NCR CORP
Form 10-Q
November 05, 2013
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013
Commission File Number 001-00395

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

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

As of October 15, 2013, there were approximately 166.4 million shares of common stock issued and outstanding.

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Part I. Financial Information

Item 1. FINANCIAL STATEMENTS

NCR Corporation
Condensed Consolidated Statements of Operations (Unaudited)

In millions, except per share amounts	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Product revenue	$701	$712	$2,111	$1,988
Service revenue	807	723	2,342	2,100
Total revenue	1,508	1,435	4,453	4,088
Cost of products	524	534	1,577	1,511
Cost of services	569	519	1,666	1,506
Selling, general and administrative expenses	217	206	678	592
Research and development expenses	53	47	163	142
Total operating expenses	1,363	1,306	4,084	3,751
Income from operations	145	129	369	337
Interest expense	(23)	(7)	(70)	(24)
Other (expense), net	(3)	—	(4)	(7)
Income from continuing operations before income taxes	119	122	295	306
Income tax expense	19	33	44	68
Income from continuing operations	100	89	251	238
(Loss) income from discontinued operations, net of tax	—	(1)	(1)	3
Net income	100	88	250	241
Net income attributable to noncontrolling interests	2	1	5	2
Net income attributable to NCR	$98	$87	$245	$239
Amounts attributable to NCR common stockholders:				
Income from continuing operations	$98	$88	$246	$236
(Loss) income from discontinued operations, net of tax	—	(1)	(1)	3
Net income	$98	$87	$245	$239
Income per share attributable to NCR common stockholders:				
Income per common share from continuing operations				
Basic	$0.59	$0.55	$1.49	$1.49
Diluted	$0.58	$0.53	$1.46	$1.44
Net income per common share				
Basic	$0.59	$0.55	$1.48	$1.50
Diluted	$0.58	$0.53	$1.45	$1.46
Weighted average common shares outstanding				
Basic	166.2	159.6	165.1	158.9
Diluted	170.0	164.8	168.8	164.0

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

In millions	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Net income	$100	$88	$250	$241
Other comprehensive income (loss):				
Currency translation adjustments				
Currency translation adjustments	7	18	(49)	4
Derivatives				
Unrealized (loss) gain on derivatives	(3)	(8)	3	(14)
Losses on derivatives arising during the period	1	—	4	—
Less income tax benefit (expense)	—	2	(3)	4
Securities				
Unrealized gain on securities	—	—	3	—
Less income tax expense	(1)	—	(1)	—
Employee benefit plans				
New prior service cost	(3)	—	(3)	—
Amortization of prior service benefit	(5)	(2)	(27)	(12)
Net new actuarial (loss) gain	(12)	(6)	36	(6)
Actuarial loss included in benefits expense	3	2	6	10
Less income tax benefit (expense)	1	1	(9)	3
Other comprehensive (loss) income	(12)	7	(40)	(11)
Total comprehensive income	88	95	210	230
Less comprehensive income attributable to noncontrolling interests:				
Net income	2	1	5	2
Currency translation adjustments	(1)	—	(4)	(1)
Amounts attributable to noncontrolling interests	1	1	1	1
Comprehensive income attributable to NCR common stockholders	$87	$94	$209	$229

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	September 30, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	$460	$1,069
Accounts receivable, net	1,349	1,086
Inventories, net	842	797
Other current assets	591	454
Total current assets	3,242	3,406
Property, plant and equipment, net	338	308
Goodwill	1,472	1,003
Intangibles, net	474	304
Prepaid pension cost	424	368
Deferred income taxes	492	532
Other assets	436	448
Total assets	$6,878	$6,369
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	$15	$72
Accounts payable	584	611
Payroll and benefits liabilities	209	186
Deferred service revenue and customer deposits	508	455
Other current liabilities	437	418
Total current liabilities	1,753	1,742
Long-term debt	2,212	1,891
Pension and indemnity plan liabilities	740	805
Postretirement and postemployment benefits liabilities	202	246
Income tax accruals	143	138
Environmental liabilities	118	171
Other liabilities	118	79
Total liabilities	5,286	5,072
Commitments and Contingencies (Note 10)		
Redeemable noncontrolling interest	17	15
Stockholders' equity		
NCR stockholders' equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of September 30, 2013 and December 31, 2012	—	—
Common stock: par value $0.01 per share, 500.0 shares authorized, 166.3 and 162.8 shares issued and outstanding as of September 30, 2013 and December 31, 2012, respectively	2	2
Paid-in capital	434	358
Retained earnings	1,174	929
Accumulated other comprehensive loss	(73)	(37)
Total NCR stockholders' equity	1,537	1,252
Noncontrolling interests in subsidiaries	38	30
Total stockholders' equity	1,575	1,282

