

NCR CORP
Form 10-Q
August 01, 2014
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 June 30, 2014
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 July 15, 2014, there were approximately 168.1 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 Six Months Ended June 30, 2014 and 2013</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three and Six Months Ended June 30, 2014 and 2013</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u> <u>June 30, 2014 and December 31, 2013</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> <u>Six Months Ended June 30, 2014 and 2013</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>41</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>51</u>
Item 4. <u>Controls and Procedures</u>	<u>52</u>

PART II. Other Information

Description	Page
Item 1. <u>Legal Proceedings</u>	<u>54</u>
Item 1A. <u>Risk Factors</u>	<u>54</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>54</u>
Item 6. <u>Exhibits</u>	<u>55</u>
<u>Signatures</u>	<u>57</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 June		Six months ended June	
	30	30	30	30
	2014	2013	2014	2013
Product revenue	\$722	\$743	\$1,356	\$1,410
Service revenue	936	792	1,820	1,535
Total revenue	1,658	1,535	3,176	2,945
Cost of products	531	550	1,007	1,053
Cost of services	647	559	1,273	1,097
Selling, general and administrative expenses	247	232	492	461
Research and development expenses	64	55	127	110
Total operating expenses	1,489	1,396	2,899	2,721
Income from operations	169	139	277	224
Interest expense	(46	) (26	) (89	) (47
Other (expense) income, net	(3	) (3	) (10	) (1
Income from continuing operations before income taxes	120	110	178	176
Income tax expense	29	23	33	25
Income from continuing operations	91	87	145	151
Loss from discontinued operations, net of tax	—	—	—	(1
Net income	91	87	145	150
Net income attributable to noncontrolling interests	1	1	2	3
Net income attributable to NCR	\$90	\$86	\$143	\$147
Amounts attributable to NCR common stockholders:				
Income from continuing operations	\$90	\$86	\$143	\$148
Loss from discontinued operations, net of tax	—	—	—	(1
Net income	\$90	\$86	\$143	\$147
Income per share attributable to NCR common stockholders:				
Income per common share from continuing operations				
Basic	\$0.54	\$0.52	\$0.85	\$0.90
Diluted	\$0.53	\$0.51	\$0.84	\$0.88
Net income per common share				
Basic	\$0.54	\$0.52	\$0.85	\$0.89
Diluted	\$0.53	\$0.51	\$0.84	\$0.87
Weighted average common shares outstanding				
Basic	167.9	165.2	167.5	164.5
Diluted	170.9	168.8	171.0	168.1

See Notes to Condensed Consolidated Financial Statements.

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

In millions	Three months ended June		Six months ended June		
	30		30		
	2014	2013	2014	2013	
Net income	\$91	\$87	\$145	\$150	
Other comprehensive income (loss):					
Currency translation adjustments					
Currency translation adjustments	23	(33) 30	(56)
Derivatives					
Unrealized (loss) gain on derivatives	(1	) 4	(2	) 6
Losses on derivatives arising during the period	2	1	3	3	
Less income tax expense	(1) (2) (1) (3)
Securities					
Unrealized gain on securities	—	—	—	3	
Employee benefit plans					
Amortization of prior service benefit	(5) (4) (11) (22)
Net gain arising during the period	—	—	—	48	
Amortization of actuarial loss	—	1	1	3	
Less income tax benefit (expense)	2	2	4	(10)
Other comprehensive income (loss)	20	(31) 24	(28)
Total comprehensive income	111	56	169	122	
Less comprehensive income attributable to noncontrolling interests:					
Net income	1	1	2	3	
Currency translation adjustments	1	(2) —	(3)
Amounts attributable to noncontrolling interests	2	(1	) 2	—
Comprehensive income attributable to NCR common stockholders	\$109	\$57	\$167	\$122	

