti-dilutive options.

For the three months ended March 31, 2013 and 2012, the Company did not repurchase any shares of its common stock.

12. 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 revenues occur outside the United States (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 inter-company inventory purchases 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. As these transactions are forecasted, the related foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses on these hedges are deferred in AOCI and reclassified to income when the underlying hedged transaction has been completed and is recorded in earnings. As of March 31, 2013, the balance in AOCI related to foreign exchange derivative transactions was a gain of $1 million. 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.

Interest Rate Risk

The Company is party to an interest rate swap agreement that fixes the interest rate on a portion of the Company's LIBOR indexed floating rate borrowings under its Senior Secured Credit Facility through August 22, 2016. The notional amount of the interest rate swap starts at $560 million and amortizes to $341 million over the term. The Company designates the interest rate swap as a cash flow hedge of forecasted quarterly interest payments made on three-month LIBOR indexed borrowings under the Senior Secured Credit Facility. The interest rate swap was determined to be highly effective at inception.

Our risk management strategy includes hedging a portion of our forecasted interest payments. These transactions are forecasted and the related interest rate swap agreement is designated as a highly effective cash flow hedge. The gains or losses on this hedge are deferred in AOCI and reclassified to income when the underlying hedged transaction has been completed and is recorded in earnings. As of March 31, 2013, the balance in AOCI related to the interest rate swap agreement was a loss of $8 million, net of tax.
The following tables provide information on the location and amounts of derivative fair values in the Condensed Consolidated Balance Sheets:

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	Fair Values of Derivative Instruments					
	March 31, 2013			March 31, 2013		
In millions	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedging instruments						
Interest rate swap	Other current assets	$—	$—	Other current liabilities and other liabilities *	$560	$15
Foreign exchange contracts	Other current assets	124	2	Other current liabilities	—	—
Total derivatives designated as hedging instruments			$2			$15
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	$226	$3	Other current liabilities	$272	$2
Total derivatives not designated as hedging instruments			3			2
Total derivatives			$5			$17

	Fair Values of Derivative Instruments					
	December 31, 2012			December 31, 2012		
In millions	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedging instruments						
Interest rate swap	Other current assets	$—	$—	Other current liabilities and other liabilities *	$560	$16
Foreign exchange contracts	Other current assets	28	—	Other current liabilities	72	1
Total derivatives designated as hedging instruments			$—			$17
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	$169	$1	Other current liabilities	$245	$3
Total derivatives not designated as hedging instruments			1			3
Total derivatives			$1			$20

* As of March 31, 2013, approximately $5 million was recorded in other current liabilities and $10 million was recorded in other liabilities related to the interest rate swap. As of December 31, 2012, approximately $5 million was recorded in other current liabilities and $11 million was recorded in other liabilities related to the interest rate swap.

The effect of derivative instruments on the Condensed Consolidated Statement of Operations for the three months ended March 31, 2013 and March 31, 2012 were as follows:

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In millions	Amount of Gain (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative (Effective Portion)			Amount of Gain (Loss) Reclassified from AOCI into the Condensed Consolidated Statement of Operations (Effective Portion)			Amount of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations (Ineffective Portion a Amount Excluded from Effectiveness Testing)	
Derivatives in Cash Flow Hedging Relationships	For the three months ended March 31, 2013	For the three months ended March 31, 2012	Location of Gain (Loss) Reclassified from AOCI into the Condensed Consolidated Statement of Operations (Effective Portion)	For the three months ended March 31, 2013	For the three months ended March 31, 2012	Location of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations (Ineffective Portion and Amount Excluded from Effectiveness Testing)	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Interest rate swap	$2	$1	Interest expense	$—	$—	Interest expense	$—	$—
Foreign exchange contracts	$2	$(6)	Cost of products	$—	$—	Other (expense) income, net	$—	$—

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	For the three months ended March 31, 2013	For the three months ended March 31, 2012
Foreign exchange contracts	Other (expense) income, net	$(3)	$(6)

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 March 31, 2013, NCR did not have any major concentration of credit risk related to financial instruments.

13. 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 March 31, 2013 and December 31, 2012 are set forth as follows:

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		Fair Value Measurements at Reporting Date Using		
In millions	March 31, 2013	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 funds*	$ 29	$ 29	$—	$ —
Available for sale securities**	13	13	—	—
Foreign exchange contracts ***	5	—	5	—
Total	$ 47	$ 42	$ 5	$ —
Liabilities:				
Interest rate swap****	$ 15	$—	$ 15	$ —
Foreign exchange contracts****	2	—	2	—
Total	$ 17	$—	$ 17	$ —

		Fair Value Measurements at Reporting Date Using		
In millions	December 31, 2012	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 funds*	$ 527	$ 527	$—	$ —
Available for sale securities**	11	11	—	—
Foreign exchange contracts ***	1	—	1	—
Total	$ 539	$ 538	$ 1	$ —
Liabilities:				
Interest rate swap****	$ 16	$—	$ 16	$ —
Foreign exchange contracts****	4	—	4	—
Total	$ 20	$—	$ 20	$ —

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* Included in Cash and cash equivalents in the Condensed Consolidated Balance Sheet.
** Included in Other assets in the Condensed Consolidated Balance Sheet.
*** Included in Other current assets in the Condensed Consolidated Balance Sheet.
**** Included in Other current liabilities and Other liabilities in the Condensed Consolidated Balance Sheet.

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

Available-For-Sale Securities The Company has investments in mutual funds and equity securities that are valued using the market approach with quotations from the NASDAQ stock exchange and two stock exchanges in Japan. As a result, available-for-sale securities are classified within Level 1 of the valuation hierarchy.

Interest rate swap As a result of our Senior Secured Credit Facility, we are exposed to risk from changes in LIBOR, which may adversely affect our financial condition. To manage our exposure and mitigate the impact of changes in LIBOR on our financial results, we hedge a portion of our forecasted interest payments through the use of an interest rate swap agreement. The interest rate swap is valued using the income approach inclusive of nonperformance and counterparty risk considerations and is classified within Level 2 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

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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

Certain assets have been 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. No impairment charges or material non-recurring fair value adjustments were recorded during the three months ended March 31, 2013.

During the three months ended March 31, 2012, we measured the fair value of an investment utilizing the income approach based on the use of discounted cash flows. The discounted cash flows are based on unobservable inputs, including assumptions of projected revenues, expenses, earnings, capital spending, as well as a discount rate determined by management’s estimates of risk associated with the investment. As a result, for the three months ended March 31, 2012, we recorded an other-than-temporary impairment charge of $3 million in Other (expense) income, net in the Condensed Consolidated Statements of Operations based on Level 3 valuations. As of March 31, 2012, there was no remaining carrying value of the investment.

14. SEGMENT INFORMATION AND CONCENTRATIONS

The Company manages and reports its businesses in the following four segments:

- Financial Services - We offer solutions to enable customers in the financial services industry to reduce costs, generate new revenue streams and enhance customer loyalty. These solutions include a comprehensive line of ATM and payment processi