

NCR CORP  
Form 10-Q  
October 30, 2015  
Table of Contents

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

---

FORM 10-Q

---

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

For the quarterly period ended September 30, 2015  
Commission File Number 001-00395

---

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

---

Maryland  
(State or other jurisdiction of incorporation or organization)  
3097 Satellite Boulevard  
Duluth, GA 30096  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code: (937) 445-5000

31-0387920  
(I.R.S. Employer Identification No.)

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  No   
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  No

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

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

As of October 15, 2015, there were approximately 169.9 million shares of common stock issued and outstanding.

Table of Contents

## TABLE OF CONTENTS

## PART I. Financial Information

Description	Page
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u> <u>Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three and Nine Months Ended September 30, 2015 and 2014</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u> <u>September 30, 2015 and December 31, 2014</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> <u>Nine Months Ended September 30, 2015 and 2014</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>38</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>48</u>
Item 4. <u>Controls and Procedures</u>	<u>49</u>

## PART II. Other Information

Description	Page
Item 1. <u>Legal Proceedings</u>	<u>51</u>
Item 1A. <u>Risk Factors</u>	<u>51</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>51</u>
Item 6. <u>Exhibits</u>	<u>52</u>
<u>Signatures</u>	<u>54</u>

Table of Contents

## 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		Nine months ended	
	September 30		September 30	
	2015	2014	2015	2014
Product revenue	\$688	\$721	\$1,995	\$2,077
Service revenue	925	926	2,698	2,746
Total revenue	1,613	1,647	4,693	4,823
Cost of products	512	547	1,539	1,554
Cost of services	644	696	2,161	1,969
Selling, general and administrative expenses	224	232	788	724
Research and development expenses	53	59	175	186
Restructuring-related charges	12	72	33	72
Total operating expenses	1,445	1,606	4,696	4,505
Income (loss) from operations	168	41	(3	) 318
Interest expense	(42	) (46	) (131	) (135
Other (expense), net	(7	) (14	) (14	) (24
Income (loss) income from continuing operations before income taxes	119	(19)	(148	) 159
Income tax expense (benefit)	16	(19)	50	14
Income (loss) income from continuing operations	103	—	(198	) 145
(Loss) income from discontinued operations, net of tax	(4	) 15	(4	) 15
Net income (loss)	99	15	(202	) 160
Net income attributable to noncontrolling interests	1	—	4	2
Net income (loss) attributable to NCR	\$98	\$15	\$(206	) \$158
Amounts attributable to NCR common stockholders:				
Income (loss) from continuing operations	\$102	\$—	\$(202	) \$143
(Loss) income from discontinued operations, net of tax	(4	) 15	(4	) 15
Net income (loss)	\$98	\$15	\$(206	) \$158
Income (loss) per share attributable to NCR common stockholders:				
Income (loss) per common share from continuing operations				
Basic	\$0.60	\$—	\$(1.19	) \$0.85
Diluted	\$0.59	\$—	\$(1.19	) \$0.84
Net income (loss) per common share				
Basic	\$0.58	\$0.09	\$(1.22	) \$0.94
Diluted	\$0.57	\$0.09	\$(1.22	) \$0.92
Weighted average common shares outstanding				
Basic	169.8	168.2	169.5	167.7
Diluted	172.3	171.3	169.5	171.1

See Notes to Condensed Consolidated Financial Statements.

Table of ContentsNCR Corporation  
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

In millions	Three months ended		Nine months ended	
	September 30		September 30	
	2015	2014	2015	2014
Net income (loss)	\$99	\$15	\$(202)	\$160
Other comprehensive income (loss):				
Currency translation adjustments				
Currency translation adjustments	(39)	(47)	(41)	(17)
Derivatives				
Unrealized gain (loss) on derivatives	2	1	9	(1)
(Gains) losses on derivatives arising during the period	(1)	1	(3)	4
Less income tax expense	(1)	—	(2)	(1)
Employee benefit plans				
Amortization of prior service benefit	(5)	(4)	(16)	(15)
Amortization of actuarial loss	1	—	2	1
Less income tax benefit	1	1	5	5
Other comprehensive loss	(42)	(48)	(46)	(24)
Total comprehensive income (loss)	57	(33)	(248)	136
Less comprehensive income attributable to noncontrolling interests:				
Net income	1	—	4	2
Currency translation adjustments	(4)	(2)	(7)	(2)
Amounts attributable to noncontrolling interests	(3)	(2)	(3)	—
Comprehensive income (loss) attributable to NCR common stockholders	\$60	\$(31)	\$(245)	\$136

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

## NCR Corporation

## Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	September 30, 2015	December 31, 2014
Assets		
Current assets		
Cash and cash equivalents	\$303	\$511
Accounts receivable, net	1,424	1,404
Inventories	718	669
Other current assets	453	504
Total current assets	2,898	3,088
Property, plant and equipment, net	338	396
Goodwill	2,750	2,760
Intangibles, net	830	926
Prepaid pension cost	137	551
Deferred income taxes	383	349
Other assets	551	537
Total assets	\$7,887	\$8,607
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	\$5	\$187
Accounts payable	691	712
Payroll and benefits liabilities	210	196
Deferred service revenue and customer deposits	537	494
Other current liabilities	392	481
Total current liabilities	1,835	2,070
Long-term debt	3,243	3,472
Pension and indemnity plan liabilities	684	705
Postretirement and postemployment benefits liabilities	180	170
Income tax accruals	176	181
Other liabilities	82	111
Total liabilities	6,200	6,709
Commitments and Contingencies (Note 9)		
Redeemable noncontrolling interest	12	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 September 30, 2015 and December 31, 2014	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 169.9 and 168.6 shares issued and outstanding as of September 30, 2015 and December 31, 2014, respectively	2	2
Paid-in capital	485	442
Retained earnings	1,357	1,563
Accumulated other comprehensive loss	(175)	) (136)
Total NCR stockholders' equity	1,669	1,871
Noncontrolling interests in subsidiaries	6	12
Total stockholders' equity	1,675	1,883
Total liabilities and stockholders' equity	\$7,887	\$8,607

See Notes to Condensed Consolidated Financial Statements.

5

---

Table of ContentsNCR Corporation  
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine months ended	
	September 30	
	2015	2014
Operating activities		
Net (loss) income	\$(202 )	\$160
Adjustments to reconcile net (loss) income to net cash provided by operating activities:		
Loss (income) from discontinued operations	4	(15 )
Depreciation and amortization	229	211
Stock-based compensation expense	32	26
Deferred income taxes	26	(28 )
Gain on sale of property, plant and equipment and other assets	(1 )	(2 )
Impairment of long-lived and other assets	16	8
Changes in assets and liabilities:		
Receivables	(80 )	(106 )
Inventories	(86 )	(5 )
Current payables and accrued expenses	17	47
Deferred service revenue and customer deposits	72	20
Employee benefit plans	367	(12 )
Other assets and liabilities	22	(69 )
Net cash provided by operating activities	416	235
Investing activities		
Expenditures for property, plant and equipment	(47 )	(88 )
Additions to capitalized software	(117 )	(109 )
Business acquisitions, net	—	(1,647 )
Changes in restricted cash	—	1,114
Other investing activities, net	—	4
Net cash used in investing activities	(164 )	(726 )
Financing activities		
Tax withholding payments on behalf of employees	(10 )	(28 )
Short term borrowings, net	—	2
Payments on term credit facilities	(312 )	(20 )
Borrowings on term credit facility	—	250
Payments on revolving credit facilities	(977 )	(528 )
Borrowings on revolving credit facilities	881	690
Debt issuance costs	—	(3 )
Proceeds from employee stock plans	12	10
Other financing activities	—	(3 )
Net cash (used in) provided by financing activities	(406 )	370
Cash flows from discontinued operations		
Net cash (used in) provided by operating activities	(27 )	28
Effect of exchange rate changes on cash and cash equivalents	(27 )	(11 )
Decrease in cash and cash equivalents	(208 )	(104 )
Cash and cash equivalents at beginning of period	511	528
Cash and cash equivalents at end of period	\$303	\$424

See Notes to Condensed Consolidated Financial Statements.





Table of Contents

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 2014 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, 2014.

**Use of Estimates** The preparation of financial statements in accordance with GAAP requires management to make estimates and judgments that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenue and expenses during the period reported. Actual results could differ from those estimates.

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

**Fox River** In connection with Note 9, "Commitments and Contingencies," on October 19, 2015, the federal district court in Wisconsin issued a ruling granting a motion to reconsider its May 15, 2015 decision on divisibility, thus setting aside its decision that the Company's liability for operable unit 4 of the Fox River site was 28%. The Company considered the impact of this ruling on the Fox River net reserve as of September 30, 2015 and is evaluating its litigation options with respect thereto.

**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., (NCR Manaus) 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 \$20 million and \$42 million during the three and nine months ended September 30, 2015, respectively, as compared to \$22 million and \$54 million during the three and nine months ended September 30, 2014, respectively. As of September 30, 2015 and December 31, 2014, we had \$22 million and \$15 million, respectively, in receivables outstanding from Bradesco.

Recent Accounting Pronouncements

Adopted

In April 2014, the Financial Accounting Standards Board (FASB) issued changes to the criteria for determining which disposals are required to be presented as discontinued operations. The changes require a disposal of a component of an

entity or a group of components of an entity to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results when any of the following occurs: (i) the component of an entity or group of components of an entity meets the criteria to be classified as held for sale, (ii) the component of an entity or group or components of an entity is disposed of by sale, or (iii) the component of an entity or group of components of an entity is disposed of other than by sale. The amendments apply on a prospective basis to disposals of components of an entity that occur within annual periods beginning on or after December 15, 2014 and interim periods within those years, with early adoption permitted. The implementation of the amended accounting guidance on January 1, 2015 did not have an impact on our consolidated financial statements.

Table of Contents

NCR Corporation

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

Issued

In May 2014, the FASB issued a new revenue recognition standard, superseding previous revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will be effective for the first interim period within annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is evaluating the impact that adopting this guidance will have on its consolidated financial statements.

In August 2014, the FASB issued new guidance related to disclosures relating to going concern, including management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related disclosures when conditions or events raise substantial doubt about an entity's ability to continue as a going concern. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The impact of adopting this guidance on January 1, 2017 is not expected to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued new guidance related to the presentation of debt issuance costs, which amends existing guidance to require the presentation of debt issuance costs in the balance sheet as a deduction from the carrying amount of the related debt liability, consistent with debt discounts, instead of a deferred charge asset. In August 2015, given the absence of authoritative guidance within the new guidance for debt issuance costs related to line-of-credit arrangements, the FASB indicated that the SEC staff would not object to an entity deferring and presenting debt issuance costs as an asset and subsequently amortizing the deferred debt issuance costs ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The new standard, including the August update, is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The impact of adopting this guidance on January 1, 2016 is not expected to have a material impact on our consolidated financial statements.

In April 2015, the FASB issued new guidance related to accounting for the fees paid in a cloud computing arrangement, which provides guidance to customers about whether a cloud computing arrangement includes a software license. If considered a software license, the arrangement should be accounted for as an acquisition of a software license. If not considered a software license, the arrangement should be accounted for as a service contract. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The impact of adopting this guidance on January 1, 2016 is not expected to have a material impact on our consolidated financial statements.

In July 2015, the FASB issued new guidance on simplifying the measurement of inventory. Inventory within the scope of this update is required to be measured at the lower of its cost or net realizable value, with net realizable value being the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. The standards update is effective prospectively for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The impact of adopting this guidance is not expected to have a material impact on our consolidated financial statements.

2. RESTRUCTURING PLAN

In July 2014, we announced a restructuring plan to strategically reallocate resources so that we can focus on our higher-growth, higher-margin opportunities in the software-driven consumer transaction technologies industry. The program is centered on ensuring that our people and processes are aligned with our continued transformation and includes: rationalizing our product portfolio to eliminate overlap and redundancy; taking steps to end-of-life older commodity product lines that are costly to maintain and provide low margins; moving lower productivity services positions to our new centers of excellence due to the positive impact of services innovation; and reducing layers of management and organizing around divisions to improve decision-making, accountability and strategic execution.

As a result of the restructuring plan, the Company recorded a total charge of \$12 million and \$36 million in the three and nine months ended September 30, 2015, respectively, and a total charge of \$130 million in the three and nine months ended September 30, 2014. The Company expects to achieve annualized run-rate savings of approximately \$105 million beginning in 2016. The Company expects that it may identify additional restructuring-related opportunities in connection with this restructuring plan, and may incur additional charges through 2015 related to such additional opportunities. Such additional charges are not reasonably

Table of Contents

NCR Corporation

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

estimable at this time as the Company is in the process of defining the nature and scope of these additional opportunities and quantifying the impact thereof.

Charges related to the restructuring plan for the the three and nine months ended September 30 were:

In millions	Three months ended		Nine months ended	
	September 30 2015	2014	September 30 2015	2014
Severance and other employee-related costs				
ASC 712 charges included in restructuring-related charges	\$—	\$61	\$(5	) \$61
ASC 420 charges included in restructuring-related charges	7	4	12	4
Inventory-related charges				
Charges included in cost of products	—	9	3	9
Charges included in cost of services	—	46	—	46
Asset-related charges				
External and internal use software impairment charges	—	5	2	5
included in restructuring-related charges				
Impairment of long-lived assets included in restructuring-related charges	—	—	14	—
Other than temporary impairment of an investment included in other (expense), net	—	3	—	3
Other exit costs				
Other exit costs included in restructuring-related charges	5	2	10	2
Total restructuring-related charges	\$12	\$130	\$36	\$130

In the nine months ended September 30, 2015, asset related charges include the write-off of certain external use capitalized software for projects that have been abandoned as well as an impairment of long-lived assets that are no longer considered strategic and were held for sale. As of September 30, 2015, the carrying amount of the long-lived assets classified as held for sale was \$17 million. The Company utilized Level 3 inputs, as defined in the fair value hierarchy, to measure the fair value of such assets. In the nine months ended September 30, 2014, asset related charges include the write-off of certain internal and external use capitalized software for projects where the Company has redirected resources to higher growth opportunities and abandoned certain projects. Additionally, the charges include an other than temporary impairment for an investment that is no longer considered strategic. See Note 12, "Fair Value of Assets and Liabilities," for additional information.

The results by segment, as disclosed in Note 13, "Segment Information and Concentrations," exclude the impact of these costs, which is consistent with the manner by which management assesses the performance and evaluates the results of each segment. The following table summarizes the total liabilities relating to the restructuring plan, which are included on the Condensed Consolidated Balance Sheet in other current liabilities.

In millions	2015	2014
Employee Severance and Other Exit Costs		
Beginning balance as of January 1	\$60	\$—

Edgar Filing: NCR CORP - Form 10-Q

Cost recognized during the period	22	67
Change in estimated payments under ASC 712	(5)	—
Utilization	(51)	(9)
Foreign currency translation adjustments	(2)	—
Ending balance as of September 30	\$24	\$58

9

---

Table of Contents

NCR Corporation

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

## 3. SUPPLEMENTAL FINANCIAL INFORMATION

The components of accounts receivable are summarized as follows:

In millions	September 30, 2015	December 31, 2014
Accounts receivable		
Trade	\$1,408	\$1,382
Other	41	41
Accounts receivable, gross	1,449	1,423
Less: allowance for doubtful accounts	(25)	(19)
Total accounts receivable, net	\$1,424	\$1,404

The components of inventory are summarized as follows:

In millions	September 30, 2015	December 31, 2014
Inventories		
Work in process and raw materials	\$161	\$132
Finished goods	178	148
Service parts	379	389
Total inventories	\$718	\$669

The components of other current assets are summarized as follows:

In millions	September 30, 2015	December 31, 2014
Other current assets		
Current deferred tax assets	\$204	\$264
Other	249	240
Total other current assets	\$453	\$504

## 4. GOODWILL AND PURCHASED INTANGIBLE ASSETS

## Goodwill

The carrying amounts of goodwill by segment as of September 30, 2015 and December 31, 2014 are included in the table below. Foreign currency fluctuations are included within other adjustments.