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NCR Corporation

Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	June 30, 2014	December 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$483	\$528
Restricted cash	—	1,114
Accounts receivable, net	1,464	1,339
Inventories	816	790
Other current assets	627	568
Total current assets	3,390	4,339
Property, plant and equipment, net	402	352
Goodwill	2,791	1,534
Intangibles, net	994	494
Prepaid pension cost	520	478
Deferred income taxes	247	441
Other assets	505	470
Total assets	\$8,849	\$8,108
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	\$83	\$34
Accounts payable	678	670
Payroll and benefits liabilities	188	191
Deferred service revenue and customer deposits	563	525
Other current liabilities	464	461
Total current liabilities	1,976	1,881
Long-term debt	3,840	3,320
Pension and indemnity plan liabilities	529	532
Postretirement and postemployment benefits liabilities	169	169
Income tax accruals	178	189
Environmental liabilities	101	121
Other liabilities	87	99
Total liabilities	6,880	6,311
Commitments and Contingencies (Note 9)		
Redeemable noncontrolling interest	15	14
Stockholders' equity		
NCR stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of June 30, 2014 and December 31, 2013	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 168.0 and 166.6 shares issued and outstanding as of June 30, 2014 and December 31, 2013, respectively	2	2
Paid-in capital	438	433
Retained earnings	1,515	1,372
Accumulated other comprehensive loss	(14)	(38)
Total NCR stockholders' equity	1,941	1,769
Noncontrolling interests in subsidiaries	13	14

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Total stockholders' equity	1,954	1,783
Total liabilities and stockholders' equity	\$8,849	\$8,108
See Notes to Condensed Consolidated Financial Statements.		

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

In millions	Six months ended June 30	
	2014	2013
Operating activities		
Net income	\$ 145	\$ 150
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	—	1
Depreciation and amortization	142	97
Stock-based compensation expense	19	22
Deferred income taxes	10	(10)
Gain on sale of property, plant and equipment and other assets	(2)	(5)
Changes in assets and liabilities:		
Receivables	(88)	(67)
Inventories	(27)	(25)
Current payables and accrued expenses	2	(34)
Deferred service revenue and customer deposits	35	56
Employee benefit plans	(59)	(132)
Other assets and liabilities	(66)	(64)
Net cash provided by (used in) operating activities	111	(11)
Investing activities		
Expenditures for property, plant and equipment	(66)	(44)
Proceeds from sales of property, plant and equipment	—	2
Additions to capitalized software	(73)	(45)
Business acquisitions, net	(1,642)	(696)
Changes in restricted cash	1,114	—
Other investing activities, net	4	6
Net cash used in investing activities	(663)	(777)
Financing activities		
Tax withholding payments on behalf of employees	(24)	(27)
Short term borrowings, net	9	6
Payments on term credit facilities	(3)	(35)
Borrowings on term credit facility	250	—
Payments on revolving credit facility	(255)	(495)
Borrowings on revolving credit facility	570	725
Debt issuance costs	(3)	(3)
Proceeds from employee stock plans	7	45
Other financing activities	(3)	—
Net cash provided by financing activities	548	216
Cash flows from discontinued operations		
Net cash used in operating activities	(38)	(24)
Effect of exchange rate changes on cash and cash equivalents	(3)	(13)
Decrease in cash and cash equivalents	(45)	(609)
Cash and cash equivalents at beginning of period	528	1,069
Cash and cash equivalents at end of period	\$483	\$460

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 2013 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, 2013.

On January 10, 2014, the Company completed its acquisition of Digital Insight Corporation (Digital Insight). As a result of the acquisition, the results of Digital Insight are included for the period from January 10, 2014 to June 30, 2014. See Note 3, "Acquisitions," for additional information.

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

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

Restructuring Plan On July 29, 2014, NCR announced a restructuring plan to strategically reallocate resources to position NCR to focus on our highest growth, highest margin opportunities in the software-driven consumer transaction technologies industry. The program is centered on ensuring our people and processes are aligned with our continued transformation and include: rationalizing our product portfolio to eliminate overlap and redundancy; end-of-lifeing older commodity product lines that are costly to maintain and provide little to no return; 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.

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 \$14 million and \$32 million during the three and six months ended June 30, 2014 as compared to \$36 million and \$77 million during the three and six months ended June 30, 2013. As of June 30, 2014 and December 31, 2013, we had \$10 million and \$9 million, respectively, in receivables outstanding from Bradesco.

Table of Contents

NCR Corporation

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

Recent Accounting Pronouncements

Adopted

In February 2013, the Financial Accounting Standards Board (FASB) issued changes to the accounting for obligations resulting from joint and several liability arrangements. These changes require an entity to measure those joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The total amount of the obligation is determined as the sum of (i) the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors, and (ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about the obligation. Examples of obligations subject to these requirements include debt arrangements, settled litigation and judicial rulings. The amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013, with early adoption permitted. The implementation of the amended accounting guidance on January 1, 2014 did not have an impact on our consolidated financial statements.