Total liabilities and stockholders' equity	$6,878	$6,369

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine months ended September 30	
	2013	2012
Operating activities		
Net income	$250	$241
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Loss (income) from discontinued operations	1	(3)
Depreciation and amortization	149	123
Stock-based compensation expense	34	36
Deferred income taxes	(8)	27
Gain on sale of property, plant and equipment and other assets	(14)	(8)
Impairment of long-lived and other assets	—	7
Changes in operating assets and liabilities (net of effects of acquisitions and divestitures):		
Receivables	(152)	(94)
Inventories	(41)	(74)
Current payables and accrued expenses	(24)	64
Deferred service revenue and customer deposits	21	56
Employee severance and pension	(152)	(587)
Other assets and liabilities	(48)	(68)
Net cash provided by (used in) operating activities	16	(280)
Investing activities		
Expenditures for property, plant and equipment	(80)	(53)
Proceeds from sales of property, plant and equipment	10	8
Additions to capitalized software	(75)	(58)
Business acquisitions, net	(696)	(58)
Other investing activities, net	5	4
Net cash used in investing activities	(836)	(157)
Financing activities		
Tax withholding payments on behalf of employees	(28)	(12)
Short term borrowings, net	(1)	—
Payments on term credit facility	(35)	—
Borrowings on term credit facility	300	150
Payments on revolving credit facility	(845)	(860)
Borrowings on revolving credit facility	845	720
Proceeds from bond offering	—	600
Debt issuance costs	(12)	(11)
Proceeds from employee stock plans	52	23
Dividend distribution to minority shareholder	—	(1)
Net cash provided by financing activities	276	609
Cash flows from discontinued operations		
Net cash used in operating activities	(51)	(85)
Net cash provided by investing activities	—	98
Net cash (used in) provided by discontinued operations	(51)	13
Effect of exchange rate changes on cash and cash equivalents	(14)	(2)

Decrease in cash and cash equivalents	(609)	183
Cash and cash equivalents at beginning of period	1,069	398
Cash and cash equivalents at end of period	$460	$581

See Notes to Condensed Consolidated Financial Statements.

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NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying Condensed Consolidated Financial Statements have been prepared by NCR Corporation (NCR, the Company, we or us) without audit pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal, recurring adjustments, unless otherwise disclosed) necessary for a fair statement of the consolidated results of operations, financial position, and cash flows for each period presented. The consolidated results for the interim periods are not necessarily indicative of results to be expected for the full year. The 2012 year-end Condensed Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (GAAP). These financial statements should be read in conjunction with NCR’s Form 10-K for the year ended December 31, 2012.

On February 6, 2013, the Company completed the acquisition of Retalix Ltd. (Retalix). As a result of the acquisition, the results of Retalix are included for the period from February 6, 2013 to September 30, 2013. See Note 4, "Acquisitions," for additional information.

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

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

Employee Benefit Plans On October 1, 2013, the Company made a $100 million discretionary contribution to the U.S. qualified pension plan.

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

Related Party Transactions In 2011, concurrent with the sale of a noncontrolling interest in our subsidiary, NCR Brasil - Indústria de Equipamentos para Automação S.A., to Scopus Tecnologia Ltda. (Scopus), we entered into a Master Purchase Agreement (MPA) with Banco Bradesco SA (Bradesco), the parent of Scopus. Through the MPA, Bradesco agreed to purchase up to 30,000 ATMs from us over the 5-year term of the agreement. Pricing of the ATMs will adjust over the term of the MPA using certain formulas which are based on prevailing market pricing. We recognized revenue related to Bradesco totaling $24 million and $101 million during the three and nine months ended September 30, 2013, respectively, as compared to $40 million and $95 million during the three and nine months ended September 30, 2012, respectively. As of September 30, 2013 and December 31, 2012, we had $17 million and $9 million, respectively, in receivables outstanding from Bradesco.

Recent Accounting Pronouncements

Adopted

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update requiring new disclosures about reclassifications from accumulated other comprehensive loss to net income. These disclosures may be presented on the face of the consolidated financial statements or in the notes thereto. The standards update is effective for fiscal years beginning after December 15, 2012. We adopted this standards update and included the additional disclosure, as required, in the first quarter of 2013. See Note 16, "Accumulated Other Comprehensive Income (Loss)," for additional information.

Issued

In February 2013, the FASB issued changes to the accounting for obligations resulting from joint and several liability arrangements. These changes require an entity to measure 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 is not expected to have a material impact on our consolidated financial statements.

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

2. PENSION BENEFIT PLAN ACCOUNTING METHODOLOGY CHANGES

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

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

These changes have been reported through retrospective application of the new policies to all periods presented.