In millions	December 31, 2014			September 30, 2015			Goodwill	Accumulated	
	Goodwill	Impairment Losses	Total	Additions	Impairment	Other		Goodwill	Impairment Losses
Financial Services	\$1,493	\$—	\$1,493	\$—	\$—	\$(2 )	\$1,491	\$—	\$1,491
Retail Solutions	581	(7 )	574	—	—	—	581	(7 )	574
Hospitality	669	—	669	2	—	(10 )	661	—	661
Emerging Industries	24	—	24	—	—	—	24	—	24
Total goodwill	\$2,767	\$(7 )	\$2,760	\$2	\$—	\$(12 )	\$2,757	\$(7 )	\$2,750





Table of Contents

NCR Corporation

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

## 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.

In millions	Amortization Period (in Years)	September 30, 2015		December 31, 2014	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Identifiable intangible assets					
Reseller & customer relationships	1 - 20	\$659	\$(84 )	\$660	\$(63 )
Intellectual property	2 - 8	393	(229 )	393	(181 )
Customer contracts	8	89	(40 )	89	(22 )
Tradenames	2 - 10	73	(31 )	74	(24 )
Non-compete arrangements	2 - 5	8	(8 )	8	(8 )
Total identifiable intangible assets		\$1,222	\$(392 )	\$1,224	\$(298 )

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

In millions	Three months ended September 30, 2015	Nine months ended September 30, 2015	Remainder of 2015 (estimated)
Amortization expense	\$31	\$94	\$31

In millions	For the years ended December 31 (estimated)				
	2016	2017	2018	2019	2020
Amortization expense	\$125	\$116	\$85	\$75	\$57

## 5. DEBT OBLIGATIONS

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

In millions, except percentages	September 30, 2015		December 31, 2014	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Short-Term Borrowings				
Current portion of Senior Secured Credit Facility <sup>(1)</sup>	\$—		\$85	2.91%
Trade Receivables Securitization Facility <sup>(2)</sup>	—		96	0.83%
Other <sup>(2)</sup>	5	6.36%	6	7.31%
Total short-term borrowings	\$5		\$187	
Long-Term Debt				
Senior Secured Credit Facility:				
Term loan facility due 2018 <sup>(1)</sup>	\$1,024	3.04%	\$1,246	2.91%
Revolving credit facility due 2018 <sup>(1)</sup>	—		—	
Senior notes:				
5.00% Senior Notes due 2022	600		600	
4.625% Senior Notes due 2021	500		500	
5.875% Senior Notes due 2021	400		400	

Edgar Filing: NCR CORP - Form 10-Q

6.375% Senior Notes due 2023	700		700	
Other <sup>(2)</sup>	19	7.18%	26	7.23%
Total long-term debt	\$3,243		\$3,472	

11

---

Table of Contents

NCR Corporation

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

- Interest rates are weighted average interest rates as of September 30, 2015 and December 31, 2014 related to the
- (1) Senior Secured Credit Facility, which incorporate the impact of the interest rate swap agreement described in Note 11, "Derivatives and Hedging Instruments."
  - (2) Interest rates are weighted average interest rates as of September 30, 2015 and December 31, 2014.

**Senior Secured Credit Facility** The Company is party to a senior secured credit facility with JPMorgan Chase Bank, NA (JPMCB), as administrative agent, and a syndicate of lenders (as amended, the Senior Secured Credit Facility). As of September 30, 2015, the Senior Secured Credit Facility consisted of a term loan facility in an aggregate principal amount of \$1.35 billion, and a revolving credit facility in an aggregate principal amount of \$850 million. The revolving credit facility also allows a portion of the availability to be used for outstanding letters of credit, and as of September 30, 2015, there were no outstanding letters of credit.

The outstanding principal balance of the term loan facility is required to be repaid in equal quarterly installments in annual amounts. As a result of prepayments during the year, the repayment schedule now requires quarterly installments of approximately \$34 million beginning December 31, 2017, with the balance being due at maturity on July 25, 2018. Borrowings under the revolving portion of the credit facility are due July 25, 2018. 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 1.25% for Base Rate-based loans that are either term loans or revolving loans and ranging from 1.25% to 2.25% 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, including a commitment fee on the undrawn portion of the revolving credit facility.

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, and a perfected first priority lien and security interest in substantially all of the Company's U.S. assets and the assets of the guarantor subsidiaries, subject to certain exclusions. These security interests would be released if the Company achieves an "investment grade" rating, and will remain released so long as the Company maintains that rating.

The Senior Secured Credit Facility includes affirmative and negative covenants that restrict or limit the ability of the Company and its subsidiaries to, among other things, incur indebtedness; create liens on assets; engage in certain fundamental corporate changes or changes to the Company's business activities; make investments; sell or otherwise dispose of assets; engage in sale-leaseback or hedging transactions; repurchase stock, pay dividends or make similar distributions; repay other indebtedness; engage in certain affiliate transactions; or enter into agreements that restrict the Company's ability to create liens, pay dividends or make loan repayments. The Senior Secured Credit Facility also includes financial covenants that require the Company to maintain:

- a consolidated leverage ratio on the last day of any fiscal quarter, not to exceed (i) in the case of any fiscal quarter ending after December 31, 2014 and on or prior to December 31, 2016, (a) the sum of (x) 4.25 and (y) an amount (not to exceed 0.50) to reflect new debt used to reduce NCR's underfunded pension liabilities, to (b) 1.00, (ii) in the case of any fiscal quarter ending after December 31, 2016 and on or prior to December 31, 2017, 4.00 to 1.00, and (iii) in the case of any fiscal quarter ending after December 31, 2017, 3.75 to 1.00; and
- an interest coverage ratio on the last day of any fiscal quarter greater than or equal to 3.50 to 1.00.

At September 30, 2015, the maximum consolidated leverage ratio under the Senior Secured Credit Facility was 4.35 to 1.00.

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

The Company may request, at any time and from time to time, but the lenders are not obligated to fund, the establishment of one or more incremental term loans and/or revolving credit facilities (subject to the agreement of existing lenders or additional financial institutions to provide such term loans and/or revolving credit facilities) with commitments in an aggregate amount not to exceed the greater of (i) \$150 million, and (ii) such amount as would not (a) prior to the date that the Company obtains an investment grade rating cause the leverage ratio under the Senior Secured Credit Facility, calculated on a pro forma basis including the incremental facility and assuming that it and the revolver are fully drawn, to exceed 2.50 to 1.00, and (b) on and after the date that

Table of Contents

NCR Corporation

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

the Company obtains an investment grade rating cause the leverage ratio under the Senior Secured Credit Facility, calculated on a pro forma basis including the incremental facility and assuming that it and the revolver are fully drawn, to exceed a ratio that is 0.50 less than the leverage ratio then applicable under the financial covenants of the Senior Secured Credit Facility, the proceeds of which can be used for working capital requirements and other general corporate purposes.

Senior Unsecured Notes On September 17, 2012, the Company issued \$600 million aggregate principal amount of 5.00% senior unsecured notes due in 2022 (the 5.00% Notes). The 5.00% Notes were sold at 100% of the principal amount and will mature on July 15, 2022. On December 18, 2012, the Company issued \$500 million aggregate principal amount of 4.625% senior unsecured notes due in 2021 (the 4.625% Notes). The 4.625% Notes were sold at 100% of the principal amount and will mature on February 15, 2021. On December 19, 2013, the Company issued \$400 million aggregate principal amount of 5.875% senior unsecured notes due in 2021 (the 5.875% Notes) and \$700 million aggregate principal amount of 6.375% senior unsecured notes due in 2023 (the 6.375% Notes). The 5.875% Notes were sold at 100% of the principal amount and will mature on December 15, 2021 and the 6.375% Notes were sold at 100% of the principal amount and will mature on December 15, 2023. The senior unsecured notes are guaranteed, fully and unconditionally, on an unsecured senior basis, by our subsidiary, NCR International, Inc.

The Company has 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, the Company 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.

The Company has 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 February 15, 2017, 2018 and 2019 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to February 15, 2017, the Company 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, the Company 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 Company has the option to redeem the 5.875% Notes, in whole or in part, at any time on or after December 15, 2017, at a redemption price of 102.938%, 101.469% and 100% during the 12-month periods commencing on December 15, 2017, 2018 and 2019 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to December 15, 2017, the Company may redeem the 5.875% 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 December 15, 2016, the Company may redeem the 5.875% 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 105.875% 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 Company has the option to redeem the 6.375% Notes, in whole or in part, at any time on or after December 15, 2018, at a redemption price of 103.188%, 102.125%, 101.063% and 100% during the 12-month periods commencing on December 15, 2018, 2019, 2020 and 2021 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to December 15, 2018, the Company may redeem the 6.375% 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 December 15, 2016, the Company may redeem the 6.375% 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 106.375% 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 limit the ability of the Company and certain of its subsidiaries to, among other things, incur additional debt or issue redeemable preferred stock; pay dividends or make certain other restricted payments or investments; incur liens; sell assets; incur restrictions on the ability of the Company's subsidiaries to pay dividends to the Company; enter into affiliate transactions; engage in sale and leaseback transactions; and consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's or such subsidiaries' assets. These covenants are subject to significant exceptions and qualifications. For example, if these notes are assigned an investment grade rating by Moody's or S&P and no default has occurred or is continuing, certain covenants will be terminated.

Table of Contents

NCR Corporation

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

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

Under the A/R Facility, NCR sells and/or contributes certain of its U.S. trade receivables to a wholly-owned, bankruptcy-remote subsidiary as they are originated, and advances by the lenders to that subsidiary are secured by those trade receivables. The assets of this financing subsidiary are restricted as collateral for the payment of its obligations under the A/R Facility, and its assets and credit are not available to satisfy the debts and obligations owed to the creditors of the Company. The Company includes the assets, liabilities and results of operations of this financing subsidiary in its consolidated financial statements. The financing subsidiary owned \$416 million and \$373 million of outstanding accounts receivable as of September 30, 2015 and December 31, 2014, respectively, and these amounts are included in accounts receivable, net in the Company's Condensed Consolidated Balance Sheets.

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

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

Fair Value of Debt The Company utilized Level 2 inputs, as defined in the fair value hierarchy, to measure the fair value of the long-term debt, which, as of September 30, 2015 and December 31, 2014 was \$3.15 billion and \$3.67 billion, respectively. Management's fair value estimates were based on quoted prices for recent trades of NCR's long-term debt, quoted prices for similar instruments, and inquiries with certain investment communities.

## 6. INCOME TAXES

Income tax provisions for interim (quarterly) periods are based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Income tax expense was \$16 million for the three months ended September 30, 2015 compared to a benefit of \$19 million for the three months ended September 30, 2014. The increase in income tax expense was primarily driven by the increase in earnings in continuing operations in the the three months ended September 30, 2015 compared to the three months ended September 30, 2014, and \$13 million and \$9 million of benefits from IRS settlements and valuation releases, respectively, in the three months ended September 30, 2014, offset by \$17 million of income tax benefits for audit settlements in foreign jurisdictions in the three months ended September 30, 2015.

Income tax expense was \$50 million for the nine months ended September 30, 2015 compared to \$14 million for the nine months ended September 30, 2014. The increase in income tax expense was primarily driven by the increase in earnings in continuing operations excluding the UK London pension settlement discussed below and \$13 million and \$9 million of benefits from IRS settlements and valuation releases, respectively, in the nine months ended September 30, 2014, offset by \$17 million of income tax benefits for audit settlements in foreign jurisdictions in the nine months

ended September 30, 2015. During the nine months ended September 30, 2015, there was no tax benefit recorded on the \$427 million charge related to the settlement of the UK London pension plan due to a valuation allowance against deferred tax assets in the United Kingdom. Refer to Note 8, "Employee Benefit Plans." for additional discussion on the settlement of the UK London pension plan.



Table of Contents

NCR Corporation

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

## 7. STOCK COMPENSATION PLANS

As of September 30, 2015, the Company's primary types of stock-based compensation were restricted stock and stock options. Stock-based compensation expense for the following periods was:

In millions	Three months ended		Nine months ended	
	September 30		September 30	
	2015	2014	2015	2014
Restricted stock expense	\$12	\$7	\$32	\$26
Tax benefit	(4)	(2)	(10)	(8)
Total stock-based compensation (net of tax)	\$8	\$5	\$22	\$18

Stock-based compensation expense is recognized in the financial statements based upon fair value. During the three and nine months ended September 30, 2015 and 2014, the Company did not grant any stock options. As of September 30, 2015, the total unrecognized compensation cost of \$96 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 1.2 years.

## 8. EMPLOYEE BENEFIT PLANS

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2015	2014	2015	2014	2015	2014
Net service cost	\$—	\$—	\$3	\$4	\$3	\$4
Interest cost	22	32	8	20	30	52
Expected return on plan assets	(18)	(30)	(11)	(27)	(29)	(57)
Actuarial loss	—	1	—	—	—	1
Amortization of prior service cost	—	—	1	1	1	1
Net periodic benefit cost (income)	\$4	\$3	\$1	\$(2)	\$5	\$1

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2015	2014	2015	2014	2015	2014
Net service cost	\$—	\$—	\$9	\$10	\$9	\$10
Interest cost	66	98	34	61	100	159
Expected return on plan assets	(54)	(89)	(50)	(79)	(104)	(168)
Actuarial loss	—	1	—	—	—	1
Amortization of prior service cost	—	—	1	2	1	2
Curtailment	—	—	(2)	—	(2)	—
Settlement	—	—	427	(2)	427	(2)
Net periodic benefit cost (income)	\$12	\$10	\$419	\$(8)	\$431	\$2

During the second quarter of 2015, the Company completed the transfer of its UK London pension plan to an insurer. As a result of the transfer, the Company recorded a settlement loss of \$427 million in the nine months ended September 30, 2015 in the Condensed Consolidated Statement of Operations as well as an offsetting decrease to

prepaid pension costs in the Condensed Consolidated Balance Sheet.

Table of Contents

NCR Corporation

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

The benefit from the postretirement plan for the three and nine months ended September 30 was:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Interest cost	\$—	\$1	\$—	\$1
Amortization of:				
Prior service benefit	(5)	(4)	(14)	(13)
Actuarial loss	1	—	2	1
Net postretirement benefit	\$(4)	\$(3)	\$(12)	\$(11)

The cost of the postemployment plan for the three and nine months ended September 30 was:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Net service cost	\$4	\$3	\$12	\$10
Interest cost	—	2	2	6
Amortization of prior service benefit	(1)	(1)	(3)	(3)
Net benefit cost	\$3	\$4	\$11	\$13
Restructuring severance cost	—	61	(5)	61
Total postemployment cost	\$3	\$65	\$6	\$74

## Employer Contributions

**Pension** For the three and nine months ended September 30, 2015, NCR contributed approximately \$8 million and \$22 million, respectively, to its international pension plans. In 2015, NCR anticipates contributing an additional \$13 million to its international pension plans for a total of \$35 million.