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

Issued

In April 2014, the 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 of 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 is not expected to have a material impact on our consolidated financial statements.

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, 2016, with no early adoption permitted, 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.

Table of Contents

NCR Corporation

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

2. SUPPLEMENTAL FINANCIAL INFORMATION

The components of accounts receivable are summarized as follows:

In millions	June 30, 2014	December 31, 2013
Accounts receivable		
Trade	\$1,437	\$1,318
Other	45	39
Accounts receivable, gross	1,482	1,357
Less: allowance for doubtful accounts	(18)	(18)
Total accounts receivable, net	\$1,464	\$1,339

The components of inventory are summarized as follows:

In millions	June 30, 2014	December 31, 2013
Inventories		
Work in process and raw materials	\$155	\$135
Finished goods	209	202
Service parts	452	453
Total inventories	\$816	\$790

The components of other current assets are summarized as follows:

In millions	June 30, 2014	December 31, 2013
Other current assets		
Current deferred tax assets	\$272	\$262
Other	355	306
Total other current assets	\$627	\$568

3. ACQUISITIONS

Acquisition of Digital Insight Corporation On January 10, 2014, NCR completed its acquisition of Digital Insight Corporation, for which it paid an aggregate purchase price of approximately \$1,648 million, which includes \$5 million that was withheld by the Company as a source of recovery for possible claims pursuant to the acquisition agreement and will be paid to the sellers pursuant to the terms of such agreement. The purchase price was paid from the net proceeds of the December 2013 offer and sale of NCR's 5.875% and 6.375% senior unsecured notes and borrowings under NCR's senior secured credit facility, including borrowings under the Company's December 2013 incremental facility agreement. As a result of the acquisition, Digital Insight became an indirect wholly owned subsidiary of NCR.

Digital Insight is a leading U.S. based provider of SaaS-based customer-facing digital banking software to domestic financial institutions. The acquisition is consistent with NCR's continued transformation to a software-driven, hardware-enabled business. Digital Insight complements and extend our existing capabilities in the banking industry to form a complete enterprise software platform across both physical and digital channels - mobile, online, branch, and ATM.

Recording of Assets Acquired and Liabilities Assumed The fair value of consideration transferred to acquire Digital Insight was allocated to the identifiable assets acquired and liabilities assumed based upon their estimated fair market values as of the date of the acquisition as set forth below. The Company's purchase price allocation for Digital Insight

is preliminary and subject to revision as additional information about fair value of the assets and liabilities becomes available. Additional information that existed as of the acquisition date but at that time was unknown to the Company, may become known to the Company during the remainder of the measurement period, a period not to exceed 12 months from the acquisition date. Adjustments in the purchase price allocation may require a recasting of the amounts allocated to goodwill retroactive to the period in which the acquisition occurred.

Table of Contents

NCR Corporation

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

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

In millions	Fair Value
Tangible assets acquired	\$75
Acquired intangible assets other than goodwill	559
Acquired goodwill	1,254
Deferred tax liabilities	(194)
Liabilities assumed	(46)
Total purchase consideration	\$1,648

Goodwill represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the acquisition consists of the revenue synergies expected from combining the operations of NCR and Digital Insight. It is expected that none of the goodwill recognized in connection with the acquisition will be deductible for tax purposes. The goodwill arising from the acquisition has been allocated to our Financial Services segment. Refer to Note 4, "Goodwill and Purchased Intangible Assets" for the carrying amounts of goodwill by segment as of June 30, 2014.

The intangible assets acquired in the acquisition include the following:

	Estimated Fair Value	Weighted Average Amortization Period ⁽¹⁾ (years)
Direct customer relationships	\$336	18
Technology - Software	121	5
Customer contracts	89	8
Tradenames	13	7
Total acquired intangible assets	\$559	13

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

The Company has incurred a total of \$15 million of transaction expenses to date relating to the acquisition, of which \$8 million are included in selling, general and administrative expenses in the Company's Condensed Consolidated Statement of Operations for the six months ended June 30, 2014.