In its Quarterly Reports on Form 10-Q for the quarters ended March 31 and June 30, 2013, the Company reported that it recorded a cumulative reduction of retained earnings as of December 31, 2012 (the most recent measurement date prior to the change) of $1,050 million related to these changes in accounting methodology. However, during the third quarter of 2013, the Company determined that there was an error in the calculation of the cumulative reduction of retained earnings as of December 31, 2012 under the new method of accounting that did not affect total stockholders' equity but required an adjustment between retained earnings and accumulated other comprehensive loss. As a result, the previously reported cumulative reduction in retained earnings as of December 31, 2012 should instead have been $1,205 million. The December 31, 2012 retained earnings and accumulated other comprehensive income balances set forth in this Quarterly Report on Form 10-Q reflect the correction of this error as well as an adjustment to the retained earnings balance to reflect a change in the value of plan assets. These adjustments also impact the Company's previously reported retained earnings and accumulated other comprehensive income balances for the first and second quarter of 2013. The impact of the these adjustments on the Company's previously reported retained earnings and comprehensive income balances for and March 31, and June 30, 2013 is as follows:

	June 30, 2013		March 31, 2013	
Condensed Consolidated Balance Sheets (Unaudited):	Previously Reported	Revised	Previously Reported	Revised
Retained earnings	1,231	1,076	1,145	990
Accumulated other comprehensive loss	(222)	(62)	(192)	(32)

The revised adjustment does not impact the Company's Condensed Statement of Operations, of Comprehensive Income or of Cash Flows for the first or second quarter of 2013, or for the nine months ended September 30, 2013. The Company has determined that the impact of the adjustments was not material to its previously reported interim 2013 financial statements.

The impact of all adjustments made to the financial statements presented resulting of the change in accounting methodology is summarized below (amounts in millions, except per share data):

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

In millions, except per share amounts	Three months ended September 30 2013 Previous Accounting Method	As Reported	2012 Previously Reported	Adjusted	Nine months ended September 30 2013 Previous Accounting Method	As Reported	2012 Previously Reported	Adjusted
Condensed Consolidated Statements of Operations (Unaudited):								
Cost of products	$525	$524	$536	$534	$1,583	$1,577	$1,515	$1,511
Cost of services	587	569	541	519	1,740	1,666	1,560	1,506
Selling, general and administrative expenses	226	217	217	206	715	678	619	592
Research and development expenses	56	53	52	47	176	163	155	142
Total operating expenses	1,394	1,363	1,346	1,306	4,214	4,084	3,849	3,751
Income from operations	114	145	89	129	239	369	239	337
Income from continuing operations before income taxes	88	119	82	122	165	295	208	306
Income tax expense	9	19	23	33	9	44	43	68
Income from continuing operations	79	100	59	89	156	251	165	238
Net income	79	100	58	88	155	250	168	241
Net income attributable to NCR	$77	$98	$57	$87	$150	$245	$166	$239
Amounts attributable to NCR common stockholders:								
Income from continuing operations	77	98	58	88	151	246	163	236
Income per share attributable to NCR common stockholders:								
Income per common share from continuing operations								
Basic	$0.46	$0.59	$0.36	$0.55	$0.91	$1.49	$1.03	$1.49
Diluted	$0.45	$0.58	$0.35	$0.53	$0.89	$1.46	$0.99	$1.44
Net income per common share								
Basic	$0.46	$0.59	$0.36	$0.55	$0.91	$1.48	$1.04	$1.50
Diluted	$0.45	$0.58	$0.35	$0.53	$0.89	$1.45	$1.01	$1.46
Condensed Consolidated Statements of Comprehensive Income (Unaudited):								
Net income	$79	$100	$58	$88	$155	$250	$168	$241
Employee benefit plans								
Net (loss) gain arising during the year	(12)	(12)	(98)	(6)	68	36	(98)	(6)
	32	3	35	2	96	6	98	10

Actuarial loss included in benefits expense								
Less income tax effect	(9)	1	14	1	(45)	(9)	2	3
Other comprehensive income (loss)	7	(12)	(39)	7	47	(40)	(15)	(11)
Total comprehensive income	86	88	19	95	202	210	153	230
Comprehensive income attributable to NCR common stockholders	$85	$87	$18	$94	$201	$209	$151	$229

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

Condensed Consolidated Balance Sheets (Unaudited):	September 30, 2013 Previous Accounting Method	As Reported
Prepaid pension cost	420	424
Total assets	6,874	6,878
Other current liabilities	445	437
Total current liabilities	1,761	1,753
Total liabilities	5,294	5,286
Retained earnings	2,281	1,174
Accumulated other comprehensive loss	(1,192)	(73)
Total NCR stockholders' equity	1,525	1,537
Total stockholders' equity	1,563	1,575
Total liabilities and stockholders' equity	6,874	6,878

Condensed Consolidated Balance Sheets (Unaudited):	December 31, 2012 Previously Reported	Revised
Retained earnings	2,134	929
Accumulated other comprehensive loss	(1,247)	(37)

Condensed Consolidated Statements of Cash Flows (Unaudited):	Nine months ended September 30 2013 Previous Accounting Method	As Reported	2012 Previously Reported	Adjusted
Net income	155	250	168	241
Deferred income taxes	(43)	(8)	2	27
Employee severance and pension	(22)	(152)	(489)	(587)

3. SUPPLEMENTAL FINANCIAL INFORMATION

The components of accounts receivable are summarized as follows:

In millions	September 30, 2013	December 31, 2012
Accounts receivable		
Trade	$1,328	$1,056
Other	41	46
Accounts receivable, gross	1,369	1,102
Less: allowance for doubtful accounts	(20)	(16)
Total accounts receivable, net	$1,349	$1,086

The components of inventory are summarized as follows:

In millions	September 30, 2013	December 31, 2012
Inventories, net		
Work in process and raw materials	$168	$187
Finished goods	216	167
Service parts	458	443
Total inventories, net	$842	$797

The components of other current assets are summarized as follows:

In millions	September 30, 2013	December 31, 2012
Other current assets		
Current deferred tax assets	$270	$223
Other	321	231
Total other current assets	$591	$454

4. ACQUISITIONS

Acquisition of Retalix Ltd. On February 6, 2013, NCR completed its acquisition of Retalix, for which it paid an aggregate cash purchase price of $791 million which includes $3 million to be recognized as compensation expense within selling, general and administrative expenses over a period of approximately three years from the acquisition date. The purchase price was paid from the net proceeds of the December 2012 offer and sale of NCR's 4.625% senior unsecured notes and borrowing under NCR's senior secured credit facility. As a result of the acquisition, Retalix became an indirect wholly owned subsidiary of NCR.

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

Recording of Assets Acquired and Liabilities Assumed

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

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

In millions	Fair Value
Cash and cash equivalents	$127
Accounts receivable	107

Other tangible assets	60
Acquired goodwill	452
Acquired intangible assets other than goodwill	205
Deferred tax liabilities	(43)
Liabilities assumed	(120)
Total purchase consideration	$788

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Goodwill represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. The goodwill arising from the acquisition consists of the margin and cost synergies expected from combining the operations of NCR and Retalix. It is expected that approximately $35 million of the goodwill recognized in connection with the acquisition will be deductible for tax purposes. The goodwill arising from the acquisition has been allocated to the Retail Solutions segment. Refer to Note 5, "Goodwill and Purchased Intangible Assets" for the carrying amounts of goodwill by segment as of September 30, 2013.

The intangible assets acquired in the acquisition include the following:

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

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

The Company has incurred a total of $9 million of transaction expenses to date relating to the acquisition, of which $6 million are included in selling, general and administrative expenses in the Company's Condensed Consolidated Statement of Operations for the nine months ended September 30, 2013.

Unaudited Pro forma Information

The following unaudited pro forma information presents the consolidated results of NCR and Retalix for the three and nine months ended September 30, 2013 and 2012. The unaudited pro forma information is presented for illustrative purposes only. It is not necessarily indicative of the results of operations of future periods, or the results of operations that actually would have been realized had the entities been a single company during the periods presented or the results that the combined company will experience after the acquisition. The unaudited pro forma information does not give effect to the potential impact of current financial conditions, regulatory matters or any anticipated synergies, operating efficiencies or cost savings that may be associated with the acquisition. The unaudited pro forma information also does not include any integration costs or remaining future transaction costs that the companies may incur related to the acquisition as part of combining the operations of the companies.

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

	Three months ended September 30		Nine months ended September 30	
In millions	2013	2012	2013	2012
Revenue	$1,511	$1,502	$4,484	$4,279
Net income attributable to NCR	$99	$79	$248	$210

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

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$3 million and $11 million, respectively, in additional revenue associated with deferred revenue acquired, assuming the deferred revenue was acquired on January 1, 2012,

- $2 million, net of tax, in additional amortization expense for acquired intangible assets in the nine months ended September 30, 2013, and

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

- $5 million, net of tax, in eliminated transaction costs for the nine months ended September 30, 2013 as if those costs had been recognized in the prior-year period.

The unaudited pro forma results for the three and nine months ended September 30, 2012 include:

- $3 million and $14 million, respectively, in reduced revenue associated with deferred revenue acquired,
- $4 million and $11 million, respectively, net of tax, in additional amortization expense for acquired intangible assets,
- $5 million and $15 million, respectively, net of tax, in interest expense from the 4.625% senior unsecured notes and senior secured credit facility, and
- $5 million, net of tax, in transaction costs for the nine months ended September 30, 2012.

Other Acquisitions During the nine months ended September 30, 2013, the Company completed five additional acquisitions for aggregate cash consideration of approximately $31 million, plus related acquisition costs. Goodwill recognized related to these acquisitions was $23 million, of which it is expected that $19 million will be deductible for tax purposes. The goodwill arising from these acquisitions has been allocated to the Hospitality segment. Supplemental pro forma information and actual revenue and earnings since the acquisition dates have not been provided as these acquisitions did not have a material impact, individually or in the aggregate, on the Company's Condensed Consolidated Statements of Operations.

5. GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The carrying amounts of goodwill by segment as of September 30, 2013 and December 31, 2012 are included in the table below. Foreign currency fluctuations are included within other adjustments.

	December 31, 2012						September 30, 2013		
In millions	Goodwill	Accumulated Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Accumulated Impairment Losses	Total
Financial Services	$202	$—	$202	$—	$—	$(2)	$200	$—	$200
Retail Solutions	120	(3)	117	452	—	—	572	(3)	569
Hospitality	659	—	659	23	—	(4)	678	—	678
Entertainment	5	(5)	—	—	—	—	5	(5)	—
Emerging Industries	25	—	25	—	—	—	25	—	25
Total goodwill	$1,011	$(8)	$1,003	$475	$—	$(6)	$1,480	$(8)	$1,472

Purchased Intangible Assets

NCR’s purchased intangible assets, reported in intangibles, net in the Condensed Consolidated Balance Sheets, were specifically identified when acquired, and are deemed to have finite lives. The gross carrying amount and accumulated amortization for NCR’s identifiable intangible assets were as set forth in the table below. The increase in the gross carrying amount is primarily due to the acquisitions detailed in Note 4, "Acquisitions."

In millions	Amortization Period (in Years)	September 30, 2013 Gross Carrying Amount	September 30, 2013 Accumulated Amortization	December 31, 2012 Gross Carrying Amount	December 31, 2012 Accumulated Amortization
Identifiable intangible assets					
Reseller & customer relationships	1 - 20	$312	$(32)	$179	$(17)
Intellectual property	2 - 7	256	(108)	180	(80)
Tradenames	4 - 9	59	(13)	49	(8)
Non-compete arrangements	2 - 5	8	(8)	8	(7)
Total identifiable intangible assets		$635	$(161)	$416	$(112)

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

In millions	Three months ended September 30, 2013	Nine months ended September 30, 2013	Remainder of 2013 (estimated)
Amortization expense	$17	$49	$17

	For the years ended December 31 (estimated)				
In millions	2014	2015	2016	2017	2018
Amortization expense	$68	$68	$63	$53	$37

6. DEBT OBLIGATIONS

As of September 30, 2013, the Company’s total debt was $2.23 billion, with $15 million included in short-term borrowings and $2.21 billion included in long-term debt, as follows:

In millions	September 30, 2013	December 31, 2012
Senior Secured Credit Facility:		
Term loan facility	$1,115	$850
Revolving credit facility	—	—
5.00% Senior Notes due July 15, 2022	600	600
4.625% Senior Notes due February 15, 2021	500	500
Other	12	13
Total debt	$2,227	$1,963

Senior Secured Credit Facility On July 25, 2013, the Company amended and restated its senior secured credit facility with and among the lenders party thereto and JPMorgan Chase Bank, N.A., as the administrative agent, and refinanced its term loan facility and revolving credit facility thereunder (Senior Secured Credit Facility). The Senior Secured Credit Facility now consists of a term loan facility in an aggregate principal amount of $1.12 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, 2013, outstanding letters of credit totaled approximately $17 million. The Company deferred approximately $9 million in additional debt issuance costs which are being amortized to interest expense over the life of the debt.

The outstanding principal balance of the term loan facility is required to be repaid in equal quarterly installments in annual amounts equal to 5.0% of the original amount of the term loans beginning September 30, 2014, 7.5% of the original amount of the term loans beginning September 30, 2015, and 10.0% of the original amount of the term loans 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.

The Company's obligations under the Senior Secured Credit Facility are guaranteed by certain of its wholly-owned domestic subsidiaries. The Senior Secured Credit Facility and these guarantees are secured by a first priority lien and security interest in certain equity interests owned by the Company and the guarantor subsidiaries in certain of their respective domestic and foreign subsidiaries. These security interests would be released if the Company achieves an “investment grade” rating, and will remain released so long as the Company maintains that rating.

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

- a consolidated leverage ratio on the last day of any fiscal quarter, not to exceed (i) in the case of any fiscal quarter ending on or prior to December 31, 2014, (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 unfunded pension liabilities, to (b) 1.00, (ii) 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) 4.00 and (y) an amount (not to exceed 0.75) to reflect new debt used to reduce NCR's unfunded pension liabilities, to (b) 1.00, (iii) in the case of any fiscal quarter ending after December 31, 2016 and prior to December 31, 2017, 4.00 to 1.00 and (iv) in the case of any fiscal quarter ending on or after December 31, 2017, 3.75 to 1.00; and
- an interest coverage ratio of at least 3.50 to 1.00.

At September 30, 2013, the maximum consolidated leverage ratio under the Senior Secured Credit Facility was 4.35 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. The 5.00% and 4.625% Notes are unsecured senior obligations of the Company and are guaranteed, fully and unconditionally, on a joint and several basis, by our subsidiaries, NCR International, Inc. and Radiant Systems, Inc., which also guarantee our obligations under the Senior Secured Credit Facility.

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

We have the option to redeem the 4.625% Notes, in whole or in part, at any time on or after February 15, 2017, at a redemption price of 102.313%, 101.156% and 100% during the 12-month periods commencing on February15, 2017, 2018 and 2019 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to February 15, 2017, we may redeem the 4.625% Notes, in whole or in part, at a redemption price equal to 100% of the principal amount plus a make-whole premium and accrued and unpaid interest to the redemption date. Prior to February 15, 2016, we may redeem the 4.625% Notes in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the notes originally issued at a redemption price of 104.625% plus accrued and unpaid interest to the redemption date, with the net cash proceeds from one or more qualified equity offerings under certain further requirements.

The terms of the indentures for these notes, among other things, limit the ability of the Company and certain of its subsidiaries to incur additional debt or issue redeemable preferred stock; pay dividends or make certain other restricted payments or investments; incur liens; sell assets; incur restrictions on the ability of our subsidiaries to pay dividends to us; enter into affliliate transactions; engage in sale and leaseback transactions; and consolidate, merge, sell or otherwise dispose of all or substantially all of our assets. 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.

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

Fair Value of Debt The fair value of debt is based on a discounted cash flow model that incorporates a market yield curve based on the Company’s credit rating with adjustments for duration. As of September 30, 2013 and December 31, 2012, the fair value of debt was $2.16 billion and $1.97 billion, respectively, and has been measured using significant other observable inputs (Level 2).

7. INCOME TAXES

Income tax provisions for interim (quarterly) periods are based on estimated annual income taxes calculated separately from the effect of significant, infrequent or unusual items. Income tax expense was $19 million for the three months ended September 30, 2013 compared to $33 million for the three months ended September 30, 2012. The decrease in income tax expense was driven by tax on a favorable mix of earnings and the release of a $10 million valuation allowance due to the implementation of a tax planning strategy which enabled the Company to access certain deferred tax assets.

Income tax expense was $44 million for the nine months ended September 30, 2013 compared to $68 million for the nine months ended September 30, 2012. The change in income tax is primarily driven by tax on a favorable mix of earnings, favorable tax legislation, and the release of a valuation allowance offset by a less favorable change in uncertain tax positions. The nine months ended September 30, 2013 included a one-time benefit of approximately $16 million in connection with the American Taxpayer Relief Act of 2012 that was signed into law in January 2013 and the related retroactive tax relief for certain law provisions that expired in 2012. The nine months ended September 30, 2013 also included the release of a $10 million valuation allowance due to the implementation of a tax planning strategy which enabled the Company to access certain deferred tax assets. The nine months ended September 30, 2012 included a $13 million favorable settlement with Japan for the 2001 through 2006 tax years and a $14 million favorable settlement with the Canada Revenue Agency for the 2003 tax year.

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8. STOCK COMPENSATION PLANS

As of September 30, 2013, the Company's primary types of stock-based compensation were restricted stock and stock options. Stock-based compensation expense for the following periods was:

In millions	Three months ended September 30		Nine months ended September 30	
	2013	2012	2013	2012
Restricted stock	$12	$13	$33	$33
Stock options	—	1	1	3
Total stock-based compensation (pre-tax)	12	14	34	36
Tax benefit	(4)	(4)	(11)	(11)
Total stock-based compensation (net of tax)	$8	$10	$23	$25

Stock-based compensation expense is recognized in the financial statements based upon fair value. During the three and nine months ended September 30, 2013, the Company did not grant any stock options. During the three and nine months ended September 30, 2012, the Company granted stock options and the weighted average fair value of option grants was estimated based on the below weighted average assumptions, which was $8.24 for the nine months ended September 30, 2012.

	For the three months ended September 30, 2012	For the nine months ended September 30, 2012
Dividend yield	—	—
Risk-free interest rate	0.64%	0.78%
Expected volatility	40.6%	40.1%
Expected holding period (years)	5.0	5.0

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

As of September 30, 2013, the total unrecognized compensation cost of $62 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 1.6 years. As of September 30, 2013, the total unrecognized compensation cost of $1 million related to unvested stock option grants is expected to be recognized over a weighted average period of approximately 0.6 years.

9. EMPLOYEE BENEFIT PLANS

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2013	2012	2013	2012	2013	2012
Net service cost	$—	$—	$3	$3	$3	$3
Interest cost	31	41	20	23	51	64
Expected return on plan assets	(27)	(33)	(24)	(28)	(51)	(61)
Amortization of prior service cost	—	—	2	4	2	4

Net benefit cost	$4	$8	$1	$2	$5	$10

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2013	2012	2013	2012	2013	2012
Net service cost	$—	$—	$10	$10	$10	$10
Interest cost	93	119	59	62	152	181
Expected return on plan assets	(81)	(95)	(73)	(72)	(154)	(167)
Amortization of prior service cost	—	—	4	6	4	6
Actuarial gain	(15)	—	—	—	(15)	—
Special termination benefit cost	24	—	—	—	24	—
Net benefit cost	$21	$24	$—	$6	$21	$30

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 nine months ended September 30, 2013, special termination benefit costs of $24 million were recognized for those employees who irrevocably accepted the offer during the period. Additionally, during the nine months ended September 30, 2013, an actuarial gain of $15 million was recognized associated with the termination of NCR's U.S. non-qualified pension plans.

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	
	2013	2012	2013	2012
Interest cost	$1	$—	$1	$1
Amortization of:				
Prior service benefit	(5)	(4)	(14)	(13)
Actuarial loss	—	—	2	2
Net postretirement benefit	$(4)	$(4)	$(11)	$(10)

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	
	2013	2012	2013	2012
Net service cost	$3	$5	$15	$15
Interest cost	3	3	7	8
Amortization of:				
Prior service benefit	(2)	(2)	(4)	(5)
Actuarial loss	3	2	4	8
Curtailment gain	—	—	(13)	—
Net postemployment cost	$7	$8	$9	$26

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

Employer Contributions

Pension For the three months ended September 30, 2013, NCR contributed approximately $20 million to its international pension plans. For the nine months ended September 30, 2013, NCR contributed approximately $56 million to its international pension plans and $86 million to its executive pension plan. In 2013, NCR anticipates contributing an additional $24 million to its international pension plans for a total of $80 million; and an additional $1 million to its executive pension plan for a total of $87 million. In addition to the $100 million discretionary contribution to its U.S. qualified plan, completed on October 1, 2013, NCR may, in connection with the previously announced third phase of its pension strategy, make one or more additional discretionary contributions to the U.S. qualified plan over the next two years but no such additional contributions are scheduled.

Postretirement For the three and nine months ended September 30, 2013, NCR contributed $1 million and $3 million, respectively, to its U.S. postretirement plan. NCR anticipates contributing an additional $2 million to its U.S. postretirement plan for a total of $5 million in 2013.

Postemployment For the three and nine months ended September 30, 2013, NCR contributed approximately $7 million and $26 million, respectively, to its postemployment plans. NCR anticipates contributing an additional $22 million to its postemployment plans for a total of $48 million in 2013.

10. COMMITMENTS AND CONTINGENCIES

In the normal course of business, NCR is subject to various proceedings, lawsuits, claims and other matters, including, for example, those that relate to the environment and health and safety, 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 employment, which are rapidly changing and subject to many possible changes in the future. Compliance with these laws and regulations, including changes in accounting standards, taxation requirements, and federal securities laws among others, may create a substantial burden on, and substantially increase costs to NCR or could have an impact on NCR's future operating results. NCR believes the amounts provided in its Condensed Consolidated Financial Statements, as prescribed by GAAP, are currently adequate in light of the probable and estimable liabilities with respect to such matters, but there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results. Other than as stated below, the Company does not currently expect to incur material capital expenditures related to such matters. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including but not limited to the Fox River and Kalamazoo River environmental matters and other matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's Condensed Consolidated Financial Statements or will not have a material adverse effect on its consolidated results of operations, capital expenditures, competitive position, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of September 30, 2013 cannot currently be reasonably determined, or are not currently considered probable.

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

With respect to Syria, in 2012 NCR voluntarily notified the U.S. Treasury Department, Office of Foreign Assets Control (OFAC) of potential violations and ceased operations in Syria, which were commercially insignificant. The notification related to confusion stemming from the Company's failure to register in Syria the transfer of the Company's Syrian branch to a foreign subsidiary and to deregister the Company's legacy Syrian branch, which was a branch of NCR Corporation. The Company received a license from OFAC on January 3, 2013, and subsequent licenses on April 29, 2013 and July 12, 2013, that permit the Company to take measures required to wind down its past operations in Syria. The Company also submitted a detailed report to OFAC regarding this matter, including a description of the Company's comprehensive export control program and related remedial measures.

With respect to the FCPA, the Company made a presentation in 2012 to the staff of the Securities and Exchange Commission (SEC) and the U.S. Department of Justice (DOJ) providing the facts known to the Company related to the whistleblower's FCPA allegations, and advising the government that many of these allegations were unsubstantiated. The Company is responding to subpoenas of the SEC and requests of the DOJ for documents and information related to the FCPA, including matters related to the whistleblower's FCPA allegations. The Company's investigations of the whistleblower's FCPA allegations identified a few opportunities to strengthen the Company's comprehensive FCPA compliance program, and remediation measures were proposed and are being implemented. The Company is fully cooperating with the authorities with respect to all of these matters. There can be no assurance that the Company will not be subject to fines or other remedial measures as a result of OFAC's, the SEC's or the DOJ's investigations.
In relation to a patent infringement case filed by a company known as Automated Transactions LLC (ATL) the Company agreed to defend and indemnify its customers, 7-Eleven and Cardtronics. On behalf of those customers, the Company won summary judgment in the case in March 2011. ATL's appeal of that ruling was decided in favor of 7-Eleven and Cardtronics in 2012, and its petition for review by the United States Supreme Court was denied in January 2013. (There are further proceedings to occur in the trial court on the indemnified companies' counterclaims against ATL, such that the case is not fully resolved, although ATL's claims of infringement in that case have now been fully adjudicated.) ATL contends that Vcom terminals sold by the Company to 7-Eleven (Cardtronics ultimately purchased the business from 7-Eleven) infringed certain ATL patents that purport to relate to the combination of an ATM with an Internet kiosk, in which a retail transaction can be realized over an Internet connection provided by the kiosk. Independent of the litigation, the U.S. Patent and Trademark Office (USPTO) rejected the parent patent as invalid in view of certain prior art, although related continuation patents were not reexamined by the USPTO. ATL filed a second suit against the same companies with respect to a broader range of ATMs, based on the same patents plus a more recently issued patent; that suit has been consolidated with the first case.

Environmental Matters NCR's facilities and operations are subject to a wide range of environmental protection laws, and NCR has investigatory and remedial activities underway at a number of facilities that it currently owns or operates, or formerly owned or operated, to comply, or to determine compliance, with such laws. Also, NCR has been identified, either by a government agency or by a private party seeking contribution to site clean-up costs, as a potentially responsible party (PRP) at a number of sites pursuant to various state and federal laws, including the Federal Water Pollution Control Act, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and comparable state statutes. Other than the Fox River matter and the 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, 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 original PRPs, requiring them to perform remedial work under the Governments' clean-up plan. 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 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) and a 2005 arbitration award (subsequently confirmed as a judgment). The Cost Sharing Agreement and the arbitration resolved disputes that arose out of agreements relating to the Company's 1978 sale of its Fox River facilities to API. The agreement and award result in a 45% share for NCR of the first $75 million of such costs (a threshold that was reached in 2008), and a 40% share for amounts in excess of $75 million. The non-NCR balance is shared on a joint and several basis by API and BAT.

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

Various litigation proceedings concerning the Fox River are pending. In a contribution action filed in 2008 seeking to determine allocable responsibility of several companies and governmental entities, a federal court in Wisconsin ruled that NCR and API did not have a right to obtain contribution from the other parties, but that those parties could obtain contribution from NCR and API with respect to certain moneys they had spent. Decisions in that action were issued in 2009, 2011, 2012 and 2013, with a final judgment entered in 2013. The final judgment held the Company liable in the approximate amount of $76 million; the Company prevailed on claims seeking to hold it liable under an “arranger” theory for the most upriver portion of the site, where claimed damages were approximately $95 million. The Company has secured a bond to stay execution on the judgment and has commenced an appeal from the aspects of the judgment that were not favorable to the Company. Other companies are also appealing from the judgment, including from those aspects that are favorable to the Company.

In August 2013, GP filed a breach of contract action against the Company in a Wisconsin state court, seeking reimbursement of expenses incurred under Fox River-related agreements entered into by certain PRPs in the 1990s; the Wisconsin federal court had ruled the expenses could not be recovered in the context of the contribution action. Any liability arising under those agreements would be subject to the cost-sharing obligations described herein pertaining to API, BAT, AT&T and Alcatel-Lucent.

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 the 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. Several parties, including NCR, have appealed from the judgment.

In April 2012, the court ruled in the Government enforcement action that API did not have direct CERCLA liability to the Governments, without disturbing API’s continuing obligation to pay under the Cost Sharing Agreement, arbitration award and judgment. Following the court's decision and API's subsequent and disputed withdrawal from the LLC, API has refused to pay for remediation costs and the Company has funded the full cost of remediation activity ordered by the court. NCR has sought payment from API under the Cost Sharing Agreement, and NCR’s payment demands made upon API as of September 30, 2013 total to approximately $70 million. The Company believes that the court's decision dismissing the Governments' claims against API has no effect on API's independent contractual and judgment-based obligations to NCR. The Company and API are engaged in arbitration proceedings over API’s failure to pay; API has counterclaimed against NCR. In connection with the dispute, in public filings in August 2013 API states that the Wisconsin federal court's rulings “do not affect [API’s] rights or obligations to share defense and liability costs with NCR in accordance with the terms of a 1998 agreement [the Cost Sharing Agreement] and a 2005 arbitration determination . . .” Appleton also reports in the same filing that “[t]he current carrying amount of [API’s] liability under the [a]rbitration is $61.7 million, which represents [API’s] best estimate of amounts to be paid for 2012 and 2013.”

The extent of NCR's potential Fox River liability remains subject to many uncertainties. NCR's eventual remediation liability, which is expected to be paid out over a period extending through approximately 2017, followed by long-term monitoring, will depend on a number of factors. In general, the most significant factors include: (1) the total clean-up costs, which are estimated at $827 million (there can be no assurances that this estimate will not be significantly higher as work progresses); (2) total NRD for the site, which may range from zero to $246 million (the government in one court filing in 2009 indicated claims could be as high as $382 million; in a September 2011 ruling the Wisconsin federal court ruled that the defendants in the contribution litigation could seek recovery against NCR for overpayments of NRD, although NRD recovery, if any, is a disputed issue that is not expected to be determined before

2014); (3) the share of future clean-up costs and NRD that NCR will bear, which under the current rulings by the federal court is assumed to be the full extent of clean-up activities other than for the most upriver portion of the site; (4)&#