**Postretirement** For the three and nine months ended September 30, 2015, NCR contributed \$2 million and \$3 million, respectively, to its U.S. postretirement plan. NCR anticipates contributing an additional \$1 million to its U.S. postretirement plan for a total of \$4 million in 2015.

**Postemployment** For the three and nine months ended September 30, 2015, NCR contributed approximately \$13 million and \$33 million, respectively, to its postemployment plans. NCR anticipates contributing an additional \$47 million to its postemployment plans for a total of \$80 million in 2015, which includes planned contributions associated with the previously announced restructuring plan. See Note 2, "Restructuring Plan," for additional information.

## 9. COMMITMENTS AND CONTINGENCIES

In the normal course of business, NCR is subject to various proceedings, lawsuits, claims and other matters, including, for example, those that relate to the environment and health and safety, labor and employment, employee benefits, import/export compliance, intellectual property, data privacy and security, product liability, commercial disputes and regulatory compliance, among others. Additionally, NCR is subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, environmental safety and the discharge of materials into the environment, product safety, import and export compliance, data privacy and security, antitrust and competition, government contracting, anti-corruption, and labor and human resources, which are rapidly changing and subject to many possible changes in the future. Compliance with these laws and regulations, including

changes in accounting standards, taxation requirements, and federal securities laws among others, may create a substantial burden on, and substantially increase costs to NCR or could have an impact on NCR's future operating results. 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,

Table of Contents

NCR Corporation

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

competitive position, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of September 30, 2015 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 related 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. As previously reported, the company and its Board of Directors completed investigations with the assistance of experienced outside counsel and resolved a related shareholder derivative action.

With respect to the FCPA, the Company made a presentation 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. With respect to the DOJ, the Company responded to its most recent requests for documents in 2014. On June 22, 2015, the SEC staff notified the Company that it did not intend to recommend an enforcement action against the Company with respect to these matters.

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 has applied for and received from OFAC various licenses that have permitted 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. The Company continues to cooperate with the authorities. There can be no assurance that the Company will not be subject to fines or other remedial measures as a result of OFAC's investigation.

In June 2014, one of the Company's Brazilian subsidiaries, NCR Manaus, was notified of a Brazilian federal tax assessment of R\$168 million, or approximately \$42 million as of September 30, 2015, including penalties and interest regarding certain federal indirect taxes for 2010 through 2012. The assessment alleges improper importation of certain components into Brazil's free trade zone that would nullify related indirect tax incentives. We have not recorded an accrual for the assessment, as the Company believes it has a valid position regarding indirect taxes in Brazil and, as such, has filed an appeal. However, it is possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's Condensed Consolidated Financial Statements. As of September 30, 2015, the Company estimated the aggregate risk related to this matter to be zero to approximately \$50 million, which includes penalties and interest subsequent to the assessment.

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

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

The United States Environmental Protection Agency (USEPA) and Wisconsin Department of Natural Resources (together, the Governments) developed clean-up plans for the upper and lower parts of the Fox River and for portions of the Bay of Green Bay. On November 13, 2007, the Governments issued a unilateral administrative order (the 2007 Order) under CERCLA to the eight

Table of Contents

NCR Corporation

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

original PRPs, requiring them to perform remedial work under the Governments' clean-up plan for the lower parts of the river (operable units 2 through 5). In April 2009, NCR and API formed a limited liability company (the LLC), which entered into an agreement with an environmental remediation contractor to perform the work at the Fox River site. In-water dredging and remediation under the clean-up plan commenced shortly thereafter.

NCR and API, along with B.A.T Industries p.l.c. (BAT), share among themselves a portion of the cost of the Fox River clean-up and natural resource damages (NRD) based upon a 1998 agreement (the Cost Sharing Agreement), a 2005 arbitration award (subsequently confirmed as a judgment), and a September 30, 2014 Funding Agreement (the Funding Agreement). The Cost Sharing Agreement and the arbitration resolved disputes that arose out of the Company's 1978 sale of its Fox River facilities to API. The Cost Sharing Agreement and arbitration award resulted in a 45% share for NCR of the first \$75 million of such costs (a threshold that was reached in 2008), and a 40% share for amounts in excess of \$75 million. The Funding Agreement, arose out of a 2012 to 2014 arbitration dispute between NCR and API, provides for regular, ongoing funding of NCR-incurred Fox River remediation costs via contributions, made to a new limited liability corporation created by the Funding Agreement, by BAT, API and, for 2014, API's indemnitor Windward Prospects. The Funding Agreement creates an obligation on BAT and API to fund 50% of NCR's Fox River remediation costs from October 1, 2014 forward; the Funding Agreement also provides NCR opportunities to recoup, both indirectly from third parties and directly, the difference between BAT's and API's 60% obligation under the Cost Sharing Agreement and arbitration award on the one hand and their 50% payments under the Funding Agreement on the other, as well as the difference between the amount NCR received under the Funding Agreement and the amount owed to it under the Cost Sharing Agreement and arbitration award for the period from April 2012 through the end of September 2014.

Various litigation proceedings concerning the Fox River are pending, and, as the result of appellate decisions in September 2014, NCR's potential liability for the Fox River matter, for purposes of calculating the Company's Fox River reserve, is no longer considered to be 100% of the remediation costs in the lower parts of the river. In a contribution action filed in 2008 seeking to determine allocable responsibility of several companies and governmental entities, a federal court in Wisconsin had issued rulings in 2009 and 2011 that effectively placed all remediation liability on NCR for four of the five "operable units" of the site. In another part of the same lawsuit, the Company prevailed in a 2012 trial on claims seeking to hold it liable under an "arranger" theory for the most upriver portion of the site, operable unit 1.

On September 25, 2014, the United States Court of Appeals for the Seventh Circuit issued its ruling on appeal. That ruling vacated the lower court's contribution decisions that were adverse to NCR (i.e., it vacated "the decision to hold NCR responsible for all of the response costs at operable units 2 through 5 in contribution"), set aside an adverse judgment against the Company in the amount of \$76 million, and affirmed the Company's favorable verdict in the "arranger" liability trial with respect to operable unit 1. The case was remanded to the federal district court in Wisconsin for further proceedings, for potential consideration of additional factors noted by the appellate court, in which proceedings NCR will vigorously contest the amount of remediation costs allocable to it, and seek to recover from other parties portions of the costs it has previously paid. The case is scheduled for trial on July 18, 2016.

In the quarter ended March 31, 2015, under a case management order applicable to the remanded case the federal district court allowed the filing of certain additional contractual and other claims, including claims against the Company, as well as certain claims by API against other parties (in light of the September 2014 appellate ruling that had restored those claims), which resulted in claims for potential indemnity by those other parties against the Company (under the Funding Agreement, to the extent the Company is liable for such claims, API must pay its recoveries into the limited liability corporation created by the Funding Agreement, and the Company may then seek to obtain reimbursement under its terms). The Company also updated the amounts it is seeking in its affirmative claims

against other parties. Additionally, in March 2015, notwithstanding the prior trial and appellate results that had been favorable to the Company, the court entered a ruling holding NCR liable for contamination in operable unit 1, an area upriver from the Company's former facilities, on what the court considered to be new guidance created by the appellate court in its September 2014 decision. The Company believes the March 2015 decision incorrectly applied the appellate court ruling. While the Company's effort to obtain special appellate review in the form of a petition for mandamus was denied on May 1, 2015 by the appellate court, in a decision dated May 15, 2015 the district court indicated, in a ruling that addressed several issues, that NCR had no liability for operable unit 1, noting "NCR discharged no PCBs in OU1, and therefore has no divisible share of the clean-up costs for that area."

In 2010 the Governments filed a lawsuit (the Government enforcement action) in Wisconsin federal court against the companies named in the 2007 Order. After a 2012 trial, in May 2013 that court held, among other things, that harm at the site is not divisible, and it entered a declaratory judgment against seven defendants (including NCR) finding them jointly and severally liable to comply with the applicable provisions of the 2007 Order. The court also issued an injunction against four companies (including NCR), ordering them to comply with the applicable provisions of the 2007 Order; only NCR complied with the injunction. Several parties, including NCR, appealed from the judgment. In a companion opinion to the ruling described in the preceding paragraph, the United



Table of Contents

NCR Corporation

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

States Court of Appeals for the Seventh Circuit, also on September 25, 2014, vacated the injunction, and also vacated the declaratory judgment that had been entered against the Company. The court also ruled that NCR's defense based on divisibility of harm at the site, which the district court had rejected, must be reconsidered by that court. The declaratory judgment in the Government enforcement action with respect to liability under the 2007 Order against another defendant, Glatfelter, which pursued its appeal on grounds different from those pursued by NCR, was affirmed.

The case was remanded to the federal district court in Wisconsin for further proceedings. In a ruling on May 15, 2015, the district court ruled in NCR's favor and rejected the Governments' efforts to reinstate the declaratory judgment against NCR. The court issued findings in favor of the Company's divisibility defense, and held that NCR's share of liability for operable unit 4 was 28% (the Company has already paid more than 28% of the remediation costs for that part of the river); the court invited the Company to submit a proposed judgment in the Government enforcement action. Various parties asked the court to reconsider its ruling, and those motions remained pending as of September 30, 2015. With respect to remaining remediation work, one other PRP, GP, had agreed by virtue of an earlier settlement with the Governments that it is "liable to the United States . . . for performance of all response actions that the [2007 Order] requires for" the lower portion of operable unit 4 and operable unit 5. Refer to Note 1, "Basis of Presentation and Summary of Significant Accounting Policies" for additional information regarding the court's reconsideration of its May 15, 2015 ruling.

With respect to ongoing 2015 remediation, following negotiations with the Governments and GP the Company agreed in April 2015 to perform a portion of the work planned for 2015, and to fund approximately one-third of the cost of that work, with GP funding an equal amount. This agreement was formalized in a stipulation and proposed consent decree filed with the federal court; each party is preserving its rights to recover its 2015 costs from the other in the contribution litigation. The Governments have demanded that Glatfelter agree to perform or fund the remaining approximate one-third of the work. Remediation work for the 2015 season commenced on March 31, 2015, and NCR and GP have undertaken the remediation efforts they agreed to perform. Glatfelter has performed portions but not all of the work the Governments have sought to require of it.

With respect to the Company's prior dispute with API, which was generally superseded by the Funding Agreement, the Company has continued to receive timely payments under the Funding Agreement.

NCR's eventual remediation liability, followed by long-term monitoring, will depend on a number of factors. In establishing the reserve, NCR attempts to estimate a range of reasonably possible outcomes for each of these factors, although each range is itself uncertain. NCR uses its best estimate within the range, if that is possible. Where there is a range of equally possible outcomes, and there is no amount within that range that is considered to be a better estimate than any other amount, NCR uses the low end of the range. In general, the most significant factors include: (1) the total remaining clean-up costs, including long-term monitoring following completion of the clean-up; (2) total NRD for the site; (3) the share of clean-up costs and NRD that NCR will bear; (4) NCR's transaction and litigation costs to defend itself in this matter; and (5) the share of NCR's payments that API and/or BAT will bear, as discussed above. With respect to NRD, in connection with a certain settlement entered into by other PRPs, in the quarter ended June 30, 2015 the Government asked the court to allow it to withdraw the NRD claims it had prosecuted on behalf of NRD trustees, including those NRD claims asserted against the Company (the Government had represented it would do so in the course of presenting the settlement to the court for approval).

Calculation of the Company's Fox River reserve is subject to several complexities, and it is possible there could be additional changes to some elements of the reserve over upcoming periods, although the Company is unable to predict or estimate such changes at this time. There can be no assurance that the clean-up and related expenditures and

liabilities will not have a material effect on NCR's capital expenditures, earnings, financial condition, cash flows, or competitive position. As of September 30, 2015, the net reserve for the Fox River matter was approximately \$13 million, compared to \$40 million as of December 31, 2014. The decrease in the net reserve is due to payments for clean-up activities and litigation costs, as well as changes in estimates. NCR contributes to the LLC in order to fund remediation activities and generally, by contract, has funded certain amounts of remediation expenses in advance. As of September 30, 2015 and December 31, 2014, approximately zero remained from this funding. NCR's reserve for the Fox River matter is reduced as the LLC makes payments to the remediation contractor and other vendors with respect to remediation activities.

Under a 1996 agreement, AT&T 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 and of what was then known as Lucent Technologies.) NCR's estimate of what AT&T and Alcatel-Lucent remain obligated to pay under the indemnity totaled approximately \$10 million and \$30 million as of September 30, 2015 and December 31, 2014, respectively, and is deducted in determining the net reserve discussed above.

Table of Contents

NCR Corporation

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

In connection with the Fox River and other matters, through September 30, 2015, NCR has received a combined total of approximately \$173 million in 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.

Kalamazoo River In November 2010, USEPA issued a "general notice letter" to NCR with respect to the Allied Paper, Inc./Portage Creek/Kalamazoo River Superfund Site (Kalamazoo River site) in Michigan. Three other companies - International Paper, Mead Corporation, and Consumers Energy - also received general notice letters at or about the same time. USEPA asserts that the site is contaminated by various substances, primarily PCBs, as a result of discharges by various paper mills located along the river. USEPA does not claim that the Company made direct discharges into the Kalamazoo River, 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." USEPA stated that it "may issue special notice letters to [NCR] and other PRPs for future RI/FS [remedial investigation / feasibility studies] and RD/RA [remedial design / remedial action] negotiations."

In connection with the Kalamazoo River site, in December 2010 the Company, along with two other defendants, was sued in federal court by three GP affiliate corporations in a contribution and cost recovery action for alleged pollution. The suit, pending in Michigan, asks that the Company pay a "fair portion" of these companies' costs. Various removal and remedial actions remain to be performed at the Kalamazoo River site, the costs for which have not been determined. The suit alleges that the Company is liable as an "arranger" under CERCLA. The initial phase of the case was tried in a Michigan federal court in February 2013; on September 26, 2013 the court issued a decision that held NCR was liable as an "arranger," as of at least March 1969. (PCB-containing carbonless copy paper was produced from approximately 1954 to April 1971.) NCR has preserved its right to appeal the September 2013 decision.

The Court did not determine NCR's share of the overall liability or how NCR's liability relates to the liability of other liable or potentially liable parties at the site. Relative shares of liability are being litigated in a subsequent phase of the case; trial in that phase of the case commenced on September 24, 2015 and is expected to continue intermittently into November or December of 2015. Prior to trial, in response to a motion filed by the Company, the court dismissed several portions of GP's claims as time-barred, with the result that the past costs being tried total to approximately \$50 million. The court may or may not also rule on the allocation of future costs. If the Company is found liable for money damages or otherwise with respect to the Kalamazoo River site, it would have claims against BAT and API under the Cost Sharing Agreement, the arbitration award, the judgment and the Funding Agreement discussed above in connection with the Fox River matter (the Funding Agreement may provide partial reimbursement of such damages depending on the extent of certain recoveries, if any, against third parties under its terms). The Company would also have claims against AT&T and Alcatel-Lucent under the arrangement discussed above in connection with the Fox River matter.

Environmental Remediation Estimates It is difficult to estimate the future financial impact of environmental laws, including potential liabilities. NCR records environmental provisions when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. Provisions for estimated losses from environmental restoration and remediation are, depending on the site, based generally on internal and third-party environmental studies, estimates as to the number and participation level of other PRPs, the extent of contamination, estimated amounts for attorney and other fees, and the nature of required clean-up and restoration actions. Reserves are adjusted as further information develops or circumstances change. Management expects that the amounts reserved from time to time will be paid out over the period of investigation, negotiation, remediation and restoration for the applicable sites. The amounts provided for environmental matters in NCR's Condensed Consolidated Financial

Statements are the estimated gross undiscounted amounts of such liabilities, without deductions for indemnity insurance, third-party indemnity claims or recoveries from other PRPs, except as qualified in the following sentences. 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 Condensed 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 obligations are recorded as payment is supported by contractual agreements, public filings and/or payment history.