Unaudited Pro forma Information The following unaudited pro forma information presents the consolidated results of NCR and Digital Insight for the three and six months ended June 30, 2014 and 2013. The unaudited pro forma information is presented for illustrative purposes only. It is not necessarily indicative of the results of operations of future periods, or the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results that the combined company will experience after the acquisition. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma information also does not include any integration costs or remaining future transaction costs that the companies may incur related to the acquisition as part of combining the operations of the companies.

The unaudited pro forma financial information for the three and six months ended June 30, 2014 combines the results of NCR for the three and six months ended June 30, 2014, which include the results of Digital Insight subsequent to January 10, 2014 (the acquisition date) and the historical results for Digital Insight for the 10 days preceding the

acquisition date. The unaudited financial information for the three and six months ended June 30, 2013 combines the historical results for NCR for the the three and six months ended June 30, 2013 with the historical results for Digital Insight for the three and six months ended July 31, 2013, as, prior to the acquisition, Digital Insight had a July 31 fiscal year end.

Table of Contents

NCR Corporation

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

The unaudited pro forma consolidated results of operations, assuming the acquisition had occurred on January 1, 2013, are as follows:

In millions	Three months ended June 30		Six months ended June 30	
	2014	2013	2014	2013
Revenue	\$1,658	\$1,619	\$3,184	\$3,112
Net income attributable to NCR	\$89	\$72	\$129	\$118

The unaudited pro forma results for the six months ended June 30, 2014 include:

\$8 million, net of tax, in eliminated transaction costs as if those costs had been recognized in the prior-year period.

The unaudited pro forma results for the three and six months ended June 30, 2013 include:

\$8 million and \$15 million, respectively, net of tax, in additional amortization expense for acquired intangible assets, \$13 million and \$26 million, respectively, net of tax, in interest expense from NCR's 5.875% and 6.375% senior unsecured notes and incremental borrowings under NCR's senior secured credit facility and incremental credit facility, and

\$6 million, net of tax, in transaction costs for the six months ended June 30, 2013.

Table of Contents

NCR Corporation

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

4. GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The carrying amounts of goodwill by segment as of June 30, 2014 and December 31, 2013 are included in the table below. Foreign currency fluctuations are included within other adjustments.

In millions	December 31, 2013						June 30, 2014		
	Goodwill	Accumulated Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Accumulated Impairment Losses	Total
Financial Services	\$255	\$—	\$255	\$1,254	\$—	\$—	\$1,509	\$—	\$1,509
Retail Solutions	581	(3)	578	—	—	—	581	(3)	578
Hospitality	676	—	676	—	—	2	678	—	678
Entertainment	5	(5)	—	—	—	—	5	(5)	—
Emerging Industries	25	—	25	—	—	1	26	—	26
Total goodwill	\$1,542	\$(8)	\$1,534	\$1,254	\$—	\$3	\$2,799	\$(8)	\$2,791

Purchased Intangible Assets

NCR's purchased intangible assets, reported in intangibles, net in the Condensed Consolidated Balance Sheets, were specifically identified when acquired, and are deemed to have finite lives. The gross carrying amount and accumulated amortization for NCR's identifiable intangible assets were as set forth in the table below. The increase in the gross carrying amount is primarily due to the acquisition detailed in Note 3, "Acquisitions."

In millions	Amortization Period (in Years)	June 30, 2014		December 31, 2013	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Identifiable intangible assets					
Reseller & customer relationships	1 - 20	\$664	\$(50)	\$328	\$(37)
Intellectual property	2 - 7	397	(150)	275	(118)
Customer contracts	8	89	(11)	—	—
Tradenames	2 - 10	74	(19)	61	(15)
Non-compete arrangements	2 - 5	8	(8)	8	(8)
Total identifiable intangible assets		\$1,232	\$(238)	\$672	\$(178)

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

In millions	Three months ended June 30, 2014	Six months ended June 30, 2014	Remainder of 2014 (estimated)
Amortization expense	\$30	\$60	\$61

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In millions	For the years ended December 31 (estimated)				
	2015	2016	2017	2018	2019
Amortization expense	\$127	\$125	\$116	\$85	\$76