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 September 30, 2015 and December 31, 2014, 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

Table of Contents

NCR Corporation

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

as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. When a sale is consummated, the total customer revenue is recognized, provided that all revenue recognition criteria are otherwise satisfied, and the associated warranty liability is recorded using pre-established warranty percentages for the respective product classes.

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

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

In millions	2015	2014
Warranty reserve liability		
Beginning balance as of January 1	\$22	\$22
Accruals for warranties issued	29	27
Settlements (in cash or in kind)	(28)	(28)
Ending balance as of September 30	\$23	\$21

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

## 10. EARNINGS PER SHARE

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. For the nine months ended September 30, 2015, due to the net loss attributable to NCR common stockholders, potential common shares that would cause dilution, such as restricted stock awards and stock options, have been excluded from the diluted share count because their effect would have been anti-dilutive. For the nine months ended September 30, 2015, the fully diluted shares would have been 172.0 million shares. During the three months ended September 30, 2015 and 2014 and during the nine months ended September 30, 2014, there were no anti-dilutive options.

Table of Contents

NCR Corporation

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

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

In millions, except per share amounts	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Amounts attributable to NCR common stockholders:				
Income (loss) from continuing operations	\$ 102	\$—	\$(202 )	\$ 143
(Loss) income from discontinued operations, net of tax	(4 )	15	(4 )	15
Net income (loss) applicable to common shares	\$98	\$15	\$(206 )	\$158
Weighted average outstanding shares of common stock	169.8	168.2	169.5	167.7
Dilutive effect of restricted stock and employee stock options	2.5	3.1	—	3.4
Weighted average outstanding shares of common stock - diluted	172.3	171.3	169.5	171.1
Earnings per share attributable to NCR common stockholders:				
Basic earnings per share:				
From continuing operations	\$0.60	\$—	\$(1.19 )	\$0.85
From discontinued operations	(0.02 )	0.09	(0.03 )	0.09
Net earnings per share (Basic)	\$0.58	\$0.09	\$(1.22 )	\$0.94
Diluted earnings per share:				
From continuing operations	\$0.59	\$—	(1.19 )	\$0.84
From discontinued operations	(0.02 )	0.09	(0.03 )	0.08
Net earnings per share (Diluted)	\$0.57	\$0.09	\$(1.22 )	\$0.92

## 11. DERIVATIVES AND HEDGING INSTRUMENTS

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

## Foreign Currency Exchange Risk

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

Our risk management strategy includes hedging, on behalf of certain subsidiaries, a portion of our forecasted, non-functional currency denominated cash flows for a period of up to 15 months. As a result, some of the impact of currency fluctuations on non-functional currency denominated transactions (and hence on subsidiary operating income, as stated in the functional currency), is mitigated in the near term. The amount we hedge and the duration of hedge contracts may vary significantly. In the longer term (greater than 15 months), the subsidiaries are still subject to the effect of translating the functional currency results to U.S. Dollars. To manage our exposures and mitigate the impact of currency fluctuations on the operations of our foreign subsidiaries, we hedge our main transactional exposures through the use of foreign exchange forward and option contracts. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by NCR's marketing units and the

foreign currency denominated inputs to our manufacturing units. The related foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses on these hedges are deferred in accumulated other comprehensive income (AOCI) and reclassified to income when the underlying hedged transaction is recorded in earnings. As of September 30, 2015, the balance in AOCI related to foreign exchange derivative transactions was a gain of \$3 million, net of tax. The gains or losses from derivative contracts related to inventory purchases are recorded in cost of products when the inventory is sold to an unrelated third party.

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

Table of Contents

NCR Corporation

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

## 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 as of September 30, 2015 was \$420 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 is recorded in earnings. As of September 30, 2015, the balance in AOCI related to the interest rate swap agreement was a loss of \$2 million, net of tax.

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

In millions	Fair Values of Derivative Instruments September 30, 2015					
	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	\$420	\$4
Foreign exchange contracts	Other current assets	61	4	Other current liabilities	24	—
Total derivatives designated as hedging instruments			\$4			\$4
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	\$93	\$1	Other current liabilities	\$255	\$1
Total derivatives not designated as hedging instruments			1			1
Total derivatives			\$5			\$5

In millions	Fair Values of Derivative Instruments December 31, 2014					
	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 <sup>(1)</sup>	\$462	\$6
Total derivatives designated as hedging instruments			\$—			\$6



Derivatives not designated as hedging instruments

Foreign exchange contracts	Other current assets	\$186	\$1	Other current liabilities	\$330	\$5
Total derivatives not designated as hedging instruments			1			5
Total derivatives			\$1			\$11

<sup>(1)</sup> As of December 31, 2014 approximately \$4 million was recorded in other current liabilities and \$2 million, was recorded in other liabilities related to the interest rate swap.

Table of Contents

NCR Corporation

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

The effects of derivative instruments on the Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2015 and 2014 were as follows:

In millions	Amount of Gain (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative (Effective Portion)		Location of Gain (Loss) Recognized from AOCI into the Condensed Consolidated Statement of Operations (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into the Condensed Consolidated Statement of Operations (Effective Portion)		Location of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	For the three months ended September 30, 2015	For the three months ended September 30, 2014		For the three months ended September 30, 2015	For the three months ended September 30, 2014		For the three months ended September 30, 2015	For the three months ended September 30, 2014
Derivatives in Cash Flow Hedging Relationships								
Interest rate swap	\$ (1)	\$ 1	Interest expense	\$ (2)	\$ (1)	Interest expense	\$ —	\$ —
Foreign exchange contracts	\$ 3	\$ —	Cost of products	\$ 3	\$ —	Other (expense) income, net	\$ —	\$ —
In millions	Amount of Gain (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative (Effective Portion)		Location of Gain (Loss) Recognized from AOCI into the Condensed Consolidated Statement of Operations (Effective Portion)	Amount of Gain (Loss) Reclassified from AOCI into the Condensed Consolidated Statement of Operations (Effective Portion)		Location of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations (Ineffective Portion and Amount Excluded from Effectiveness Testing)	Amount of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
	For the nine months ended September 30, 2015	For the nine months ended September 30, 2014		For the nine months ended September 30, 2015	For the nine months ended September 30, 2014		For the nine months ended September 30, 2015	For the nine months ended September 30, 2014
Derivatives in Cash Flow Hedging Relationships								

Edgar Filing: NCR CORP - Form 10-Q

			Operations (Effective Portion)			(Ineffective Portion and Amount Excluded from Effectiveness Testing)		
Interest rate swap	\$(2)	\$(1)	Interest expense	\$(4)	\$(4)	Interest expense	\$—	\$—
Foreign exchange contracts	\$11	\$—	Cost of products	\$7	\$—	Other (expense), net	\$—	\$—

In millions	Location of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations	Amount of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations			
		Three months ended September 30		Nine months ended September 30	
		2015	2014	2015	2014
Derivatives not Designated as Hedging Instruments	Recognized in the Condensed Consolidated Statement of Operations				
Foreign exchange contracts	Other (expense) income, net	\$(1)	\$1	\$(2)	\$(5)

Concentration of Credit Risk

NCR is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the Condensed Consolidated Balance Sheets. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. NCR's business often involves large transactions with customers, and if one or more of those customers were to default on its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses are adequate. As of September 30, 2015, NCR did not have any major concentration of credit risk related to financial instruments.

Table of Contents

NCR Corporation

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

## 12. FAIR VALUE OF ASSETS AND LIABILITIES

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities recorded at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 are set forth as follows:

In millions	September 30, 2015	Fair Value Measurements at September 30, 2015 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deposits held in money market mutual funds <sup>(1)</sup>	\$18	\$18	\$—	\$—
Foreign exchange contracts <sup>(2)</sup>	5	—	5	—
Total	\$23	\$18	\$5	\$—
Liabilities:				
Interest rate swap <sup>(3)</sup>	\$4	\$—	\$4	\$—
Foreign exchange contracts <sup>(3)</sup>	1	—	1	—
Total	\$5	\$—	\$5	\$—

In millions	December 31, 2014	Fair Value Measurements at December 31, 2014 Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deposits held in money market mutual funds <sup>(1)</sup>	\$82	\$82	\$—	\$—
Foreign exchange contracts <sup>(2)</sup>	1	—	1	—
Total	\$83	\$82	\$1	\$—
Liabilities:				
Interest rate swap <sup>(3)</sup>	\$6	\$—	\$6	\$—
Foreign exchange contracts <sup>(3)</sup>	5	—	5	—
Total	\$11	\$—	\$11	\$—

<sup>(1)</sup> Included in Cash and cash equivalents in the Condensed Consolidated Balance Sheet.<sup>(2)</sup> Included in Other current assets in the Condensed Consolidated Balance Sheet.<sup>(3)</sup> Included in Other current liabilities and Other liabilities in the Condensed Consolidated Balance Sheet.

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

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 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.

25

---

Table of Contents

NCR Corporation

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

Assets Measured at Fair Value on a Non-recurring Basis

From time to time, certain assets are measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). NCR reviews the carrying values of investments when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary declines. During 2014, 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 and nine months ended September 30, 2014, we recorded an other-than-temporary impairment charge of \$3 million in Other (expense), net in the Condensed Consolidated Statements of Operations based on Level 3 valuations. As of September 30, 2014, there was no remaining carrying value of the investment. In the nine months ended September 30, 2015, the Company recorded an impairment of long-lived assets that are no longer considered strategic and were held for sale. See Note 2, "Restructuring Plan," for additional information.

13. 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 processing hardware and software; cash management and video banking software and customer-facing digital banking services; and related installation, maintenance, and managed and professional services. We also offer a complete line of printer consumables.

Retail Solutions - We offer solutions to customers in the retail industry designed to improve selling productivity and checkout processes as well as increase service levels. These solutions primarily include retail-oriented technologies, such as point of sale terminals and point of sale software; an omni-channel retail software platform with a comprehensive suite of retail software applications; innovative self-service kiosks, such as self-checkout; as well as bar-code scanners. We also offer installation, maintenance, managed and professional services and a complete line of printer consumables.

Hospitality - We offer technology solutions to customers in the hospitality industry, serving businesses that range from a single store or restaurant to global chains and sports and entertainment venues. Our solutions include point of sale hardware and software solutions, installation, maintenance, managed and professional services and a complete line of printer consumables.

Emerging Industries - We offer maintenance as well as managed and professional services for third-party computer hardware provided to select manufacturers, primarily in the telecommunications industry, who value and leverage our global service capability. Also included in our Emerging Industries segment are solutions designed to enhance the customer experience for the travel industry, such as self-service kiosks, and the small business industry, such as an all-in-one point of sale solution. Additionally, we offer installation, maintenance, and managed and professional services.

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

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

In recognition of the volatility of the effects of pension expense on our segment results, and to maintain operating focus on business performance, pension expense, as well as other significant, non-recurring items, is excluded from the segment operating results utilized by our chief operating decision maker in evaluating segment performance and are separately delineated to reconcile back to total reported income from operations.

Table of Contents

NCR Corporation

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

The following table presents revenue and operating income by segment:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue by segment				
Financial Services	\$820	\$899	\$2,458	\$2,593
Retail Solutions	523	489	1,473	1,482
Hospitality	177	168	497	487
Emerging Industries	93	91	265	261
Consolidated revenue	1,613	1,647	4,693	4,823
Operating income by segment				
Financial Services	135	144	363	384
Retail Solutions	43	24	101	108
Hospitality	30	27	75	62
Emerging Industries	10	9	27	15
Subtotal - segment operating income	218	204	566	569
Pension expense	5	1	431	2
Other adjustments <sup>(1)</sup>	45	162	138	249
Income from operations	\$168	\$41	\$(3	) \$318

<sup>(1)</sup> The following table presents the other adjustments for NCR:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Restructuring plan	\$12	\$127	\$36	\$127
Acquisition-related amortization of intangible assets	31	29	94	89
Acquisition-related costs	2	5	7	25
Acquisition-related purchase price adjustments	—	1	—	6
OFAC and FCPA investigations	—	—	1	2
Total other adjustments	\$45	\$162	\$138	\$249

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

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Product revenue	\$688	\$721	\$1,995	\$2,077
Professional services, installation services and cloud revenue	435	436	1,256	1,250
Total solution revenue	1,123	1,157	3,251	3,327
Support services revenue	490	490	1,442	1,496
Total revenue	\$1,613	\$1,647	\$4,693	\$4,823



Table of Contents

NCR Corporation

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

## 14. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (AOCI)

## Changes in AOCI by Component

In millions	Currency Translation Adjustments	Changes in Employee Benefit Plans	Changes in Fair Value of Effective Cash Flow Hedges	Total
Balance as of December 31, 2014	\$(125)	)\$(8)	)\$(3)	\$(136)
Other comprehensive (loss) income before reclassifications	(34)	)—	6	(28)
Amounts reclassified from AOCI	—	(9)	) (2)	(11)
Net current period other comprehensive (loss) income	(34)	) (9)	) 4	(39)
Balance as of September 30, 2015	\$(159)	) \$(17)	) \$1	\$(175)

## Reclassifications Out of AOCI

In millions	For the three months ended September 30, 2015			
	Employee Benefit Plans			
	Actuarial Losses Recognized	Amortization of Prior Service Benefit	Effective Cash Flow Hedges	Total
Affected line in Condensed Consolidated Statement of Operations:				
Cost of products	\$—	\$(1)	) \$(3)	\$(4)
Cost of services	—	(3)	) —	(3)
Selling, general and administrative expenses	1	—	—	1
Research and development expenses	—	(1)	) —	(1)
Interest expense	—	—	2	2
Total before tax	\$1	\$(5)	) \$(1)	\$(5)
Tax expense				2
Total reclassifications, net of tax				\$(3)

In millions	For the three months ended September 30, 2014			
	Employee Benefit Plans			
	Actuarial Losses Recognized	Amortization of Prior Service Benefit	Effective Cash Flow Hedges	Total
Affected line in Condensed Consolidated Statement of Operations:				
Cost of services	\$—	\$(2)	) \$—	\$(2)
Selling, general and administrative expenses	—	(1)	) —	(1)
Research and development expenses	—	(1)	) —	(1)
Interest expense	—	—	1	1
Total before tax	\$—	\$(4)	) \$1	\$(3)
Tax expense				1
Total reclassifications, net of tax				\$(2)



Table of Contents

NCR Corporation

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

		For the nine months ended September 30, 2015			
		Employee Benefit Plans			
In millions		Actuarial Losses Recognized	Amortization of Prior Service Benefit	Effective Cash Flow Hedges	Total
Affected line in Condensed Consolidated Statement of Operations:					
Cost of products		\$—	\$(1	)\$ (7	) \$(8 )
Cost of services		1	(8	)—	(7 )
Selling, general and administrative expenses		1	(5	)—	(4 )
Research and development expenses		—	(2	)—	(2 )
Interest expense		—	—	4	4 )
Total before tax		\$2	\$(16	)\$ (3	) \$(17 )
Tax expense					6 )
Total reclassifications, net of tax					\$(11 )

		For the nine months ended September 30, 2014			
		Employee Benefit Plans			
In millions		Actuarial Losses Recognized	Amortization of Prior Service Benefit	Effective Cash Flow Hedges	Total
Affected line in Condensed Consolidated Statement of Operations:					
Cost of services		1	(8	)—	(7 )
Selling, general and administrative expenses		—	(5	)—	(5 )
Research and development expenses		—	(2	)—	(2 )
Interest expense		—	—	4	4 )
Total before tax		\$1	\$(15	)\$ 4	\$(10 )
Tax expense					4 )
Total reclassifications, net of tax					\$(6 )

## 15. CONDENSED CONSOLIDATING SUPPLEMENTAL GUARANTOR INFORMATION

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

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

Refer to Note 5, "Debt Obligations," for additional information.

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

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

29

---

Table of Contents

NCR Corporation

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

these senior unsecured notes, for the Guarantor Subsidiary and for the Company and all of its consolidated subsidiaries (amounts in millions):

## Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

For the three months ended September 30, 2015

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Product revenue	\$297	\$32	\$707	\$(348)	) \$688
Service revenue	349	8	568	—	925
Total revenue	646	40	1,275	(348)	) 1,613
Cost of products	226	13	621	(348)	) 512
Cost of services	255	3	386	—	644
Selling, general and administrative expenses	118	1	105	—	224
Research and development expenses	28	—	25	—	53
Restructuring-related charges	6	—	6	—	12
Total operating expenses	633	17	1,143	(348)	) 1,445
Income (loss) from operations	13	23	132	—	168
Interest expense	(41)	) —	(19)	) 18	(42)
Other (expense) income, net	11	—	—	(18)	) (7)
Income (loss) from continuing operations before income taxes	(17)	) 23	113	—	119
Income tax expense (benefit)	(12)	) 14	14	—	16
Income (loss) from continuing operations before earnings in subsidiaries	(5)	) 9	99	—	103
Equity in earnings of consolidated subsidiaries	108	113	—	(221)	) —
Income (loss) from continuing operations	103	122	99	(221)	) 103
Income (loss) from discontinued operations, net of tax	(5)	) —	1	—	(4)
Net income (loss)	\$98	\$122	\$100	\$(221)	) \$99
Net income (loss) attributable to noncontrolling interests	—	—	1	—	1
Net income (loss) attributable to NCR	\$98	\$122	\$99	\$(221)	) \$98
Total comprehensive income (loss)	60	50	60	(113)	) 57
Less comprehensive income (loss) attributable to noncontrolling interests	—	—	(3)	) —	(3)
Comprehensive income (loss) attributable to NCR common stockholders	\$60	\$50	\$63	\$(113)	) \$60

Table of Contents

NCR Corporation

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

## Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

For the three months ended September 30, 2014

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated	
Product revenue	\$269	\$27	\$614	\$(189)	) \$721	
Service revenue	304	7	615	—	926	
Total revenue	573	34	1,229	(189)	) 1,647	
Cost of products	211	15	510	(189)	) 547	
Cost of services	224	3	469	—	696	
Selling, general and administrative expenses	84	1	147	—	232	
Research and development expenses	29	—	30	—	59	
Restructuring-related charges	26	1	45	—	72	
Total operating expenses	574	20	1,201	(189)	) 1,606	
Income (loss) from operations	(1	) 14	28	—	41	
Interest expense	(46	) (1	) (18	) 19	(46	)
Other (expense) income, net	5	—	—	(19	) (14	)
Income (loss) from continuing operations before income taxes	(42	) 13	10	—	(19	)
Income tax expense (benefit)	(116	) 16	81	—	(19	)
Income (loss) from continuing operations before earnings in subsidiaries	74	(3	) (71	) —	—	
Equity in earnings of consolidated subsidiaries	(74	) (13	) —	87	—	
Income (loss) from continuing operations	—	(16	) (71	) 87	—	
Income (loss) from discontinued operations, net of tax	15	—	—	—	15	
Net income (loss)	\$15	\$(16	) \$(71	) \$87	\$15	
Net income (loss) attributable to noncontrolling interests	—	—	—	—	—	
Net income (loss) attributable to NCR	\$15	\$(16	) \$(71	) \$87	\$15	
Total comprehensive income (loss)	(31	) (65	) (118	) 181	(33	)
Less comprehensive income (loss) attributable to noncontrolling interests	—	—	(2	) —	(2	)
Comprehensive income (loss) attributable to NCR common stockholders	\$(31	) \$(65	) \$(116	) \$181	\$(31	)

Table of Contents

NCR Corporation

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

## Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

For the nine months ended September 30, 2015

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Product revenue	\$844	\$78	\$1,626	\$(553)	) \$1,995
Service revenue	977	23	1,698	—	2,698
Total revenue	1,821	101	3,324	(553)	) 4,693
Cost of products	664	32	1,396	(553)	) 1,539
Cost of services	712	8	1,441	—	2,161
Selling, general and administrative expenses	334	4	450	—	788
Research and development expenses	66	—	109	—	175
Restructuring-related charges	11	—	22	—	33
Total operating expenses	1,787	44	3,418	(553)	) 4,696
Income (loss) from operations	34	57	(94)	) —	(3)
Interest expense	(128)	) —	(58)	) 55	(131)
Other (expense) income, net	32	2	7	(55)	) (14)
Income (loss) from continuing operations before income taxes	(62)	) 59	(145)	) —	(148)
Income tax expense (benefit)	(18)	) 30	38	—	50
Income (loss) from continuing operations before earnings in subsidiaries	(44)	) 29	(183)	) —	(198)
Equity in earnings of consolidated subsidiaries	(157)	) (190)	) —	347	—
Income (loss) from continuing operations	(201)	) (161)	) (183)	) 347	(198)
Income (loss) from discontinued operations, net of tax	(5)	) —	1	—	(4)
Net income (loss)	\$(206)	) \$(161)	) \$(182)	) \$347	\$(202)
Net income (loss) attributable to noncontrolling interests	—	—	4	—	4
Net income (loss) attributable to NCR	\$(206)	) \$(161)	) \$(186)	) \$347	\$(206)
Total comprehensive income (loss)	(245)	) (196)	) (234)	) 427	(248)
Less comprehensive income (loss) attributable to noncontrolling interests	—	—	(3)	) —	(3)
Comprehensive income (loss) attributable to NCR common stockholders	\$(245)	) \$(196)	) \$(231)	) \$427	\$(245)

Table of Contents

NCR Corporation

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

## Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)

For the nine months ended September 30, 2014

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Product revenue	\$754	\$76	\$1,530	\$(283)	) \$2,077
Service revenue	933	21	1,792	—	) 2,746
Total revenue	1,687	97	3,322	(283)	) 4,823
Cost of products	594	32	1,211	(283)	) 1,554
Cost of services	695	9	1,265	—	) 1,969
Selling, general and administrative expenses	342	1	381	—	) 724
Research and development expenses	80	—	106	—	) 186
Restructuring-related charges	26	1	45	—	) 72
Total operating expenses	1,737	43	3,008	(283)	) 4,505
Income (loss) from operations	(50)	) 54	314	—	) 318
Interest expense	(133)	) (1)	) (55)	) 54	) (135)
Other (expense) income, net	29	(3)	) 4	(54)	) (24)
Income (loss) from continuing operations before income taxes	(154)	) 50	263	—	) 159
Income tax expense (benefit)	(156)	) 36	134	—	) 14
Income (loss) from continuing operations before earnings in subsidiaries	2	14	129	—	) 145
Equity in earnings of consolidated subsidiaries	141	171	—	(312)	) —
Income (loss) from continuing operations	143	185	129	(312)	) 145
Income (loss) from discontinued operations, net of tax	15	—	—	—	) 15
Net income (loss)	\$158	\$185	\$129	\$(312)	) \$160
Net income (loss) attributable to noncontrolling interests	—	—	2	—	) 2
Net income (loss) attributable to NCR	\$158	\$185	\$127	\$(312)	) \$158
Total comprehensive income (loss)	136	150	103	(253)	) 136
Less comprehensive income (loss) attributable to noncontrolling interests	—	—	—	—	) —
Comprehensive income (loss) attributable to NCR common stockholders	\$136	\$150	\$103	\$(253)	) \$136



Table of Contents

NCR Corporation

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

## Condensed Consolidating Balance Sheet

September 30, 2015

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$18	\$10	\$275	\$—	\$303
Accounts receivable, net	79	34	1,311	—	1,424
Inventories	257	13	448	—	718
Due from affiliates	1,193	1,301	311	(2,805)	) —
Other current assets	196	32	261	(36)	) 453
Total current assets	1,743	1,390	2,606	(2,841)	) 2,898
Property, plant and equipment, net	147	2	189	—	338
Goodwill	876	—	1,874	—	2,750
Intangibles, net	170	—	660	—	830
Prepaid pension cost	—	—	137	—	137
Deferred income taxes	389	131	48	(185)	) 383
Investments in subsidiaries	3,309	1,573	—	(4,882)	) —
Due from affiliates	1,092	17	38	(1,147)	) —
Other assets	387	56	108	—	551
Total assets	\$8,113	\$3,169	\$5,660	\$(9,055)	) \$7,887
<b>Liabilities and stockholders' equity</b>					
<b>Current liabilities</b>					
Short-term borrowings	\$1	\$—	\$4	\$—	\$5
Accounts payable	284	(1)	) 408	—	691
Payroll and benefits liabilities	106	—	104	—	210
Deferred service revenue and customer deposits	192	24	321	—	537
Due to affiliates	1,978	136	691	(2,805)	) —
Other current liabilities	174	5	249	(36)	) 392
Total current liabilities	2,735	164	1,777	(2,841)	) 1,835
Long-term debt	3,231	—	12	—	3,243
Pension and indemnity plan liabilities	404	—	280	—	684
Postretirement and postemployment benefits liabilities	23	—	157	—	180
Income tax accruals	4	13	159	—	176
Due to affiliates	17	38	1,092	(1,147)	) —
Other liabilities	30	—	237	(185)	) 82
Total liabilities	6,444	215	3,714	(4,173)	) 6,200
Redeemable noncontrolling interest	—	—	12	—	12
<b>Stockholders' equity</b>					
Total NCR stockholders' equity	1,669	2,954	1,928	(4,882)	) 1,669
Noncontrolling interests in subsidiaries	—	—	6	—	6
Total stockholders' equity	1,669	2,954	1,934	(4,882)	) 1,675
Total liabilities and stockholders' equity	\$8,113	\$3,169	\$5,660	\$(9,055)	) \$7,887



Table of Contents

NCR Corporation

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

## Condensed Consolidating Balance Sheet

December 31, 2014

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	\$40	\$9	462	\$—	\$511
Accounts receivable, net	69	19	1,316	—	1,404
Inventories	242	6	421	—	669
Due from affiliates	626	1,228	476	(2,330)	) —
Other current assets	294	28	280	(98)	) 504
Total current assets	1,271	1,290	2,955	(2,428)	) 3,088
Property, plant and equipment, net	161	1	234	—	396
Goodwill	878	—	1,882	—	2,760
Intangibles, net	196	—	730	—	926
Prepaid pension cost	—	—	551	—	551
Deferred income taxes	363	128	43	(185)	) 349
Investments in subsidiaries	3,519	1,771	—	(5,290)	) —
Due from affiliates	1,127	20	41	(1,188)	) —
Other assets	375	49	113	—	537
Total assets	\$7,890	\$3,259	\$6,549	\$(9,091)	) \$8,607
<b>Liabilities and stockholders' equity</b>					
<b>Current liabilities</b>					
Short-term borrowings	\$85	\$—	\$102	\$—	\$187
Accounts payable	248	—	464	—	712
Payroll and benefits liabilities	85	—	111	—	196
Deferred service revenue and customer deposits	149	21	324	—	494
Due to affiliates	1,318	124	888	(2,330)	) —
Other current liabilities	192	10	377	(98)	) 481
Total current liabilities	2,077	155	2,266	(2,428)	) 2,070
Long-term debt	3,454	—	18	—	3,472
Pension and indemnity plan liabilities	391	—	314	—	705
Postretirement and postemployment benefits liabilities	25	—	145	—	170
Income tax accruals	3	10	168	—	181
Due to affiliates	17	41	1,130	(1,188)	) —
Other liabilities	52	—	244	(185)	) 111
Total liabilities	6,019	206	4,285	(3,801)	) 6,709
Redeemable noncontrolling interest	—	—	15	—	15
<b>Stockholders' equity</b>					
Total NCR stockholders' equity	1,871	3,053	2,237	(5,290)	) 1,871
Noncontrolling interests in subsidiaries	—	—	12	—	12
Total stockholders' equity	1,871	3,053	2,249	(5,290)	) 1,883
Total liabilities and stockholders' equity	\$7,890	\$3,259	\$6,549	\$(9,091)	) \$8,607



Table of Contents

NCR Corporation

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

## Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2015

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Net cash provided by (used in) operating activities	\$236	\$(226 )	\$450	\$(44 )	\$416
Investing activities					
Expenditures for property, plant and equipment	(15 )	—	(32 )	—	(47 )
Additions to capitalized software	(72 )	—	(45 )	—	(117 )
Proceeds from (payments of) intercompany notes	169	227	—	(396 )	—
Investments in equity affiliates	(1 )	—	—	1	—
Other investing activities, net	(7 )	—	7	—	—
Net cash provided by (used in) investing activities	74	227	(70 )	(395 )	(164 )
Financing activities					
Tax withholding payments on behalf of employees	(10 )	—	—	—	(10 )
Short term borrowings, net	—	—	—	—	—
Payments on term credit facility	(307 )	—	(5 )	—	(312 )
Payments on revolving credit facilities	(404 )	—	(573 )	—	(977 )
Borrowings on revolving credit facilities	404	—	477	—	881
Proceeds from employee stock plans	12	—	—	—	12
Other financing activities	—	—	—	—	—
Equity contribution	—	—	1	(1 )	—
Dividend distribution to consolidated subsidiaries	—	—	(44 )	44	—
Borrowings (repayments) of intercompany notes	—	—	(396 )	396	—
Net cash provided by (used in) financing activities	(305 )	—	(540 )	439	(406 )
Cash flows from discontinued operations					
Net cash (used in) provided by operating activities	(27 )	—	—	—	(27 )
Effect of exchange rate changes on cash and cash equivalents	—	—	(27 )	—	(27 )
Increase (decrease) in cash and cash equivalents	(22 )	1	(187 )	—	(208 )
Cash and cash equivalents at beginning of period	40	9	462	—	511
Cash and cash equivalents at end of period	\$18	\$10	\$275	\$—	\$303



Table of Contents

NCR Corporation

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

## Condensed Consolidating Statement of Cash Flows

For the nine months ended September 30, 2014

(in millions)	Parent Issuer	Guarantor Subsidiary	Non-Guarantor Subsidiaries	Eliminations	Consolidated	
Net cash provided by (used in) operating activities	\$ 146	\$ (90	) \$ 208	\$ (29	) \$ 235	
Investing activities						
Expenditures for property, plant and equipment	(40	) —	(48	) —	(88	)
Additions to capitalized software	(62	) —	(47	) —	(109	)
Business acquisitions, net	(1,647	) —	—	—	(1,647	)
Proceeds from (payments of) intercompany notes	40	87	—	(127	) —	
Changes in restricted cash	1,114	—	—	—	1,114	
Investments in equity affiliates	(2	) —	—	2	—	
Other investing activities, net	(3	) —	7	—	4	
Net cash provided by (used in) investing activities	(600	) 87	(88	) (125	) (726	)
Financing activities						
Tax withholding payments on behalf of employees	(28	) —	—	—	(28	)
Short term borrowings, net	—	—	2	—	2	
Payments on term credit facility	(20	) —	—	—	(20	)
Borrowings on term credit facility	250	—	—	—	250	
Payments on revolving credit facility	(528	) —	—	—	(528	)
Borrowings on revolving credit facility	690	—	—	—	690	
Debt issuance costs	(3	) —	—	—	(3	)
Proceeds from employee stock plans	10	—	—	—	10	
Other financing activities	—	—	(3	) —	(3	)
Equity contribution	—	—	2	(2	) —	
Dividend distribution to consolidated subsidiaries	—	—	(29	) 29	—	
Borrowings (repayments) of intercompany notes	—	—	(127	) 127	—	
Net cash provided by (used in) financing activities	371	—	(155	) 154	370	
Cash flows from discontinued operations						
Net cash (used in) provided by operating activities	28	—	—	—	28	
Effect of exchange rate changes on cash and cash equivalents	—	—	(11	) —	(11	)
Increase (decrease) in cash and cash equivalents	(55	) (3	) (46	) —	(104	)
Cash and cash equivalents at beginning of period	75	11	442	—	528	
Cash and cash equivalents at end of period	\$ 20	\$ 8	\$ 396	\$ —	\$ 424	





Table of Contents

Item MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF  
2. OPERATIONS (MD&A)

Overview

The following were the significant events for the third quarter of 2015, each of which is discussed more fully in later sections of this MD&A:

• Results continued to be negatively impacted by foreign currency headwinds; and

• Revenue decreased approximately 2% from the prior year period, including unfavorable foreign currency impacts of approximately 7%.

We have established a focused and consistent business strategy targeted at revenue growth, gross margin expansion, improved customer loyalty and employee engagement. To execute this strategy, in 2015 we remain focused on three key imperatives or initiatives that align with our financial objectives: deliver disruptive innovation; migrate our revenue to higher margin software and recurring services revenue; and develop a high performing sales force backed by leading services delivery that better leverages the innovation we are bringing to the market.

This strategy, which guided our efforts in the third quarter of 2015, is summarized in more detail below:

Gain profitable share - We have been working to shift our business model to focus on growth of higher margin software and services revenue by focusing our research and development efforts, changing and educating our sales force and executing transformative acquisitions in each of our core divisions. At the same time, we are continuing our effort to optimize our investments in demand creation to increase NCR's market share in areas with the greatest potential for profitable growth, which include opportunities in self-service technologies with our core financial services, retail, and hospitality customers. We focus on expanding our presence in our core industries, while seeking additional growth by:

penetrating market adjacencies in single and multi-channel self-service segments;

expanding and strengthening our geographic presence and sales coverage across customer tiers through use of the indirect channel; and

leveraging NCR Services and consumables solutions to grow our share of customer revenue, improve customer retention, and deliver increased value to our customers.

Enhancing the customer experience - We are committed to providing a customer experience to drive loyalty, focusing on product and software solutions based on the needs of our customers, a sales force enabled with the consultative selling model to better leverage the innovative solutions we are bringing to market, and sales and support service teams focused on delivery and customer interactions. We continue to rely on the Customer Loyalty Survey, among other metrics, to measure our current state and set a course for our future state where we aim to continuously improve with solution innovations as well as through the execution of our service delivery programs.

Enhance our global service capability - We continue to identify and execute various initiatives to enhance our global service capability. We also have focused on improving our service positioning, increasing customer service attach rates for our products and improving profitability in our services business. Our service capability can provide us with a competitive advantage in winning customers and it provides NCR with an attractive and stable revenue source.

Build the lowest cost structure in our industry - We strive to increase the efficiency and effectiveness of our core functions and the productivity of our employees through our continuous improvement initiatives. In 2014, we began a comprehensive restructuring plan to reallocate resources to higher-growth, higher-margin opportunities by proactively taking steps to end-of-life older commodity hardware product lines, moving lower productivity services to new centers of excellence, rationalizing our hardware and software product lines and reducing layers of management and organizing internally around a division model. We have continued to execute this plan in 2015, and expect it to contribute meaningful savings and gains in productivity and efficiency.

Expand into emerging growth industry segments - We are focused on broadening the scope of our self-service solutions from our existing customers to expand these solution offerings to customers in newer industry-vertical markets including telecommunications and technology as well as travel and small business. We expect to grow our business in these industries through integrated service offerings in addition to targeted acquisitions and strategic

partnerships.

Innovation of our people - We are committed to solution innovation across all customer industries. Our focus on innovation has been enabled by closer collaboration between NCR Services and our divisions, and the movement of our software

38

---

Table of Contents

development resources directly into our core divisions. Innovation is also driven through investments in training and developing our employees by taking advantage of our world-class training centers. We expect that these steps and investments will accelerate the delivery of innovative solutions focused on the needs of our customers and changes in consumer behavior.

Pursue strategic acquisitions that promote growth and improve gross margin - We have actively explored, and will continue selectively to explore, potential acquisition opportunities in the ordinary course of business to identify acquisitions that can accelerate the growth of our business and improve our gross margin mix, with a particular focus on software-oriented transactions. We may fund acquisitions through either equity or debt, including borrowings under our senior secured credit facility.

We plan to continue to manage our costs effectively, including through our restructuring program, and balance our investments in areas that generate high returns. Potentially significant risks to the execution of our initiatives include continued strengthening of the U.S. dollar resulting in unfavorable foreign currency impacts, the global economic and credit environment (including in Russia and China) and its effect on capital spending by our customers, market conditions and investment trends in the retail industry, collectability difficulties in subcontracting relationships in Emerging Industries, competition that can drive further price erosion and potential loss of market share, difficulties associated with introduction of products in new self-service markets, market adoption of our products by customers, management and servicing of our existing indebtedness, and integration of previously completed acquisitions.

## Results from Operations

Three and Nine Months Ended September 30, 2015 Compared to Three and Nine Months Ended September 30, 2014

The following table shows our results for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue	\$1,613	\$1,647	\$4,693	\$4,823
Gross margin	\$457	\$404	\$993	\$1,300
Gross margin as a percentage of revenue	28.3%	24.5%	21.2%	27.0%
Operating expenses				
Selling, general and administrative expenses	\$224	\$232	\$788	\$724
Research and development expenses	53	59	175	186
Restructuring-related charges	12	72	33	72
Income (loss) from operations	\$168	\$41	\$(3)	\$318

The following table shows our revenue and gross margin from products and services for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Product revenue	\$688	\$721	\$1,995	\$2,077
Cost of products	512	547	1,539	1,554
Product gross margin	\$176	\$174	\$456	\$523
Product gross margin as a percentage of revenue	25.6%	24.1%	22.9%	25.2%
Services revenue	\$925	\$926	\$2,698	\$2,746
Cost of services	644	696	2,161	1,969
Services gross margin	\$281	\$230	\$537	\$777
Services gross margin as a percentage of revenue	30.4%	24.8%	19.9%	28.3%



Table of Contents

The following table shows our revenue by theater for the three months ended September 30:

In millions	2015	% of Total	2014	% of Total	% Increase (Decrease)	% Increase
						(Decrease) Constant Currency
Americas	\$900	56%	\$849	52%	6%	10%
Europe	345	21%	399	24%	(14)%	—%
Asia Middle East Africa (AMEA)	368	23%	399	24%	(8)%	2%
Consolidated revenue	\$1,613	100%	\$1,647	100%	(2)%	5%

The following table shows our revenue by theater for the nine months ended September 30:

In millions	2015	% of Total	2014	% of Total	% Increase (Decrease)	% Increase
						(Decrease) Constant Currency
Americas	\$2,577	55%	\$2,463	51%	5%	7%
Europe	1,022	22%	1,172	24%	(13)%	3%
Asia Middle East Africa (AMEA)	1,094	23%	1,188	25%	(8)%	—%
Consolidated revenue	\$4,693	100%	\$4,823	100%	(3)%	4%

## Revenue

For the three months ended September 30, 2015 compared to the three months ended September 30, 2014, revenue decreased 2% primarily due to declines in our Financial Services operating segment. Foreign currency fluctuations unfavorably impacted the revenue comparison by 7%. Our product revenue decreased 5% and our services revenue decreased less than 1% year-over-year. The decrease in our product revenue was due to declines in the Financial Services operating segment in all theaters and declines in the Emerging Industries operating segment in the Americas theater, partially offset by growth in the Retail Solutions operating segment in the Americas and AMEA theaters, and growth in the Emerging Industries operating segment in the Europe theater. The slight decrease in our services revenue was attributable to declines in our professional and installation services and maintenance services. Services revenue slightly decreased due to declines in the Financial Services operating segment in the Europe and AMEA theaters, declines in the Retail Solutions operating segment in the AMEA theater, and declines in the Emerging Industries operating segment in the Europe theater, partially offset by growth in the Financial Services, Retail Solutions, and Hospitality operating segments in the Americas theater and growth in the Emerging Industries operating segment in the AMEA theater.

For the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, revenue decreased 3% primarily due to declines in the Financial Services operating segment. Foreign currency fluctuations unfavorably impacted the revenue comparison by 7%. Our product revenue decreased 4% and services revenue decreased 2% year-over-year. The decrease in our product revenue was due to declines in the Financial Services operating segment in the Europe and AMEA theaters, declines in the Retail Solutions operating segment in the Europe theater, declines in the Hospitality operating segment in the Americas and Europe theaters, and declines in the Emerging Industries operating segment in the AMEA theater, partially offset by growth in the Financial Services, Retail Solutions and Emerging Industries operating segments in the Americas theater. The decrease in our services revenue was attributable to declines in our professional and installation services and maintenance services. Services revenue decreased due to declines in the Retail Solutions operating segment in all theaters, declines in the Financial Services operating segment in the Europe and AMEA theaters and declines in the Emerging Industries operating segment in the AMEA theater, partially offset by growth in the Financial Services, Hospitality and Emerging Industries operating segments in the Americas theater.

## Gross Margin

Gross margin as a percentage of revenue in the three months ended September 30, 2015 was 28.3% compared to 24.5% in the three months ended September 30, 2014. Product gross margin as a percentage of product revenue in the three months ended September 30, 2015 was 25.6% compared to 24.1% in the three months ended September 30, 2014. Product gross margin in the three months ended September 30, 2015 was positively impacted by \$1 million in lower pension expense. Product gross margin in the three months ended September 30, 2014 included a \$9 million charge for the write-down of inventory related to the restructuring plan. Excluding these items, product gross margin as a percentage of product revenue is roughly flat. Services gross margin as a percentage of services revenue in the three months ended September 30, 2015 was 30.4% compared to 24.8% in the three months ended September 30, 2014. Services gross margin in the three months ended September 30, 2015 was negatively

Table of Contents

impacted by \$3 million in higher pension expense. Services gross margin in the three months ended September 30, 2014 included a \$46 million charge for the write-down of inventory related to the restructuring plan. Excluding these items, services gross margin as a percentage of services revenue increased primarily due to a favorable mix of revenue, including an increase in cloud revenue.

Gross margin as a percentage of revenue in the nine months ended September 30, 2015 was 21.2% compared to 27.0% in the nine months ended September 30, 2014. Product gross margin as a percentage of product revenue in the nine months ended September 30, 2015 was 22.9% compared to 25.2% in the nine months ended September 30, 2014. Product gross margin in the nine months ended September 30, 2015 was negatively impacted by \$9 million in higher pension expense. Product gross margin in the three months ended September 30, 2015 and 2014 included a \$3 million and a \$9 million charge, respectively, for the write-down of inventory related to the restructuring plan. Excluding these items, product gross margin as a percentage of product revenue decreased primarily due to an unfavorable mix of revenue. Services gross margin as a percentage of services revenue in the nine months ended September 30, 2015 was 19.9% compared to 28.3% in the nine months ended September 30, 2014. Services gross margin in the nine months ended September 30, 2015 was negatively impacted by \$297 million in higher pension expense. Services gross margin in the nine months ended September 30, 2014 included a \$46 million charge for the write-down of inventory related to the restructuring plan. Excluding these items, services gross margin as a percentage of services revenue increased primarily due to a favorable mix of revenue, including an increase in cloud revenue.

## Effects of Pension, Postemployment, and Postretirement Benefit Plans

NCR's income (loss) from continuing operations for the three and nine months ended September 30 was impacted by certain employee benefit plans as shown below:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Pension expense	\$5	\$1	\$431	\$2
Postemployment expense	3	65	6	74
Postretirement benefit	(4)	(3)	(12)	(11)
Total expense	\$4	\$63	\$425	\$65

In the second quarter of 2015, the Company completed the transfer of its UK London pension plan to an insurer, resulting in a settlement loss of \$427 million recognized in the nine months ended September 30, 2015.

During the third quarter of 2014, restructuring charges for employee severance of \$61 million were recognized associated with the restructuring plan announced on July 29, 2014.

## Selling, General and Administrative Expenses

Selling, general and administrative expenses were \$224 million, or 13.9% as a percentage of revenue, in the three months ended September 30, 2015 as compared to \$232 million, or 14.1% as a percentage of revenue, in the three months ended September 30, 2014. Selling, general and administrative expenses in the three months ended September 30, 2015 included \$1 million of pension expense, \$16 million of acquisition-related amortization of intangibles and \$2 million of acquisition-related costs. Selling, general, and administrative expenses in the three months ended September 30, 2014 included \$14 million of acquisition-related amortization of intangibles and \$5 million of acquisition-related costs. Excluding these items, selling, general and administrative expenses as a percentage of revenue decreased from 12.9% in the three months ended September 30, 2014 to 12.7% in the three months ended September 30, 2015 due to overall cost containment.

Selling, general and administrative expenses were \$788 million, or 16.8% as a percentage of revenue, in the nine months ended September 30, 2015 as compared to \$724 million, or 15.0% as a percentage of revenue, in the nine months ended September 30, 2014. Selling, general and administrative expenses in the nine months ended September 30, 2015 included \$115 million of pension expense, \$47 million of acquisition-related amortization of intangibles, \$7 million of acquisition-related costs and \$1 million of OFAC and FCPA related legal costs. Selling, general, and administrative expenses in the nine months ended September 30, 2014 included \$1 million of pension expense, \$42 million of acquisition-related amortization of intangibles, \$25 million of acquisition-related costs and \$2 million of OFAC and FCPA related legal costs. Excluding these items, selling, general and administrative expenses as a percentage of revenue decreased from 13.6% in the nine months ended September 30, 2014 to 13.2% in the nine months ended September 30, 2015 due to overall cost containment.



## Table of Contents

### Research and Development Expenses

Research and development expenses were \$53 million, or 3.3% as a percentage of revenue, in the three months ended September 30, 2015 as compared to \$59 million, or 3.6% as a percentage of revenue, in the three months ended September 30, 2014. The decrease is in line with management expectations due to planned spending reductions as compared to the prior year.

Research and development expenses were \$175 million, or 3.7% as a percentage of revenue, in the nine months ended September 30, 2015 as compared to \$186 million, or 3.9% as a percentage of revenue, in the nine months ended September 30, 2014. Pension costs included in research and development expenses were \$10 million in the nine months ended September 30, 2015 as compared to \$1 million in the nine months ended September 30, 2014. After considering these items, research and development expenses as a percentage of revenue decreased from 3.8% in the nine months ended September 30, 2014 to 3.5% in the nine months ended September 30, 2015. The decrease is in line with management expectations due to planned spending reductions as compared to the prior year.

### Restructuring-Related Charges

In the three months ended September 30, 2015, restructuring-related charges were \$12 million related to the restructuring program announced in July 2014. The charges consisted of \$7 million of severance and other employee related costs and \$5 million of other exit costs. In the three months ended September 30, 2014, restructuring-related charges were \$72 million, including \$65 million of severance and other employee related costs, \$2 million of other exit costs and \$5 million of asset-related charges.

In the nine months ended September 30, 2015, restructuring-related charges were \$33 million, including \$7 million of severance and other employee related costs, \$10 million of other exit costs, and \$16 million of asset-related charges. In the nine months ended September 30, 2014, restructuring-related charges were \$72 million, including \$65 million of severance and other employee related costs, \$2 million of other exit costs and \$5 million of asset-related charges.

### Interest and Other Expense Items

Interest expense was \$42 million in the three months ended September 30, 2015 compared to \$46 million in the three months ended September 30, 2014. Other expense, net was \$7 million in the three months ended September 30, 2015 compared to \$14 million in the three months ended September 30, 2014. Other expense, net in both periods primarily included losses from foreign exchange contracts not designated as hedging instruments, foreign currency fluctuations, bank fees, and interest income. Other expense, net in the three months ended September 30, 2014 included an impairment charge of an investment related to the restructuring plan.

Interest expense was \$131 million in the nine months ended September 30, 2015 compared to \$135 million in the nine months ended September 30, 2014. Other expense, net was \$14 million in the nine months ended September 30, 2015 compared to \$24 million in the nine months ended September 30, 2014. Other expense, net in both periods primarily included losses from foreign exchange contracts not designated as hedging instruments, foreign currency fluctuations, bank fees, and interest income. Other expense, net in the nine months ended September 30, 2014 included an impairment charge of an investment related to the restructuring plan.

### Provision for Income Taxes

Income tax provisions for interim (quarterly) periods are based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Income tax expense was \$16 million for the three months ended September 30, 2015 compared to a benefit of \$19 million for the three months ended

September 30, 2014. The increase in income tax expense was primarily driven by the increase in earnings in continuing operations and \$13 million and \$9 million of benefits from IRS settlements and valuation releases, respectively, in the three months ended September 30, 2014, offset by \$17 million of income tax benefits for audit settlements in foreign jurisdictions in the three months ended September 30, 2015.

Income tax expense was \$50 million for the nine months ended September 30, 2015 compared to \$14 million for the nine months ended September 30, 2014. The increase in income tax expense was primarily driven by the increase in earnings in continuing operations excluding the UK London pension settlement discussed below and \$13 million and \$9 million of benefits from IRS settlements and valuation releases, respectively, in the nine months ended September 30, 2014, offset by \$17 million of income tax benefits for audit settlements in foreign jurisdictions in the nine months ended September 30, 2015. During the nine months ended September 30, 2015, there was no tax benefit recorded on the \$427 million charge related to the settlement of the UK London pension plan due to a valuation allowance against the deferred tax assets in the United Kingdom.

## Table of Contents

NCR is subject to numerous federal, state and foreign tax audits. While NCR believes that appropriate reserves exist for issues that might arise from these audits, should these audits be settled, the resulting tax effect could impact the tax provision and cash flows in future periods.

### Revenue and Operating Income by Segment

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 processing hardware and software; cash management and video banking software and customer-facing digital banking services; and related installation, maintenance, and managed and professional services. We also offer a complete line of printer consumables.

**Retail Solutions** - We offer solutions to customers in the retail industry designed to improve selling productivity and checkout processes as well as increase service levels. These solutions primarily include retail-oriented technologies, such as point of sale terminals and point of sale software; an omni-channel retail software platform with a comprehensive suite of retail software applications; innovative self-service kiosks, such as self-checkout; as well as bar-code scanners. We also offer installation, maintenance, managed and professional services and a complete line of printer consumables.

**Hospitality** - We offer technology solutions to customers in the hospitality industry, serving businesses that range from a single store or restaurant to global chains and sports and entertainment venues. Our solutions include point of sale hardware and software solutions, installation, maintenance, managed and professional services and a complete line of printer consumables.

**Emerging Industries** - We offer maintenance as well as managed and professional services for third-party computer hardware provided to select manufacturers, primarily in the telecommunications industry, who value and leverage our global service capability. Also included in the Emerging Industries segment are solutions designed to enhance the customer experience for the travel industry, such as self-service kiosks, and the small business industry, such as an all-in-one point of sale solution. Additionally, we offer installation, maintenance, and managed and professional services.

Each of these segments derives its revenue by selling products and services in the sales theaters in which NCR operates. Segments are measured for profitability by the Company's chief operating decision maker based on revenue and segment operating income. For purposes of discussing our operating results by segment, we exclude the impact of certain items (described below) from segment operating income, consistent with the manner by which management reviews each segment, evaluates performance, and reports our segment results under accounting principles generally accepted in the United States (otherwise known as GAAP). This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by NCR management to make decisions regarding the segments and to assess our financial performance.

The effect of pension expense and other significant, non-recurring items on segment operating income have been excluded from the operating income for each reporting segment presented below. Our segment results are reconciled to total Company results reported under GAAP in Note 13, "Segment Information and Concentrations" of the Notes to Condensed Consolidated Financial Statements.

In the segment discussions below, we have disclosed the impact of foreign currency fluctuations as it relates to our segment revenue due to its significance during the quarter.

### Financial Services Segment

Edgar Filing: NCR CORP - Form 10-Q

The following table presents the Financial Services revenue and segment operating income for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue	\$820	\$899	\$2,458	\$2,593
Operating income	\$135	\$144	\$363	\$384
Operating income as a percentage of revenue	16.5%	16.0%	14.8%	14.8%

In the three months ended September 30, 2015 compared to the three months ended September 30, 2014, Financial Services revenue decreased 9%. The decrease was driven by declines in product sales in all regions and declines in services revenue in the Europe

Table of Contents

and AMEA theaters, partially offset by growth in services revenue in the Americas theater. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 9%.

In the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, Financial Services revenue decreased 5%. The decrease was driven by declines in product sales and services revenue in the Europe and AMEA theaters, partially offset by growth in product sales and services revenue in the Americas theater. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 8%.

Operating income decreased in the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014. The decrease in operating income in both periods was driven by a less favorable mix of revenue and lower revenue in Russia and China.

## Retail Solutions Segment

The following table presents the Retail Solutions revenue and segment operating income for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue	\$523	\$489	\$1,473	\$1,482
Operating income	\$43	\$24	\$101	\$108
Operating income as a percentage of revenue	8.2%	4.9%	6.9%	7.3%

In the three months ended September 30, 2015 compared to the three months ended September 30, 2014, Retail Solutions revenue increased 7%. This increase was driven by growth in product sales in the Americas and AMEA theaters and growth in services revenue in the Americas theater, partially offset by declines in services revenue in the AMEA theater. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 7%.

In the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, Retail Solutions revenue decreased 1%. The decrease was driven by declines in product sales in the Europe theater and declines in services revenue in all theaters, partially offset by growth in product sales in the Americas theater. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 7%.

Operating income increased in the three months ended September 30, 2015 compared to the three months ended September 30, 2014 primarily due to growth in product sales and services revenue in the Americas theater. Operating income decreased in the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to a less favorable mix of revenue in North America.

## Hospitality Segment

The following table presents the Hospitality revenue and segment operating income for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue	\$177	\$168	\$497	\$487
Operating income	\$30	\$27	\$75	\$62
Operating income as a percentage of revenue	16.9%	16.1%	15.1%	12.7%

Edgar Filing: NCR CORP - Form 10-Q

In the three months ended September 30, 2015 compared to the three months ended September 30, 2014, Hospitality revenue increased 5%. The increase was driven by growth in services revenue in the Americas theater. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 3%.

In the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, Hospitality revenue increased 2%. The increase was driven by growth in services revenue in the Americas theater partially offset by declines in product

Table of Contents

sales in the Americas and Europe theaters. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 3%.

Operating income increased in the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 due to a higher mix of software-related revenue, including cloud and professional services revenue.

## Emerging Industries Segment

The following table presents the Emerging Industries revenue and segment operating income for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2015	2014	2015	2014
Revenue	\$93	\$91	\$265	\$261
Operating income	\$10	\$9	\$27	\$15
Operating income as a percentage of revenue	10.8%	9.9%	10.2%	5.7%

In the three months ended September 30, 2015 compared to the three months ended September 30, 2014, Emerging Industries revenue increased 2%. The increase was driven by growth in product sales in the Europe theater and growth in services revenue in the AMEA theater, partially offset by declines in product sales in the Americas theater and declines in services revenue in the Europe theater. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 9%.

In the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, Emerging Industries revenue increased 2%. The increase was driven by growth in product sales and services revenue in the Americas theater, partially offset by declines in product sales and services revenue in the AMEA theater. Foreign currency fluctuations had an unfavorable impact on the revenue comparison of 8%.

Operating income increased in the three and nine months ended September 30, 2015 compared to the three and nine months ended September 30, 2014 due to higher services margins.

## Financial Condition, Liquidity, and Capital Resources

Cash provided by operating activities was \$416 million in the nine months ended September 30, 2015 compared to \$235 million in the nine months ended September 30, 2014.

NCR's management uses a non-GAAP measure called "free cash flow" to assess the financial performance of the Company. We define free cash flow as net cash provided by (used in) operating activities and cash provided by (used in) discontinued operations, less capital expenditures for property, plant and equipment, less additions to capitalized software, plus discretionary pension contributions and settlements. We believe free cash flow information is useful for investors because it relates the operating cash flows from the Company's continuing and discontinued operations to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures for, among other things, investments in the Company's existing businesses, strategic acquisitions, repurchase of NCR stock and repayment of debt obligations. Free cash flow does not represent the residual cash flow available for discretionary expenditures, since there may be other non-discretionary expenditures that are not deducted from the measure. Free cash flow does not have a uniform definition under GAAP, and therefore NCR's definition may differ from other companies' definitions of this measure. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP. The table

below reconciles net cash provided by operating activities to NCR's non-GAAP measure of free cash flow for the nine months ended September 30:

45

---



Table of Contents

In millions	Nine months ended September 30	
	2015	2014
Net cash provided by operating activities	\$416	\$235
Less: Expenditures for property, plant and equipment	(47)	(88)
Less: Additions to capitalized software	(117)	(109)
Net cash (used in) provided by discontinued operations	(27)	28
Pension discretionary contributions and settlements	—	18
Free cash flow (non-GAAP)	\$225	\$84

The decrease in expenditures for property, plant and equipment was due to planned spending reductions as compared to the prior year. The increase in expenditures for capitalized software was due to continued investment in the business. The change in cash flows from discontinued operations was due to a recovery of \$93 million related to the Fox River environmental matter in the nine months ended September 30, 2014 offset by the timing of payments from indemnification parties.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. Other investing activities primarily include business acquisitions, divestitures and investments as well as proceeds from the sale of property, plant and equipment. During the nine months ended September 30, 2014, we completed the acquisition of Digital Insight for \$1.64 billion, net of cash acquired.

Our financing activities primarily include proceeds from employee stock plans, repurchase of NCR common stock and borrowings and repayments of credit facilities and notes. During the nine months ended September 30, 2015 and 2014, proceeds from employee stock plans were \$12 million and \$10 million, respectively. During each of the nine months ended September 30, 2015 and 2014, we paid \$10 million and \$28 million, respectively, of tax withholding payments on behalf of employees for stock based awards that vested.

As of September 30, 2015, our senior secured credit facility consisted of a term loan facility in an aggregate principal amount of \$1.35 billion, and a revolving credit facility in an aggregate principal amount of \$850 million. The revolving credit facility also allows a portion of the availability to be used for outstanding letters of credit, and as of September 30, 2015, there were no outstanding letters of credit. During the nine months ended September 30, 2015, we made payments on the term loan facility totaling \$307 million and we made borrowings and repayments totaling \$317 million under the revolving credit facility. During the nine months ended September 30, 2014, we made incremental borrowings under the term loan facility of \$250 million in connection with the completion of the acquisition of Digital Insight, we made payments totaling \$17 million under the term loan facility, and we made borrowings and payments totaling \$690 million and \$528 million, respectively, under the revolving credit facility. As of September 30, 2015, the outstanding principal balance of the term loan facility was \$1.02 billion and the outstanding balance on the revolving facility was zero.

As of September 30, 2015 and December 31, 2014, we had outstanding \$700 million in aggregate principal balance of 6.375% senior unsecured notes due 2023, \$600 million in aggregate principal balance of 5.00% senior unsecured notes due 2022, \$500 million in aggregate principal balance of 4.625% senior unsecured notes due 2021 and \$400 million in aggregate principal balance of 5.875% senior unsecured notes due 2021.

In November 2014, we entered into a revolving trade receivables securitization facility, which provides the Company with up to \$200 million in funding based on the availability of eligible receivables and other customary factors and conditions. During the nine months ended September 30, 2015, we made borrowings and payments totaling \$477 million and \$573 million, respectively, under the facility. As of September 30, 2015, the Company had no outstanding balance under the facility.

Additional financing activities during the nine months ended September 30, 2015 included borrowings and repayments totaling \$87 million under a revolving credit facility and a \$5 million repayment under a term loan facility. Additional financing activities during the nine months ended September 30, 2014 included \$2 million of net short term borrowings and a \$3 million repayment under a term loan facility. See Note 5, "Debt Obligations," of the Notes to Condensed Consolidated Financial Statements for further information.

In 2015, we expect to make contributions of \$35 million to the international pension plans, \$80 million to the postemployment plan and \$4 million to the postretirement plan. For additional information, refer to Note 8, "Employee Benefit Plans," of the Notes to the Condensed Consolidated Financial Statements.

Table of Contents

In July 2014, we announced a restructuring plan to strategically reallocate resources so that we can focus on higher-growth, higher-margin opportunities in the software-driven consumer transaction technologies industry. Refer to Note 2, "Restructuring Plan," of the Notes to the Condensed Consolidated Financial Statements for additional discussion on our restructuring plan. As a result of this plan, we expect to incur a total charge of approximately \$200 million to \$225 million and total cash payments of \$100 million to \$115 million through 2015. These estimates include severance, inventory-related, asset-related and other exit charges. During the nine months ended September 30, 2015 and 2014, we incurred total charges of \$36 million and \$130 million, respectively, and made cash payments of \$51 million and \$9 million, respectively. We expect to achieve annual savings of approximately \$105 million in 2016.

In 2015, NCR expects to make approximately \$35 million of remediation and other payments related to the Fox River and Kalamazoo environmental matters, net of the payment obligations of its co-obligors; the amount does not include an estimate for payments to be received from insurers or indemnification parties. For additional information, refer to Note 9, "Commitments and Contingencies," of the Notes to Condensed Consolidated Financial Statements.

Cash and cash equivalents held by the Company's foreign subsidiaries at September 30, 2015 and December 31, 2014 were \$274 million and \$458 million, respectively. Under current tax laws and regulations, if cash and cash equivalents and short-term investments held outside the United States are distributed to the United States in the form of dividends or otherwise, we may be subject to additional United States income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes, which could be significant.

As of September 30, 2015, our cash and cash equivalents totaled \$303 million and our total debt was \$3.25 billion. As of September 30, 2015, our borrowing capacity under the revolving credit facility was approximately \$850 million, and under our trade receivables securitization facility was \$200 million. Our ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors described in Item 1A of Part I of the Company's 2014 Annual Report on Form 10-K and Item IA of Part II of this Quarterly Report on Form 10-Q. If we are unable to generate sufficient cash flows from operations, or otherwise comply with the terms of our credit facilities or senior unsecured notes, we may be required to seek additional financing alternatives.

We believe that we have sufficient liquidity based on our current cash position, cash flows from operations and existing financing to meet our required pension, postemployment, and postretirement plan contributions, remediation payments related to the Fox River environmental matter, debt servicing obligations, payments related to the restructuring plan, and our operating requirements for the next twelve months.

**Contractual and Other Commercial Commitments**

There have been no significant changes in our contractual and other commercial obligations as described in our Form 10-K for the year ended December 31, 2014.

The Company's uncertain tax positions are not expected to have a significant impact on liquidity or sources and uses of capital resources. Our product warranties are discussed in Note 9, "Commitments and Contingencies," of the Notes to Condensed Consolidated Financial Statements.

Disclosure Pursuant to Section 13(r)(1)(D)(iii) of the Securities Exchange Act. Pursuant to Section 13(r)(1)(D)(iii) of the Securities Exchange Act of 1934, as amended, we note that, during the period from July 1, 2015 through September 30, 2015, we maintained a bank account and guarantees at the Commercial Bank of Syria ("CBS"), which was designated as a Specially Designated National pursuant to Executive Order 13382 ("EO 13382") on August 10, 2011. This bank account and the guarantees at CBS were maintained in the normal course of business prior to the

listing of CBS pursuant to EO 13382. We note that the last known account balance as of September 30, 2015, was approximately \$3,491. The guarantees did not generate any revenue or profits for the Company. Pursuant to a license granted to the Company by the Office of Foreign Asset Controls (“OFAC”) on January 3, 2013, and subsequent licenses granted on April 29, 2013, July 12, 2013, February 28, 2014, and November 12, 2014, the Company has been winding down its past operations in Syria. In connection with these efforts, the Company has also received licenses from OFAC to close the CBS account and terminate any guarantees; the Company’s applications to renew these licenses are currently pending. Following the termination of guarantees and the closure of the account, the Company does not intend to engage in any further business activities with CBS.

## Table of Contents

### Critical Accounting Policies and Estimates

Management has reassessed the critical accounting policies as disclosed in our 2014 Form 10-K and determined that there were no changes to our critical accounting policies in the nine months ended September 30, 2015. Also, there were no significant changes in our estimates associated with those policies.

### New Accounting Pronouncements

See discussion in Note 1, “Basis of Presentation and Summary of Significant Accounting Policies” of the Notes to Condensed Consolidated Financial Statements for new accounting pronouncements.

### Forward-Looking Statements

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements use words such as “expect,” “anticipate,” “outlook,” “intend,” “believe,” “will,” “should,” “would,” “could” and words of similar meaning. Statements that describe or relate to NCR’s plans, goals, intentions, strategies or financial outlook, and statements that do not relate to historical or current fact, are examples of forward-looking statements. Forward-looking statements are based on our current beliefs, expectations and assumptions, which may not prove to be accurate, and involve a number of known and unknown risks and uncertainties, many of which are out of NCR’s control. Forward-looking statements are not guarantees of future performance, and there are a number of important factors that could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements, including those factors relating to: domestic and global economic and credit conditions including, in particular, market conditions and investment trends in the retail industry, and economic and market conditions in China and Russia; the impact of our indebtedness and its terms on our financial and operating activities; foreign currency fluctuations; our ability to successfully introduce new solutions and compete and in the information technology industry; the transformation of our business model and our ability to sell higher-margin software and services; our ability to improve execution in our sales and services organizations; defects or errors in our products or problems with our hosting facilities; manufacturing disruptions; collectability difficulties in subcontracting relationships in Emerging Industries; the historical seasonality of our sales; compliance with data privacy and protection requirements; the availability and success of acquisitions, divestitures and alliances, including the acquisition of Digital Insight; our pension strategy and underfunded pension obligation; the success of our ongoing restructuring plan; tax rates; reliance on third party suppliers; development and protection of intellectual property; workforce turnover and the ability to attract and retain skilled employees; environmental exposures from our historical and ongoing manufacturing activities; and uncertainties with regard to regulations, lawsuits, claims and other matters across various jurisdictions. Additional information concerning these and other factors can be found in the Company’s filings with the U.S. Securities and Exchange Commission, including the Company’s most recent annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Any forward-looking statement speaks only as of the date on which it is made. The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

### Information About NCR

NCR encourages investors to visit its web site (<http://www.ncr.com>) which is updated regularly with financial and other important information about NCR. The contents of the Company’s web site are not incorporated into this quarterly report or the Company’s other filings with the U.S. Securities and Exchange Commission.

## Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Market Risk

We are exposed to market risks primarily from changes in foreign currency exchange rates and interest rates. It is our policy to manage our foreign exchange exposure and debt structure in order to manage capital costs, control financial

risks and maintain financial flexibility over the long term. In managing market risks, we employ derivatives according to documented policies and procedures, including foreign currency contracts and interest rate swaps. We do not use derivatives for trading or speculative purposes.

#### Foreign Exchange Risk

Since a substantial portion of our operations and revenue occur outside the United States, and in currencies other than the U.S. Dollar, our results can be significantly impacted by changes in foreign currency exchange rates. We have exposure to approximately 50 functional currencies and are exposed to foreign currency exchange risk with respect to our sales, profits and assets and liabilities

## Table of Contents

denominated in currencies other than the U.S. Dollar. Although we use financial instruments to hedge certain foreign currency risks, we are not fully protected against foreign currency fluctuations and our reported results of operations could be affected by changes in foreign currency exchange rates. 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. These foreign exchange contracts are designated as highly effective cash flow hedges. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by the marketing units. All of these transactions are forecasted. We also use derivatives not designated as hedging instruments consisting primarily of forward contracts to hedge foreign currency denominated balance sheet exposures. For these derivatives we recognize gains and losses in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures.

We utilize non-exchange traded financial instruments, such as foreign exchange forward and option contracts, that we purchase exclusively from highly rated financial institutions. We record these contracts on our balance sheet at fair market value based upon market price quotations from the financial institutions. We do not enter into non-exchange traded contracts that require the use of fair value estimation techniques, but if we did, they could have a material impact on our financial results.

For purposes of analyzing potential risk, we use sensitivity analysis to quantify potential impacts that market rate changes may have on the fair values of our hedge portfolio related to firmly committed or forecasted transactions. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the related gain or loss on the forecasted underlying transaction. A 10% appreciation or depreciation in the value of the U.S. Dollar against foreign currencies from the prevailing market rates would have resulted in a corresponding increase or decrease of \$7 million as of September 30, 2015 in the fair value of the hedge portfolio. The Company expects that any increase or decrease in the fair value of the portfolio would be substantially offset by increases or decreases in the underlying exposures being hedged.

The U.S. Dollar was significantly stronger in the third quarter of 2015 compared to the third quarter of 2014 based on comparable weighted averages for our functional currencies. This had an unfavorable impact of 7% on third quarter 2015 revenue versus third quarter 2014 revenue. This excludes the effects of our hedging activities and, therefore, does not reflect the actual impact of fluctuations in exchange rates on our operating income.

### Interest Rate Risk

We are subject to interest rate risk principally in relation to variable-rate debt. We use derivative financial instruments to manage exposure to fluctuations in interest rates in connection with our risk management policies. We have entered into an interest rate swap for a portion of the term loans under our senior secured credit facility. The interest rate swap effectively converts the designated portion of the term loans from a variable interest rate to a fixed interest rate instrument. Approximately 81% of our borrowings were effectively on a fixed rate basis as of September 30, 2015. As of September 30, 2015, the net fair value of the interest rate swap was a liability of \$4 million.

The potential gain in fair value of the swap from a hypothetical 100 basis point increase in interest rates would be approximately \$3 million as of September 30, 2015. The increase in pre-tax interest expense for the nine months ended September 30, 2015 from a hypothetical 100 basis point increase in variable interest rates (including the impact of the interest rate swap) would be approximately \$7 million.

### Concentrations of Credit Risk

We are 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 balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Our business often involves large transactions with customers for which we do not require collateral. If one or more of those customers were to default in its obligations under applicable contractual arrangements, we could be exposed to potentially significant losses. Moreover, a prolonged downturn in the global economy could have an adverse impact on the ability of our customers to pay their obligations on a timely basis. We believe that the reserves for potential losses are adequate. As of September 30, 2015, we did not have any significant concentration of credit risk related to financial instruments.



Table of Contents

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NCR has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) to provide reasonable assurance that information required to be disclosed by NCR in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by NCR in the reports that it files or submits under the Exchange Act is accumulated and communicated to NCR's management, including its Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation as of the end of the third quarter of 2015, conducted under their supervision and with the participation of management, the Company's Chief Executive and Chief Financial Officers have concluded that NCR's disclosure controls and procedures are effective to meet such objectives and that NCR's disclosure controls and procedures adequately alert them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in NCR's Exchange Act filings.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents

Part II. Other Information

Item 1. LEGAL PROCEEDINGS

The information required by this item is included in Note 9, "Commitments and Contingencies," of the Notes to Condensed Consolidated Financial Statements in this quarterly report and is incorporated herein by reference.

Item 1A. RISK FACTORS

There have been no material changes to the risk factors previously disclosed in Part I, Item IA ("Risk Factors") of the Company's 2014 Annual Report on Form 10-K.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

In October 1999, the Company's Board of Directors authorized a share repurchase program that provided for the repurchase of up to \$250 million of the Company's common stock, with no expiration from the date of authorization. On October 31, 2007 and July 28, 2010, the Board authorized the repurchase of an additional \$250 million and \$210 million, respectively, under this share repurchase program. In December 2000, the Board approved a systematic share repurchase program, with no expiration from the date of authorization, to be funded by the proceeds from the purchase of shares under the Company's Employee Stock Purchase Plan and the exercise of stock options, for the purpose of offsetting the dilutive effects of the employee stock purchase plan and outstanding options. As of September 30, 2015, approximately \$179 million and \$144 million remained available for further repurchases of the Company's common stock under the 1999 and 2000 Board of Directors share repurchase programs, respectively.

The Company's ability to repurchase its common stock is restricted under the Company's senior secured credit facility and terms of the indentures for the Company's senior unsecured notes. These agreements include certain prohibitions on share repurchases, including during the occurrence of an event of default. These agreements also establish limits on the amount that the Company is permitted to allocate to share repurchases and other restricted payments. The limitations are calculated using formulas based generally on 50% of the Company's consolidated net income for the period beginning in the third quarter of 2012 through the end of the most recently ended fiscal quarter, subject to certain other adjustments and deductions, with certain prescribed minimums. These formulas are described in greater detail in the Company's senior secured credit facility and the indentures for the Company's senior unsecured notes, each of which is filed with the Securities and Exchange Commission.

During the three months ended September 30, 2015, the Company did not repurchase any shares of its common stock under the authorized share repurchase programs. The Company occasionally purchases shares of vested restricted stock at the current market price to cover withholding taxes. For the three months ended September 30, 2015, 12,271 shares were purchased at an average price of \$28.11 per share.

Table of Contents

Item 6. EXHIBITS

- 2.1 Separation and Distribution Agreement, dated as of August 27, 2007, between NCR Corporation and Teradata Corporation (Exhibit 10.1 to the Current Report on Form 8-K of Teradata Corporation dated September 6, 2007).
- 2.2 Asset Purchase Agreement, dated as of February 3, 2012, by and between Redbox Automated Retail, LLC and NCR Corporation (incorporated by reference to Exhibit 2.2 from the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 2012).
- 2.3 First Amendment to Asset Purchase Agreement, dated as of June 22, 2012, by and between Redbox Automated Retail, LLC and NCR Corporation (incorporated by reference to Exhibit 2.3 from the NCR Corporation Quarterly Report on Form 10-Q for the period ended June 30, 2012).
- 2.4 Agreement and Plan of Merger, dated November 28, 2012, by and among NCR Corporation, Moon S.P.V. (Subsidiary) Ltd., and Retalix, Ltd. (incorporated by reference to Exhibit 2.1 from the NCR Corporation Current Report on Form 8-K filed February 6, 2013).
- 2.5 Agreement and Plan of Merger, dated as of December 2, 2013, by and among NCR Corporation, Delivery Acquisition Corporation, Fandango Holdings Corporation and Thoma Bravo, LLC as the stockholder representative (incorporated by reference to Exhibit 2.1 to the Current Report on Form 8-K of NCR Corporation dated December 2, 2013 (the “December 2, 2013 Form 8-K”)).
- 2.6 Commitment Letter, dated as of December 2, 2013, by and among NCR Corporation, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Royal Bank of Canada, RBC Capital Markets, SunTrust Bank, SunTrust Robinson Humphrey, Inc., WF Investment Holdings, LLC and Wells Fargo Securities, LLC (incorporated by reference to Exhibit 2.2 to the December 2, 2013 Form 8-K).
- 2.7 Share Purchase Agreement, dated as of December 2, 2013, by and among NCR Limited and the holders of the outstanding share capital of Alaric Systems Limited (incorporated by reference to Exhibit 2.3 to the December 2, 2013 Form 8-K).
- 3.1 Articles of Amendment and Restatement of NCR Corporation as amended May 14, 1999 (incorporated by reference to Exhibit 3.1 from the NCR Corporation Form 10-Q for the period ended June 30, 1999).
- 3.2 Bylaws of NCR Corporation, as amended and restated on January 26, 2011 (incorporated by reference to Exhibit 3(ii) to the NCR Corporation Current Report on Form 8-K filed January 31, 2011).
- 4.1 Common Stock Certificate of NCR Corporation (incorporated by reference to Exhibit 4.1 from the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1999).
- 4.2 Indenture, dated September 17, 2012, among NCR Corporation, as issuer, NCR International Inc. and Radiant Systems Inc. as subsidiary guarantors and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.01 to the Current Report on Form 8-K of NCR Corporation dated September 17, 2012).
- 4.3

Edgar Filing: NCR CORP - Form 10-Q

Indenture, dated December 18, 2012, among NCR Corporation, as issuer, NCR International Inc. and Radiant Systems Inc. as subsidiary guarantors and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.01 to the NCR Corporation Current Report on Form 8-K filed December 18, 2012).

- 4.4 Indenture, dated December 19, 2013, between NCR Escrow Corp. and U.S. Bank National Association relating to the \$400 million aggregate principal amount of 5.875% senior notes due 2021 (the “5.875% Notes”) (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K of NCR Corporation dated December 19, 2013 (the “December 19, 2013 Form 8-K”)).

Table of Contents

4.5	First Supplemental Indenture relating to the 5.875% Notes, dated January 10, 2014, among NCR Corporation, NCR International, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.1 to the Current Report of NCR Corporation dated January 10, 2014 (the “January 10, 2014 Form 8-K”)).
4.6	Indenture, dated December 19, 2013, between NCR Escrow Corp. and U.S. Bank National Association relating to the \$700 million aggregate principal amount of 6.375% senior notes due 2023 (the “6.375% Notes”) (incorporated by reference to Exhibit 4.2 to the December 19, 2013 Form 8-K).
4.7	First Supplemental Indenture relating to the 6.375% Notes, dated January 10, 2014, among NCR Corporation, NCR International, Inc. and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to the January 10, 2014 Form 8-K).
31.1	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financials in XBRL Format.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NCR CORPORATION

Date: October 30, 2015

By: /s/ Robert Fishman  
Robert Fishman  
Senior Vice President and Chief Financial Officer