12

Table of Contents

NCR Corporation

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

5. DEBT OBLIGATIONS

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

In millions, except percentages	June 30, 2014		December 31, 2013	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Short-Term Borrowings				
Current portion of Senior Secured Credit Facility ⁽¹⁾	\$68	2.66%	\$28	2.55%
Other ⁽²⁾	15	7.46%	6	7.11%
Total short-term borrowings	\$83		\$34	
Long-Term Debt				
Senior Secured Credit Facility:				
Term loan facility due 2018 ⁽¹⁾	\$1,297	2.66%	\$1,087	2.55%
Revolving credit facility due 2018 ⁽¹⁾	315	2.22%	—	
Senior notes:				
5.00% Senior Notes due 2022	600		600	
4.625% Senior Notes due 2021	500		500	
5.875% Senior Notes due 2021	400		400	
6.375% Senior Notes due 2023	700		700	
Other ⁽²⁾	28	7.16%	33	7.21%
Total long-term debt	\$3,840		\$3,320	

Interest rates are weighted average interest rates as of June 30, 2014 and December 31, 2013 related to the Senior Secured Credit Facility, which incorporate the impact of the interest rate swap agreement described in Note 11, "Derivatives and Hedging Instruments."

⁽¹⁾ 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 June 30, 2014 and December 31, 2013 primarily related to various international credit facilities and a note payable in the U.S.

Senior Secured Credit Facility In August 2011, the Company entered into a senior secured credit facility with JPMorgan Chase Bank, NA (JPMCB), as administrative agent, and a syndicate of lenders. On July 25, 2013, the Company amended and restated the senior secured credit facility, and refinanced its term loan facility and revolving credit facility thereunder. On December 4, 2013, in connection with the then pending acquisition of Digital Insight, the senior secured credit facility was further amended (as amended, the Senior Secured Credit Facility). On December 4, 2013, in connection with the amendment of the Senior Secured Credit Facility, the Company entered into an Incremental Facility Agreement with and among the lenders party thereto and JPMCB, as administrative agent. The Incremental Facility Agreement created an additional \$250 million of term loan commitments under the Senior Secured Credit Facility, which were drawn, along with approximately \$300 million from the revolving credit facility, on January 10, 2014 in connection with the acquisition of Digital Insight. Refer to Note 3, "Acquisitions," for further details.

As of June 30, 2014, the Senior Secured Credit Facility consisted of a term loan facility in an aggregate principal amount of \$1.37 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 June 30, 2014, 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. The repayment schedule required quarterly installments of approximately \$17 million beginning

September 30, 2014, approximately \$26 million beginning September 30, 2015, and approximately \$34 million beginning September 30, 2016, 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.

Table of Contents

NCR Corporation

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

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 us to maintain:

a consolidated leverage ratio on the last day of any fiscal quarter, not to exceed (i) in the case of any fiscal quarter ending on or prior to June 30, 2014, 4.85 to 1.00, (ii) in the case of any fiscal quarter ending after June 30, 2014 and on or prior to December 31, 2014, (a) the sum of (x) 4.50 and (y) an amount (not to exceed 0.25) to reflect new debt used to reduce NCR's underfunded pension liabilities, to (b) 1.00, (iii) 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, (iv) 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 (v) 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 (i) in the case of any fiscal quarter ending on or prior to December 31, 2014, 3.00 to 1.00, and (ii) in the case of any fiscal quarter ending after December 31, 2014, 3.50 to 1.00.

The Senior Secured Credit Facility also contains events of default, which are customary for similar financings. Upon the occurrence of an event of default, the lenders may, among other things, terminate the loan commitments, accelerate all loans and require cash collateral deposits in respect of outstanding letters of credit.

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

Senior Unsecured Notes On September 17, 2012, the Company issued \$600 million aggregate principal amount of 5.00% senior unsecured notes due in 2022 (the 5.00% Notes). The 5.00% Notes were sold at 100% of the principal amount and will mature on July 15, 2022. On December 18, 2012, the Company issued \$500 million aggregate principal amount of 4.625% senior unsecured notes due in 2021 (the 4.625% Notes). The 4.625% Notes were sold at

100% of the principal amount and will mature on February 15, 2021. On December 19, 2013, the Company issued \$400 million aggregate principal amount of 5.875% senior unsecured notes due in 2021 (the 5.875% Notes) and \$700 million aggregate principal amount of 6.375% senior unsecured notes due in 2023 (the 6.375% Notes), the proceeds of which were used solely for the acquisition of Digital Insight. 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.

Table of Contents

NCR Corporation

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

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, we may redeem the 5.00% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date. Prior to July 15, 2015, we may redeem the 5.00% Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the notes originally issued at a redemption price of 105% plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more qualified equity offerings under certain further requirements.

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

The 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 our subsidiaries to pay dividends to us; enter into affiliate transactions; engage in sale and leaseback transactions; and consolidate, merge, sell or otherwise dispose of all or substantially all of our 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.

In connection with the issuances of the 5.875% Notes and the 6.375% Notes, the Company and its subsidiary guarantor entered into registration rights agreements with J.P. Morgan Securities LLC as representative of the initial purchasers of the applicable notes. On June 6, 2014, the Company filed registration statements on Forms S-4 with the SEC with respect to registered offers to exchange the 5.875% Notes and the 6.375% Notes in accordance with the requirements of the applicable registration rights agreements. The registration statements were each declared effective on June 20, 2014, and the exchange offers closed on July 22, 2014.

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 June 30, 2014 and December 31, 2013 was \$4.04 billion and \$3.33 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.

Table of Contents

NCR Corporation

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

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 \$29 million for the three months ended June 30, 2014 compared to \$23 million for the three months ended June 30, 2013. The increase in income tax expense was primarily driven by an increase in earnings. Income tax expense was \$33 million for the six months ended June 30, 2014 compared to \$25 million for the six months ended June 30, 2013. The increase in income tax expense was primarily driven by the one-time benefit of approximately \$16 million included in the six months ended June 30, 2013 in connection with the American Taxpayer Relief Act, which was partially offset by an increase in discrete benefits in the six months ended June 30, 2014.

7. STOCK COMPENSATION PLANS

As of June 30, 2014, 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 June 30		Six months ended June 30	
	2014	2013	2014	2013
Restricted stock	\$9	\$12	\$19	\$21
Stock options	—	—	—	1
Total stock-based compensation (pre-tax)	9	12	19	22
Tax benefit	(2)	(4)	(6)	(7)
Total stock-based compensation (net of tax)	\$7	\$8	\$13	\$15

Stock-based compensation expense is recognized in the financial statements based upon fair value. During the three and six months ended June 30, 2014 and 2013, the Company did not grant any stock options. As of June 30, 2014, the total unrecognized compensation cost of \$83 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 1.3 years.

8. EMPLOYEE BENEFIT PLANS

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2014	2013	2014	2013	2014	2013
Net service cost	\$—	\$—	\$3	\$3	\$3	\$3
Interest cost	34	31	20	19	54	50
Expected return on plan assets	(29)	(27)	(26)	(24)	(55)	(51)
Amortization of prior service cost	—	—	—	1	—	1
Actuarial gain	—	(5)	—	—	—	(5)
Special termination benefit cost	—	11	—	—	—	11
Net periodic benefit cost (income)	\$5	\$10	\$(3)	\$(1)	\$2	\$9

Table of Contents

NCR Corporation

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

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2014	2013	2014	2013	2014	2013
Net service cost	\$—	\$—	\$6	\$7	\$6	\$7
Interest cost	66	62	41	39	107	101
Expected return on plan assets	(59)	(54)	(52)	(49)	(111)	(103)
Amortization of prior service cost	—	—	1	2	1	2
Actuarial gain	—	(15)	—	—	—	(15)
Special termination benefit cost	—	24	—	—	—	24
Settlement	—	—	(2)	—	(2)	—
Net periodic benefit cost (income)	\$7	\$17	\$(6)	\$(1)	\$1	\$16

In February 2013, the Compensation and Human Resource Committee of NCR's Board of Directors approved the termination of NCR's U.S. non-qualified pension plans, resulting in a curtailment of those plans. As a result, during the three and six months ended June 30, 2013, an actuarial gain of \$5 million and \$15 million, respectively, was recognized associated with the termination of NCR's U.S. non-qualified pension plans.

During the first quarter of 2013, a select group of U.S. employees were offered the option to participate in a voluntary early retirement opportunity, which included incremental benefits for each employee who elected to participate. During the three and six months ended June 30, 2013, special termination benefit charges of \$11 million and \$24 million, respectively, were recognized for those employees who irrevocably accepted the offer during such periods.

The benefit from the postretirement plan for the three and six months ended June 30 was: