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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**FORM 10-Q**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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

**For the quarterly period ended March 31, 2019**

**Commission File Number 001-00395**

 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**NCR CORPORATION**

**(Exact name of registrant as specified in its charter)**

\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

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

**864 Spring Street NW**

**Atlanta, GA 30308**

**(Address of principal executive offices) (Zip Code)**

**Registrant’s telephone number, including area code: (937) 445-5000**

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).    Yes  þ    No  o

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

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
|  |  |  |  |  |  |
| Large accelerated filer | þ |  |  | Accelerated filer | o |
| Non-accelerated filer | o |  |  | Smaller reporting company | o |
|  |  |  |  | Emerging Growth Company | o |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transaction period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange act.  o

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

Securities registered pursuant to Section 12(b) of the Act:

|  |  |  |
| --- | --- | --- |
|  | | |
|  |  |  |
| **Title of each class** | **Trading Symbol(s)** | **Name of each exchange on which registered** |
| Common Stock, par value $0.01 per share | NCR | New York Stock Exchange |

As of April 23, 2019, there were approximately 120.1 million shares of the registrant's common stock issued and outstanding.

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**Part I. Financial Information**

|  |  |
| --- | --- |
|  |  |
| **Item 1.** | **FINANCIAL STATEMENTS** |

**NCR Corporation**

**Condensed Consolidated Statements of Operations (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions, except per share amounts** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Product revenue | **$** | **539** |  |  | $ | 526 |  |
| Service revenue | **997** | |  |  | 991 | |  |
| **Total revenue** | **1,536** | |  |  | 1,517 | |  |
| Cost of products | **453** | |  |  | 420 | |  |
| Cost of services | **672** | |  |  | 677 | |  |
| Selling, general and administrative expenses | **252** | |  |  | 245 | |  |
| Research and development expenses | **59** | |  |  | 66 | |  |
| **Total operating expenses** | **1,436** | |  |  | 1,408 | |  |
| **Income from operations** | **100** | |  |  | 109 | |  |
| Interest expense | **(45** | | **)** |  | (41 | | ) |
| Other expense, net | **(8** | | **)** |  | (5 | | ) |
| **Income from continuing operations before income taxes** | **47** | |  |  | 63 | |  |
| Income tax expense | **9** | |  |  | 7 | |  |
| **Income from continuing operations** | **38** | |  |  | 56 | |  |
| Loss from discontinued operations, net of tax | **—** | |  |  | (35 | | ) |
| **Net income** | **38** | |  |  | 21 | |  |
| Net income attributable to noncontrolling interests | **1** | |  |  | 1 | |  |
| **Net income attributable to NCR** | **$** | **37** |  |  | $ | 20 |  |
| **Amounts attributable to NCR common stockholders:** |  | | |  |  | | |
| Income from continuing operations | **$** | **37** |  |  | $ | 55 |  |
| Dividends on convertible preferred stock | **(13** | | **)** |  | (12) | |  |
| Income from continuing operations attributable to NCR common stockholders | **24** | |  |  | 43 | |  |
| Loss from discontinued operations, net of tax | **—** | |  |  | (35 | | ) |
| Net income attributable to NCR common stockholders | **$** | **24** |  |  | $ | 8 |  |
| **Income per share attributable to NCR common stockholders:** |  | | |  |  | | |
| **Income per common share from continuing operations** |  | | |  |  | | |
| Basic | **$** | **0.20** |  |  | $ | 0.36 |  |
| Diluted | **$** | **0.20** |  |  | $ | 0.35 |  |
| **Net income per common share** |  | | |  |  | | |
| Basic | **$** | **0.20** |  |  | $ | 0.07 |  |
| Diluted | **$** | **0.20** |  |  | $ | 0.06 |  |
| **Weighted average common shares outstanding** |  | | |  |  | | |
| Basic | **119.3** | |  |  | 119.2 | |  |
| Diluted | **122.2** | |  |  | 123.8 | |  |

See Notes to Condensed Consolidated Financial Statements.

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**NCR Corporation**

**Condensed Consolidated Statements of Comprehensive Income (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Net income | **$** | **38** |  |  | $ | 21 |  |
| Other comprehensive (loss) income: |  | | |  |  | | |
| **Currency translation adjustments** |  | | |  |  | | |
| Currency translation gains | **19** | |  |  | 19 | |  |
| **Derivatives** |  | | |  |  | | |
| Unrealized gains (losses) on derivatives | **1** | |  |  | (5 | | ) |
| Losses (gains) on derivatives recognized during the period | **(1** | | **)** |  | 1 | |  |
| Less income tax (benefit) provision | **—** | |  |  | — | |  |
| **Employee benefit plans** |  | | |  |  | | |
| Amortization of prior service benefit | **(2** | | **)** |  | (2 | | ) |
| Amortization of actuarial (loss) benefit | **(1** | | **)** |  | 1 | |  |
| Less income tax benefit | **—** | |  |  | 1 | |  |
| **Other comprehensive income** | **16** | |  |  | 15 | |  |
| **Total comprehensive income** | **54** | |  |  | 36 | |  |
| Less comprehensive income attributable to noncontrolling interests: |  | | |  |  | | |
| Net income | **1** | |  |  | 1 | |  |
| **Amounts attributable to noncontrolling interests** | **1** | |  |  | 1 | |  |
| **Comprehensive income attributable to NCR** | **$** | **53** |  |  | $ | 35 |  |

See Notes to Condensed Consolidated Financial Statements.

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**NCR Corporation**

**Condensed Consolidated Balance Sheets (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions, except per share amounts** | **March 31, 2019** | | |  | **December 31, 2018** | | |
| **Assets** |  | | |  |  | | |
| Current assets |  | | |  |  | | |
| Cash and cash equivalents | **$** | **414** |  |  | $ | 464 |  |
| Accounts receivable, net | **1,335** | |  |  | 1,356 | |  |
| Inventories | **874** | |  |  | 806 | |  |
| Other current assets | **393** | |  |  | 397 | |  |
| Total current assets | **3,016** | |  |  | 3,023 | |  |
| Property, plant and equipment, net | **373** | |  |  | 359 | |  |
| Goodwill | **2,705** | |  |  | 2,692 | |  |
| Intangibles, net | **573** | |  |  | 595 | |  |
| Operating lease assets | **433** | |  |  | — | |  |
| Prepaid pension cost | **148** | |  |  | 140 | |  |
| Deferred income taxes | **453** | |  |  | 448 | |  |
| Other assets | **497** | |  |  | 504 | |  |
| **Total assets** | **$** | **8,198** |  |  | $ | 7,761 |  |
| **Liabilities and stockholders’ equity** |  | | |  |  | | |
| Current liabilities |  | | |  |  | | |
| Short-term borrowings | **$** | **297** |  |  | $ | 185 |  |
| Accounts payable | **788** | |  |  | 897 | |  |
| Payroll and benefits liabilities | **184** | |  |  | 238 | |  |
| Contract liabilities | **566** | |  |  | 461 | |  |
| Other current liabilities | **546** | |  |  | 501 | |  |
| Total current liabilities | **2,381** | |  |  | 2,282 | |  |
| Long-term debt | **2,914** | |  |  | 2,980 | |  |
| Pension and indemnity plan liabilities | **760** | |  |  | 759 | |  |
| Postretirement and postemployment benefits liabilities | **120** | |  |  | 118 | |  |
| Income tax accruals | **93** | |  |  | 91 | |  |
| Operating lease liabilities | **406** | |  |  | — | |  |
| Other liabilities | **184** | |  |  | 259 | |  |
| **Total liabilities** | **6,858** | |  |  | 6,489 | |  |
| **Commitments and Contingencies (Note 9)** |  | | |  |  | | |
| Redeemable noncontrolling interest | **14** | |  |  | 14 | |  |
| Series A convertible preferred stock: par value $0.01 per share, 3.0 shares authorized, 0.9 and 0.9 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively; redemption amount and liquidation preference of $883 and $871 as of March 31, 2019 and December 31, 2018, respectively | **872** | |  |  | 859 | |  |
| **Stockholders’ equity** |  | | |  |  | | |
| NCR stockholders’ equity |  | | |  |  | | |
| Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | **—** | |  |  | — | |  |
| Common stock: par value $0.01 per share, 500.0 shares authorized, 119.8 and 118.7 shares issued and outstanding as of March 31, 2019 and December 31, 2018, respectively | **1** | |  |  | 1 | |  |
| Paid-in capital | **48** | |  |  | 34 | |  |
| Retained earnings | **630** | |  |  | 606 | |  |
| Accumulated other comprehensive loss | **(230** | | **)** |  | (246 | | ) |
| **Total NCR stockholders’ equity** | **449** | |  |  | 395 | |  |
| Noncontrolling interests in subsidiaries | **5** | |  |  | 4 | |  |
| **Total stockholders’ equity** | **454** | |  |  | 399 | |  |
| **Total liabilities and stockholders’ equity** | **$** | **8,198** |  |  | $ | 7,761 |  |

See Notes to Condensed Consolidated Financial Statements.

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**NCR Corporation**

**Condensed Consolidated Statements of Cash Flows (Unaudited)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| **Operating activities** |  | | |  |  | | |
| Net income | **$** | **38** |  |  | $ | 21 |  |
| Adjustments to reconcile net income to net cash used in operating activities: |  | | |  |  | | |
| Loss from discontinued operations | **—** | |  |  | 35 | |  |
| Depreciation and amortization | **81** | |  |  | 86 | |  |
| Stock-based compensation expense | **23** | |  |  | 14 | |  |
| Deferred income taxes | **(5** | | **)** |  | 4 | |  |
| Changes in assets and liabilities: |  | | |  |  | | |
| Receivables | **21** | |  |  | (114 | | ) |
| Inventories | **(68** | | **)** |  | (42 | | ) |
| Current payables and accrued expenses | **(192** | | **)** |  | (77 | | ) |
| Contract liabilities | **100** | |  |  | 75 | |  |
| Employee benefit plans | **(4** | | **)** |  | (3 | | ) |
| Other assets and liabilities | **(10** | | **)** |  | (23 | | ) |
| **Net cash used in operating activities** | **(16** | | **)** |  | (24 | | ) |
| **Investing activities** |  | | |  |  | | |
| Expenditures for property, plant and equipment | **(22** | | **)** |  | (29 | | ) |
| Additions to capitalized software | **(43** | | **)** |  | (42 | | ) |
| Business acquisitions, net | **(6** | | **)** |  | — | |  |
| Other investing activities, net | **3** | |  |  | (3 | | ) |
| **Net cash used in investing activities** | **(68** | | **)** |  | (74 | | ) |
| **Financing activities** |  | | |  |  | | |
| Short term borrowings, net | **7** | |  |  | (1 | | ) |
| Payments on term credit facilities | **(17** | | **)** |  | (34 | | ) |
| Payments on revolving credit facilities | **(375** | | **)** |  | (498 | | ) |
| Borrowings on revolving credit facilities | **430** | |  |  | 613 | |  |
| Repurchases of Company common stock | **—** | |  |  | (165 | | ) |
| Proceeds from employee stock plans | **4** | |  |  | 5 | |  |
| Tax withholding payments on behalf of employees | **(13** | | **)** |  | (11 | | ) |
| **Net cash provided by (used in) financing activities** | **36** | |  |  | (91 | | ) |
| **Cash flows from discontinued operations** |  | | |  |  | | |
| Net cash used in operating activities | **(6** | | **)** |  | (4 | | ) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | **1** | |  |  | 5 | |  |
| Decrease in cash, cash equivalents, and restricted cash | **(53** | | **)** |  | (188 | | ) |
| Cash, cash equivalents and restricted cash at beginning of period | **476** | |  |  | 543 | |  |
| **Cash, cash equivalents and restricted cash at end of period** | **$** | **423** |  |  | $ | 355 |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| **Reconciliation of cash, cash equivalents and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows** |  | | |  |  | | |
| Cash and cash equivalents | **$** | **414** |  |  | $ | 348 |  |
| Restricted cash included in other assets | **9** | |  |  | 7 | |  |
| **Total cash, cash equivalents and restricted cash** | **$** | **423** |  |  | $ | 355 |  |

See Notes to Condensed Consolidated Financial Statements.

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**NCR Corporation**

**Condensed Consolidated Statements of Changes in Stockholder's Equity (Unaudited)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **NCR Stockholders** | | | | | | | | | | | | | | | | | |  |  | | |  |  | | |
|  |  | **Common Stock** | | | | | |  |  | | |  |  | | |  | **Accumulated Other Comprehensive (Loss) Income** | | |  | **Non-Redeemable Noncontrolling Interests in Subsidiaries** | | |  |  | | |
| **In millions** |  | **Shares** | |  | **Amount** | | |  | **Paid-in Capital** | | |  | **Retained Earnings** | | |  |  |  | **Total** | | |
| **December 31, 2018** |  | **119** |  |  | **$** | **1** |  |  | **$** | **34** |  |  | **$** | **606** |  |  | **$** | **(246** | **)** |  | **$** | **4** |  |  | **$** | **399** |  |
| Comprehensive income: |  |  | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net income |  | — |  |  | — | |  |  | — | |  |  | 37 | |  |  | — | |  |  | 1 | |  |  | 38 | |  |
| Other comprehensive income |  | — |  |  | — | |  |  | — | |  |  | — | |  |  | 16 | |  |  | — | |  |  | 16 | |  |
| Total comprehensive income |  | — |  |  | — | |  |  | — | |  |  | 37 | |  |  | 16 | |  |  | 1 | |  |  | 54 | |  |
| Employee stock purchase and stock compensation plans |  | 1 |  |  | — | |  |  | 14 | |  |  | — | |  |  | — | |  |  | — | |  |  | 14 | |  |
| Series A convertible preferred stock dividends |  | — |  |  | — | |  |  | — | |  |  | (13 | | ) |  | — | |  |  | — | |  |  | (13 | | ) |
| **March 31, 2019** |  | **120** |  |  | **$** | **1** |  |  | **$** | **48** |  |  | **$** | **630** |  |  | **$** | **(230** | **)** |  | **$** | **5** |  |  | **$** | **454** |  |

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**NCR Corporation**

**Condensed Consolidated Statements of Changes in Stockholder's Equity (Unaudited) - (Continued)**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **NCR Stockholders** | | | | | | | | | | | | | | | | | |  |  | | |  |  | | |
|  |  | **Common Stock** | | | | | |  |  | | |  |  | | |  | **Accumulated Other Comprehensive (Loss) Income** | | |  | **Non-Redeemable Noncontrolling Interests in Subsidiaries** | | |  |  | | |
| **In millions** |  | **Shares** | |  | **Amount** | | |  | **Paid-in Capital** | | |  | **Retained Earnings** | | |  |  |  | **Total** | | |
| **December 31, 2017** |  | **122** |  |  | **$** | **1** |  |  | **$** | **60** |  |  | **$** | **857** |  |  | **$** | **(199** | **)** |  | **$** | **3** |  |  | **$** | **722** |  |
| Comprehensive income: |  |  | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net income |  | — |  |  | — | |  |  | — | |  |  | 20 | |  |  | — | |  |  | — | |  |  | 20 | |  |
| Other comprehensive income |  | — |  |  | — | |  |  | — | |  |  | — | |  |  | 14 | |  |  | — | |  |  | 14 | |  |
| Total comprehensive income |  | — |  |  | — | |  |  | — | |  |  | 20 | |  |  | 14 | |  |  | — | |  |  | 34 | |  |
| Effects of adoption of new accounting standards |  | — |  |  | — | |  |  | — | |  |  | 14 | |  |  | 1 | |  |  | — | |  |  | 15 | |  |
| Employee stock purchase and stock compensation plans |  | 1 |  |  | — | |  |  | 8 | |  |  | — | |  |  | — | |  |  | — | |  |  | 8 | |  |
| Repurchase of Company common stock |  | (5 | ) |  | — | |  |  | (68 | | ) |  | (97 | | ) |  | — | |  |  | — | |  |  | (165 | | ) |
| Series A convertible preferred stock dividends |  | — |  |  | — | |  |  | — | |  |  | (12 | | ) |  | — | |  |  | — | |  |  | (12 | | ) |
| **March 31, 2018** |  | **118** |  |  | **$** | **1** |  |  | **$** | **—** |  |  | **$** | **782** |  |  | **$** | **(184** | **)** |  | **$** | **3** |  |  | **$** | **602** |  |

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**NCR Corporation**

**Notes to Condensed Consolidated Financial Statements (Unaudited)**

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**NCR Corporation**

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

**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 2018 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, 2018.

Effective January 1, 2019, NCR changed the management of its business to an industry basis from the previous model of management on a solution basis, which resulted in a corresponding change to NCR's reportable segments. We have reclassified prior period segment disclosures to conform to the current period presentation. See Note 3. Segment Information and Concentrations 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 revenue and expenses during the period reported. Actual results could differ from those estimates.

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

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

**Contract Assets and Liabilities** The following table presents the net contract asset and contract liability balances as of March 31, 2019 and December 31, 2018.

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
| **In millions** | **Location in the Condensed Consolidated Balance Sheet** |  | **March 31, 2019** | | |  | **December 31, 2018** | | |
| Current portion of contract assets | Other current assets |  | $ | 19 |  |  | $ | 22 |  |
| Current portion of contract liabilities | Contract liabilities |  | $ | 566 |  |  | $ | 461 |  |
| Non-current portion of contract liabilities | Other liabilities |  | $ | 83 |  |  | $ | 85 |  |

During the three months ended March 31, 2019, the Company recognized $191 million in revenue that was included in contract liabilities as of December 31, 2018.

**Remaining Performance Obligations** Remaining performance obligations represent the transaction price of orders for which products have not been delivered or services have not been performed. As of March 31, 2019, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $3.6 billion. The Company expects to recognize revenue on approximately three-quarters of the remaining performance obligations over the next 12 months, with the remainder recognized thereafter. The majority of our professional services are expected to be recognized over the next 12 months but this is contingent upon a number of factors, including customers’ needs and schedules.

The Company has made two elections that affect the value of remaining performance obligations described above. We do not disclose remaining performance obligations for SaaS contracts where variable consideration is directly allocated based on usage or when the original expected length is one year or less.

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**NCR Corporation**

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

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

We recognized revenue related to Banco Bradesco SA (Bradesco), the parent of Scopus, totaling $19 million during the three months ended March 31, 2019 as compared to $4 million during the three months ended March 31, 2018. As of March 31, 2019 and December 31, 2018, we had $7 million and $15 million, respectively, in receivables outstanding from Bradesco.

**Recent Accounting Pronouncements**

*Issued*

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

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

*Adopted*

In February 2016, the FASB issued a new leasing standard that will supersede current guidance related to accounting for leases. The guidance is intended to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The standard will be effective for the first interim period within annual periods beginning after December 15, 2018, with early adoption permitted. We adopted using the required modified retrospective approach and applied the provisions of the new leasing standard at the effective date, January 1, 2019, rather than at the beginning of the earliest period presented under the transition method provided. The standard also includes options to elect a number of practical expedients.  We elected the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and also completed the evaluation of the remaining practical expedients available under the guidance. Refer to Note 2. Leasing for additional discussion. The standard had a material effect to the total assets and total liabilities reported on the condensed consolidated balance sheet, and did not have a material effect to the condensed consolidated statement of operations or the condensed consolidated statement of cash flows. The impact of adoption was to record operating and financing lease assets and liabilities of $448 million and $521 million, respectively, with a reduction of $73 million for deferred rent liabilities and prepaid rent balances as of January 1, 2019. Refer to Note 2. Leasing for additional disclosure.

In October 2018, the FASB issued an accounting standards update for hedge accounting guidance that we adopted during the first quarter of 2019. This guidance allows for the use of a broad Treasury repurchase agreement financing rate, which is referred to as the Secured Overnight Financing Rate (SOFR) to be used as an additional benchmark rate for hedge accounting purposes. This guidance is effective for entities that have already adopted the amendments of the hedge accounting guidance for fiscal years beginning after December 15, 2018 on a prospective basis for qualifying new or re-designated hedging relationships entered into on or after the date of adoption. The adoption of this accounting standard update did not have a material effect on our consolidated financial statements.

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**NCR Corporation**

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

**2. LEASING**

As discussed in Note 1. Basis of Presentation and Summary of Significant Accounting Policies, we adopted the new leasing standard using the modified retrospective approach with an effective date of January 1, 2019. Prior year financial statements were not recast under the new standard and, therefore, those amounts are not presented below. We elected the package of transition provisions available for expired or existing contracts, which allowed us to carry forward our historical assessments of (1) whether contracts are or contain leases, (2) lease classification and (3) initial direct costs.

*Lessee* We lease property, vehicles and equipment under operating and financing leases.  For leases with terms greater than 12 months, we record the related asset and obligation at the present value of lease payments over the term. We determine the lease term by assuming the exercise of renewal options that are reasonably certain. Leases with a lease term 12 months or less at inception are not recorded on our Condensed Consolidated Balance Sheet and are expensed on a straight-line basis over the lease term in our Condensed Consolidated Statement of Operations. Our leases may include rental escalation clauses, renewal options and/or termination options that are factored into our determination of lease payments when appropriate. When available, we use the rate implicit in the lease to discount lease payments to present value; however, most of our leases do not provide a readily determinable implicit rate. Therefore, we must estimate our incremental borrowing rate to discount the lease payments based on information available at lease commencement. Our incremental borrowing rate is based on a credit-adjusted risk-free rate at commencement date, which best approximates a secured rate over a similar term of lease. Additionally, we do not separate lease and non-lease components for any asset classes, except for those leases embedded in certain service arrangements. Fixed and in-substance fixed payments are included in the recognition of the operating and financing assets and lease liabilities, however, variable lease payments, other than those based on a rate or index, are recognized in the Condensed Consolidated Statements of Operations in the period in which the obligation for those payments is incurred. The company’s variable lease payments generally relate to payments tied to various indexes, non-lease components and payments above a contractual minimum fixed payment.

The following table presents our lease balances as of March 31, 2019:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | | | | | |
|  |  |  |  |  |  |
| **In millions** | **Location in the Condensed Consolidated Balance Sheet** |  | **March 31, 2019** | | |
| **Assets** |  |  |  | | |
| Operating lease assets | Operating lease assets |  | $ | 433 |  |
| Finance lease assets | Property, plant and equipment, net |  | 2 | |  |
| Amortization of Finance lease assets | Property, plant and equipment, net |  | — | |  |
| Total leased assets |  |  | $ | 435 |  |
| **Liabilities** |  |  |  | | |
| Current |  |  |  | | |
| Operating lease liabilities | Other current liabilities |  | $ | 102 |  |
| Finance lease liabilities | Other current liabilities |  | 1 | |  |
| Noncurrent |  |  |  | | |
| Operating lease liabilities | Operating lease liabilities |  | 406 | |  |
| Finance lease liabilities | Other liabilities |  | 1 | |  |
| Total lease liabilities |  |  | $ | 510 |  |

The following table presents our lease costs for operating and finance leases for the three months ended March 31, 2019:

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**NCR Corporation**

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

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
|  |  |  |  |  |
| **In millions** |  | **Three months ended March 31, 2019** | | |
| Operating lease cost |  | $ | 35 |  |
| Finance lease cost |  |  | | |
| Amortization of leased assets |  | — | |  |
| Interest on lease liabilities |  | — | |  |
| Short-Term lease cost |  | 2 | |  |
| Variable lease cost |  | 9 | |  |
| Total lease cost |  | $ | 46 |  |

The following table presents the supplemental cash flow information for the three months ended March 31, 2019:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
|  |  |  |  |  |
| **In millions** |  | **Three months ended March 31, 2019** | | |
| Cash paid for amounts included in the measurement of lease liabilities: |  |  | | |
| Operating cash flows from operating leases |  | $ | 32 |  |
| Operating cash flows from finance leases |  | — | |  |
| Financing cash flows from finance leases |  | — | |  |
| Lease Assets Obtained in Exchange for Lease Obligations |  |  | | |
| Operating Leases |  | 12 | |  |
| Finance Leases |  | $ | 1 |  |

The following table reconciles the undiscounted cash flows for each of the first five years and total of the remaining years to the finance lease liabilities and operating lease liabilities recorded on the condensed consolidated balance sheet as of March 31, 2019:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
| **In millions** |  | **Operating Leases** | | |  | **Finance Leases** | | |
| 2019 |  | $ | 102 |  |  | $ | 1 |  |
| 2020 |  | 103 | |  |  | 1 | |  |
| 2021 |  | 79 | |  |  | — | |  |
| 2022 |  | 59 | |  |  | — | |  |
| 2023 |  | 44 | |  |  | — | |  |
| Thereafter |  | 310 | |  |  | — | |  |
| Total lease payments |  | 697 | |  |  | 2 | |  |
| Less: Amount representing interest |  | 189 | |  |  | — | |  |
| Present value of lease liabilities |  | $ | 508 |  |  | $ | 2 |  |

Prior to the adoption of the new lease accounting standard, future minimum lease payments under non-cancelable operating leases at December 31, 2018 were as follows: $128 million in 2019, $96 million in 2020, $80 million in 2021, $64 million in 2022, and $50 million in 2023.

As of March 31, 2019, we have additional operating leases, primarily for a real estate lease in Europe, that have not yet commenced of $70 million. This operating lease is expected to commence in 2021 with a lease term of 10 years.

The following table presents the weighted average remaining lease term and interest rate as of March 31, 2019:

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**NCR Corporation**

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

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  |  | **March 31, 2019** | |
| Weighted average lease term: |  |  | |
| Operating leases |  | 9.1 years |  |
| Finance leases |  | 3.2 years |  |
| Weighted average interest rate: |  |  | |
| Operating leases |  | 6.40 | % |
| Finance leases |  | 5.51 | % |

*Lessor* We have various arrangements for certain point-of-sale equipment under which we are the lessor. These leases meet the criteria for operating lease classification. Lease income associated with these leases is not material.

**3. SEGMENT INFORMATION AND CONCENTRATIONS**

As noted in Note 1. Basis of Presentation and Summary of Significant Accounting Policies, effective January 1, 2019, NCR changed the management of its business to an industry basis from the previous model of management on a solution basis, which resulted in a corresponding change to NCR's reportable segments. We have reclassified prior period segment disclosures to conform to the current period presentation. As a result of the change, the Company manages and reports the following segments:

|  |  |
| --- | --- |
|  |  |
| **•** | **Banking** - We offer solutions to enable customers in the financial services industry to reduce costs, generate new revenue streams and enhance customer loyalty. These solutions include a comprehensive line of ATM and payment processing hardware and software; cash management and video banking software and customer-facing digital banking services; and related installation, maintenance, and managed and professional services. |

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

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

|  |  |
| --- | --- |
|  |  |
| • | **Other -** This category includes telecommunications and technology solutions where we offer maintenance as well as managed and professional services for third-party hardware provided to select manufacturers who value and leverage our global service capability. |

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

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

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

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**NCR Corporation**

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

The following table presents revenue and operating income by segment:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| **Revenue by segment** |  | | |  |  | | |
| Banking | **$** | **758** |  |  | $ | 721 |  |
| Retail | **511** | |  |  | 521 | |  |
| Hospitality | **193** | |  |  | 204 | |  |
| Other | **74** | |  |  | 71 | |  |
| **Consolidated revenue** | **$** | **1,536** |  |  | $ | 1,517 |  |
| **Operating income by segment** |  | | |  |  | | |
| Banking | **$** | **95** |  |  | $ | 84 |  |
| Retail | **26** | |  |  | 35 | |  |
| Hospitality | **16** | |  |  | 19 | |  |
| Other | **10** | |  |  | 10 | |  |
| **Subtotal - segment operating income** | **147** | |  |  | 148 | |  |
| Other adjustments (1) | **47** | |  |  | 39 | |  |
| **Income from operations** | **$** | **100** |  |  | $ | 109 |  |

|  |  |
| --- | --- |
|  |  |
| (1) | The following table presents the other adjustments for NCR: |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Transformation and restructuring costs | **$** | **26** |  |  | $ | 16 |  |
| Acquisition-related amortization of intangible assets | **21** | |  |  | 23 | |  |
| **Total other adjustments** | **$** | **47** |  |  | $ | 39 |  |

The following table presents revenue by geography for NCR:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Americas | **$** | **920** |  |  | $ | 889 |  |
| Europe, Middle East and Africa (EMEA) | **419** | |  |  | 408 | |  |
| Asia Pacific (APJ) | **197** | |  |  | 220 | |  |
| **Total revenue** | **$** | **1,536** |  |  | $ | 1,517 |  |

The following tables present revenue from products and services for NCR:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Product revenue | **$** | **539** |  |  | $ | 526 |  |
| Professional services and installation services revenue | **238** | |  |  | 256 | |  |
| Recurring revenue, including maintenance, cloud revenue and payments | **759** | |  |  | 735 | |  |
| **Total revenue** | **$** | **1,536** |  |  | $ | 1,517 |  |

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Software | **$** | **467** |  |  | $ | 460 |  |
| Services | **585** | |  |  | 601 | |  |
| Hardware | **484** | |  |  | 456 | |  |
| **Total revenue** | **$** | **1,536** |  |  | $ | 1,517 |  |

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**NCR Corporation**

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

**4. GOODWILL AND LONG-LIVED ASSETS**

As noted in Note 1. Basis of Presentation and Summary of Significant Accounting Policies , effective January 1, 2019, the Company began management of its business on a industry basis, changing from the previous model of management on a solution basis, which resulted in a corresponding change to NCR's reportable segments. In connection with the change in reportable segments, during the first quarter of 2019, the Company determined its reporting units and then assigned goodwill to the new reporting units based on the relative fair value allocation approach. Based on this analysis, it was determined that the fair value of all reporting units were substantially in excess of the carrying value. We have reclassified prior period goodwill disclosures to conform to the current period presentation.

The carrying amounts of goodwill by segment as of March 31, 2019 and December 31, 2018 are included in the table below. Foreign currency fluctuations are included within other adjustments.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **December 31, 2018** | | | | | | | | | | |  |  | | |  |  | | |  |  | | |  | **March 31, 2019** | | | | | | | | | | |
| **In millions** | **Goodwill** | | |  | **Accumulated Impairment Losses** | | |  | **Total** | | |  | **Additions** | | |  | **Impairment** | | |  | **Other** | | |  | **Goodwill** | | |  | **Accumulated Impairment Losses** | | |  | **Total** | | |
| Banking | **$** | **1,718** |  |  | **$** | **(101** | **)** |  | **$** | **1,617** |  |  | **$** | **—** |  |  | **$** | **—** |  |  | **$** | **2** |  |  | **$** | **1,720** |  |  | **$** | **(101** | **)** |  | **$** | **1,619** |  |
| Retail | **571** | |  |  | **(34** | | **)** |  | **537** | |  |  | **5** | |  |  | **—** | |  |  | **—** | |  |  | **576** | |  |  | **$** | **(34** | **)** |  | **542** | |  |
| Hospitality | **385** | |  |  | **(23** | | **)** |  | **362** | |  |  | **6** | |  |  | **—** | |  |  | **—** | |  |  | **391** | |  |  | **(23** | | **)** |  | **368** | |  |
| Other | **187** | |  |  | **(11** | | **)** |  | **176** | |  |  | **—** | |  |  | **—** | |  |  | **—** | |  |  | **187** | |  |  | **(11** | | **)** |  | **176** | |  |
| **Total goodwill** | **$** | **2,861** |  |  | **$** | **(169** | **)** |  | **$** | **2,692** |  |  | **$** | **11** |  |  | **$** | **—** |  |  | **$** | **2** |  |  | **$** | **2,874** |  |  | **$** | **(169** | **)** |  | **$** | **2,705** |  |

Additions during the first quarter of 2019 represent a purchase accounting adjustment related to the acquisition of JetPay Corporation as well as goodwill from an acquisition of a reseller within the Hospitality segment that was completed in the first quarter of 2019.

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.

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Amortization**  **Period**  **(in Years)** |  | **March 31, 2019** | | | | | | |  | **December 31, 2018** | | | | | | |
| **In millions** |  | **Gross Carrying Amount** | | |  | **Accumulated Amortization** | | |  | **Gross Carrying Amount** | | |  | **Accumulated Amortization** | | |
| **Identifiable intangible assets** |  |  |  | | |  |  | | |  |  | | |  |  | | |
| Reseller & customer relationships | 1 - 20 |  | **$** | **725** |  |  | **$** | **(231** | **)** |  | $ | 726 |  |  | $ | (218 | ) |
| Intellectual property | 2 - 8 |  | **443** | |  |  | **(379** | | **)** |  | 443 | |  |  | (373 | | ) |
| Customer contracts | 8 |  | **89** | |  |  | **(87** | | **)** |  | 89 | |  |  | (87 | | ) |
| Tradenames | 2 - 10 |  | **75** | |  |  | **(62** | | **)** |  | 75 | |  |  | (60 | | ) |
| **Total identifiable intangible assets** |  |  | **$** | **1,332** |  |  | **$** | **(759** | **)** |  | $ | 1,333 |  |  | $ | (738 | ) |

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

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | |
|  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31, 2019** | | | **Remainder of 2019 (estimated)** | | |
| Amortization expense | $ | 21 |  | $ | 66 |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **For the years ended December 31 (estimated)** | | | | | | | | | | | | | | | | | | |
| **In millions** |  | **2020** | | |  | **2021** | | |  | **2022** | | |  | **2023** | | |  | **2024** | | |
| Amortization expense |  | $ | 68 |  |  | $ | 59 |  |  | $ | 55 |  |  | $ | 52 |  |  | $ | 47 |  |

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**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:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | | **March 31, 2019** | | | | |  | **December 31, 2018** | | | | |
| **In millions, except percentages** | | **Amount** | | |  | **Weighted-Average Interest Rate** |  | **Amount** | | |  | **Weighted-Average Interest Rate** |
| ***Short-Term Borrowings*** | |  | | |  |  |  |  | | |  |  |
| Current portion of Senior Secured Credit Facility (1) | | **$** | **90** |  |  | **4.50%** |  | $ | 84 |  |  | 4.51% |
| Trade Receivables Securitization Facility | | **200** | |  |  | **3.36%** |  | 100 | |  |  | 3.37% |
| Other (2) | | **7** | |  |  | **3.71%** |  | 1 | |  |  | 4.92% |
|  | Total short-term borrowings | **$** | **297** |  |  |  |  | $ | 185 |  |  |  |
| ***Long-Term Debt*** | |  | | |  |  |  |  | | |  |  |
| Senior Secured Credit Facility: | |  | | |  |  |  |  | | |  |  |
|  | Term loan facility (1) | **$** | **653** |  |  | **4.50%** |  | $ | 675 |  |  | 4.51% |
|  | Revolving credit facility (1) | **75** | |  |  | **4.49%** |  | 120 | |  |  | 4.49% |
| Senior notes: | |  | |  |  |  |  |  | | |  |  |
|  | 5.00% Senior Notes due 2022 | **600** | |  |  |  |  | 600 | |  |  |  |
|  | 4.625% Senior Notes due 2021 | **500** | |  |  |  |  | 500 | |  |  |  |
|  | 5.875% Senior Notes due 2021 | **400** | |  |  |  |  | 400 | |  |  |  |
|  | 6.375% Senior Notes due 2023 | **700** | |  |  |  |  | 700 | |  |  |  |
| Deferred financing fees | | **(16** | | **)** |  |  |  | (18 | | ) |  |  |
| Other (2) | | **2** | |  |  | **0.77%** |  | 3 | |  |  | 0.59% |
|  | Total long-term debt | **$** | **2,914** |  |  |  |  | $ | 2,980 |  |  |  |

|  |  |
| --- | --- |
|  |  |
| (1) | Interest rates are weighted-average interest rates as of March 31, 2019 and December 31, 2018. |

|  |  |
| --- | --- |
|  |  |
| (2) | Interest rates are weighted-average interest rates as of March 31, 2019 and December 31, 2018 primarily related to various international credit facilities. |

*Senior Secured Credit Facility* On March 31, 2016, the Company amended and restated its senior secured credit facility with and among certain foreign subsidiaries of NCR (the Foreign Borrowers), the lenders party thereto and JPMorgan Chase Bank, NA (JPMCB) as the administrative agent, and refinanced its term loan facility and revolving credit facility thereunder (the Senior Secured Credit Facility). As of March 31, 2019, the Senior Secured Credit Facility consisted of a term loan facility with an aggregate principal amount outstanding of $743 million and a revolving credit facility with an aggregate principal amount of $1.1 billion, of which $75 million was outstanding. The revolving credit facility also allows a portion of the availability to be used for outstanding letters of credit, and as of March 31, 2019, there were no letters of credit outstanding.

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

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

The obligations of the Company and Foreign Borrowers under the Senior Secured Credit Facility are guaranteed by certain of the Company's wholly-owned domestic subsidiaries. The Senior Secured Credit Facility and these guarantees are secured by a first

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**NCR Corporation**

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

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

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

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

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

At March 31, 2019, the maximum consolidated leverage ratio under the Senior Secured Credit Facility was 4.10 to 1.00.

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

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

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

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

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**NCR Corporation**

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

*Trade Receivables Securitization Facility* In November 2014, the Company established a two-year revolving trade receivables securitization facility (the A/R Facility) with PNC Bank, National Association (PNC) as the administrative agent, and various lenders.  In November 2016, the Company amended the A/R Facility to extend the maturity date to November 2018. In November 2018, the Company amended the A/R Facility to extend the maturity date to November 2020. The A/R Facility provides for up to $200 million in funding based on the availability of eligible receivables and other customary factors and conditions.

Under the A/R Facility, NCR sells and/or contributes certain of its U.S. trade receivables to a wholly-owned, bankruptcy-remote subsidiary as they are originated, and advances by the lenders to that subsidiary are secured by those trade receivables.  The assets of this financing subsidiary are restricted as collateral for the payment of its obligations under the A/R Facility, and its assets and credit are not available to satisfy the debts and obligations owed to the creditors of the Company. The Company includes the assets, liabilities and results of operations of this financing subsidiary in its consolidated financial statements. The financing subsidiary owned $540 million and $526 million of outstanding accounts receivable as of March 31, 2019 and December 31, 2018, respectively, and these amounts are included in accounts receivable, net in the Company’s Condensed Consolidated Balance Sheets.

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

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

*Fair Value of Debt* The Company utilized Level 2 inputs, as defined in the fair value hierarchy, to measure the fair value of the long-term debt, which, as of March 31, 2019 and December 31, 2018 was $3.24 billion and $3.11 billion, respectively. Management's fair value estimates were based on quoted prices for recent trades of NCR’s long-term debt, quoted prices for similar instruments, and inquiries with certain investment communities.

**6. INCOME TAXES**

Income tax provisions for interim (quarterly) periods are based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Income tax expense was $9 million for the three months ended March 31, 2019 compared to income tax expense of $7 million for the three months ended March 31, 2018. The increase in income tax expense was primarily driven by a decrease in discrete benefits offset by lower income before taxes in the three months ended March 31, 2019. The decrease in discrete benefits was primarily driven by favorable audit settlements in international jurisdictions during the three months ended March 31, 2018 that did not recur during the three months ended March 31, 2019.

The Company engages in regular discussions and negotiations with taxing authorities regarding tax matters, and the Company has determined that over the next 12 months it expects to resolve certain tax matters related to U.S. and foreign jurisdictions. As a result, as of March 31, 2019, we estimate that it is reasonably possible that gross unrecognized tax benefits may decrease by $5 million to $10 million in the next 12 months.

**7. STOCK COMPENSATION PLANS**

As of March 31, 2019, the Company’s primary type of stock-based compensation was restricted stock units and stock options. Stock-based compensation expense for the following periods were:

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Restricted stock units | **$** | **20** |  |  | $ | 13 |  |
| Stock options | **2** | |  |  | — | |  |
| Employee stock purchase plan | **1** | |  |  | 1 | |  |
| Stock-based compensation expense | **23** | |  |  | 14 | |  |
| Tax benefit | **(3** | | **)** |  | (3) | |  |
| Total stock-based compensation expense (net of tax) | **$** | **20** |  |  | $ | 11 |  |

Stock-based compensation expense is recognized in the financial statements based upon grant date fair value. 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 $8.07 and $9.80 for the three months ended March 31, 2019 and 2018, respectively. The stock options that were granted for the three months ended March 31, 2019 and 2018 had a seven year contractual term and will vest over four years.

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
|  | **2019** | | |  | **2018** | | |
| Dividend yield | **$** | **—** |  |  | $ | — |  |
| Risk-free interest rate | **2.50** | | **%** |  | 2.47 | | % |
| Expected volatility | **34.79** | | **%** |  | 34.81 | | % |
| Expected holding period (years) | **3.9** | |  |  | 3.8 | |  |

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

As of March 31, 2019, the total unrecognized compensation cost of $121 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 1.0 year. As of March 31, 2019, the total unrecognized compensation cost of $33 million related to unvested stock option grants is expected to be recognized over a weighted average period of approximately 1.8 years.

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

For the three months ended March 31, 2019, employees purchased 0.3 million shares, at a discounted price of $20.24. For the three months ended March 31, 2018, employees purchased 0.2 million shares, at a discounted price of $29.62.

**8. EMPLOYEE BENEFIT PLANS**

Components of net periodic benefit cost (income) of the pension plans for the three months ended March 31 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **In millions** | **U.S. Pension Benefits** | | | | | | |  | **International Pension Benefits** | | | | | | |  | **Total Pension Benefits** | | | | | | |
| **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |  | **2019** | | |  | **2018** | | |
| Net service cost | **$** | **—** |  |  | $ | — |  |  | **$** | **2** |  |  | $ | 2 |  |  | **$** | **2** |  |  | $ | 2 |  |
| Interest cost | **16** | |  |  | 15 | |  |  | **5** | |  |  | 5 | |  |  | **21** | |  |  | 20 | |  |
| Expected return on plan assets | **(10** | | **)** |  | (11 | | ) |  | **(8** | | **)** |  | (8 | | ) |  | **(18** | | **)** |  | (19 | | ) |
| Net periodic benefit cost (income) | **$** | **6** |  |  | $ | 4 |  |  | **$** | **(1** | **)** |  | $ | (1 | ) |  | **$** | **5** |  |  | $ | 3 |  |

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**NCR Corporation**

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

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **2019** | | |  | **2018** | | |
| Interest cost | **$** | **—** |  |  | $ | — |  |
| Amortization of: |  | | |  |  | | |
| Prior service benefit | **(1** | | **)** |  | (1 | | ) |
| Net postretirement benefit | **$** | **(1** | **)** |  | $ | (1 | ) |

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **In millions** | **2019** | | |  | **2018** | | |
| Net service cost | **$** | **14** |  |  | $ | 10 |  |
| Interest cost | **1** | |  |  | 1 | |  |
| Amortization of: |  | | |  |  | | |
| Prior service benefit | **(1** | | **)** |  | (1 | | ) |
| Actuarial gain | **(1** | | **)** |  | — | |  |
| Net benefit cost | **$** | **13** |  |  | $ | 10 |  |

***Employer Contributions***

*Pension* For the three months ended March 31, 2019, NCR contributed $6 million to its international pension plans. NCR anticipates contributing an additional $22 million to its international pension plans for a total of $28 million in 2019.

*Postretirement* For the three months ended March 31, 2019, NCR contributed $1 million to its U.S. postretirement plan. NCR anticipates contributing an additional $1 million to its U.S. postretirement plan for a total of $2 million in 2019.

*Postemployment* For the three months ended March 31, 2019, NCR contributed $14 million to its postemployment plans. NCR anticipates contributing an additional $16 million to its postemployment plans for a total of $30 million in 2019.

**9. COMMITMENTS AND CONTINGENCIES**

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

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**NCR Corporation**

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

In June 2014, one of the Company’s Brazilian subsidiaries, NCR Manaus, was notified of a Brazilian federal tax assessment of R$168 million, or approximately $43 million as of March 31, 2019, including penalties and interest regarding certain federal indirect taxes for 2010 through 2012. The assessment alleges improper importation of certain components into Brazil's free trade zone that would nullify related indirect tax incentives. We have not recorded an accrual for the assessment, as the Company believes it has a valid position regarding indirect taxes in Brazil and, as such, filed an appeal in 2014. In December 2017, the Company prevailed in this appeal regarding substantially all of the disputed amounts. However, the Brazilian federal tax authority has further appealed this dispute to the next procedural level, so the dispute is ongoing. In further proceedings on this matter, an intermediate tribunal decided in NCR's favor in August 2018 and issued an opinion to that effect on February 25, 2019. The Brazilian tax authorities have appealed one of the tax matters that was included within this decision. The Company estimated the aggregate risk related to this matter to be between zero and $16 million as of March 31, 2019. Although the Company has not recorded an accrual, it is possible that the Company could be required to pay taxes, penalties and interest related to this matter, which could be material to the Company's Condensed Consolidated Financial Statements.

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

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

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

NCR and API, along with B.A.T Industries p.l.c. (BAT), share among themselves a portion of the cost of the Fox River clean-up and natural resource damages (NRD) based upon a 1998 agreement (the Cost Sharing Agreement), a 2005 arbitration award (subsequently confirmed as a judgment), and a September 30, 2014 Funding Agreement (the Funding Agreement). The Cost Sharing Agreement and the arbitration resolved disputes that arose out of the Company's 1978 sale of its Fox River facilities to API. The Cost Sharing Agreement and arbitration award resulted in a 45% share for NCR of the first $75 million of such costs (a threshold that was reached in 2008), and a 40% share for amounts in excess of $75 million. The Funding Agreement arose out of a 2012 to 2014 arbitration dispute between NCR and API, and provides for regular, ongoing funding of NCR-incurred Fox River remediation costs via contributions, made to a new limited liability corporation created by the Funding Agreement, by BAT, API and, for 2014, API's indemnitor Windward Prospects. The Funding Agreement creates an obligation on BAT and API to fund 50% of NCR’s Fox River remediation costs from October 1, 2014 forward; (API’s Fox River-related obligations under the Funding Agreement were fully satisfied in 2016); the Funding Agreement also provides NCR contractual avenues for payment of, via direct and third-party sources, (1) the difference between BAT’s and API’s 60% obligation under the Cost Sharing Agreement and arbitration award on the one hand and their ongoing (since September 2014) 50% payments under the Funding Agreement on the other, as well as (2) the difference between the amount NCR received under the Funding Agreement and the amount owed to it under the Cost Sharing Agreement and arbitration award for the period from April 2012 through September 2014. As of March 31, 2019 and December 31, 2018, the receivable under the Funding Agreement was approximately $46 million and $45 million, respectively, and was included in other assets in the Condensed Consolidated Balance Sheet. The Company anticipates that it will collect sums related to the receivable in 2019 or later, likely after the remediation efforts related to the Fox River matter, described below, are complete. This receivable is not taken into account in calculating the Company’s Fox River net reserve.

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**NCR Corporation**

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

The Company's litigations relating to contribution and enforcement claims concerning the Fox River have been concluded. A proposed consent decree settlement (the CD settlement) with respect to the contribution action (a case originally filed by NCR and API) and the government enforcement action (a case originally filed by the federal and state governments against several PRPs, including the Company) was successfully negotiated by NCR and the federal and state governments and was approved on August 22, 2017 by the federal district court in Wisconsin that had been presiding over those cases. A final order of dismissal as to the Company in the contribution and government enforcement actions was subsequently entered; one party, Glatfelter, had appealed the approval of the CD settlement. On January 3, 2019, the United States lodged a proposed consent decree with the Wisconsin court, reflecting a settlement reached by the United States, Wisconsin and Glatfelter with respect to Glatfelter’s Fox River liability under the government enforcement action; a component of that settlement was withdrawal of Glatfelter’s appeal opposing the Company’s CD settlement. On March 14, 2019, the Wisconsin court approved the Glatfelter consent decree, and on April 3, 2019, Glatfelter's appeal was dismissed.

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

In the quarter ending September 30, 2017, the remediation general contractor commenced an arbitration against the LLC, in a dispute over contract interpretation. That dispute is scheduled for a hearing in mid-2019. The amounts claimed by the contractor range from approximately $46 million to approximately $53 million; the Company disputes the claims and is contesting them vigorously. To the extent, if any, that the contractor’s claims are successful, the Company’s indemnitors and co-obligors, described below, would be expected to bear responsibility for the majority of any award, with the Company’s share approximately one-fourth of such award.

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

NCR's eventual remediation liability, followed by long-term monitoring expected to be performed by others, will depend on a number of factors. In establishing the reserve, NCR attempts to estimate a range of reasonably possible outcomes for each of these factors, although each range is itself uncertain. NCR uses its best estimate within the range, if that is possible. Where there is a range of equally possible outcomes, and there is no amount within that range that is considered to be a better estimate than any other amount, NCR uses the low end of the range. The significant factors include: (1) the total remaining clean-up costs, in-river remediation is expected to be completed in 2019, depending on the outcome of certain requests made by the governments concerning additional dredging, the expected cost impact of which is expected to be neutral or non-material to the Company, including long-term monitoring following completion of the clean-up, and what parties are assigned to discharge the post-clean-up tasks (as noted, the Company no longer expects to bear long-term monitoring costs); (2) total NRD for the site and the share that NCR will bear (which is now resolved as to the Company); (3) the share of clean-up costs that NCR will bear (which is resolved under the CD settlement); (4) NCR's transaction and litigation costs to defend itself in this matter (with remaining litigation expected to be limited to the claim brought by the general contractor, both referenced above); and (5) the share of NCR's payments that BAT will bear (which is governed by the Cost Sharing Agreement and the Funding Agreement, BAT has made all of the payments requested of it, and as discussed above; API is in bankruptcy and is not presumed likely to bear further shares of NCR’s payments). With respect to NRD, in connection with a certain settlement entered into by other PRPs in 2015, the Government withdrew the NRD claims it had prosecuted on behalf of NRD trustees, including those NRD claims asserted against the Company.

Calculation of the Company's Fox River reserve is subject to several complexities, and it is possible there could be additional changes to some elements of the reserve over upcoming periods, although the Company is unable to predict or estimate such changes at this time. There can be no assurance that the clean-up and related expenditures and liabilities will not have a material

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**NCR Corporation**

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

effect on NCR's capital expenditures, earnings, financial condition, cash flows, or competitive position. As of March 31, 2019, the gross reserve for the Fox River matter was approximately $18 million, compared to $21 million as of December 31, 2018. As of March 31, 2019, the net reserve for the Fox River matter was approximately $15 million, compared to $17 million as of December 31, 2018. The change in the net reserve is due to payments for clean-up activities and litigation costs. NCR contributes to the LLC to fund remediation activities and generally, by contract, has funded certain amounts of remediation expenses in advance. As of March 31, 2019 and December 31, 2018, approximately zero remained from this funding. NCR's reserve for the Fox River matter is reduced as the LLC makes payments to the remediation contractor and other vendors with respect to remediation activities.

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

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

In connection with the Kalamazoo River site, in December 2010 the Company, along with two other defendants, was sued in federal court by three Georgia-Pacific (GP) affiliate corporations in a private-party contribution and cost recovery action for alleged pollution. The suit, pending in Michigan, asks that the Company and other defendants pay a "fair portion" of these companies’ costs. Various removal and remedial actions remain to be decided upon and performed at the Kalamazoo River site, the costs for which generally have not yet been determined; in 2017 Records of Decisions were issued for two parts of the river, and in 2018 such a decision was issued for another part of the river, but such decisions for the majority of the work are expected to be made only over the next several years. The suit alleges that the Company is liable to the GP entities as an "arranger" under CERCLA. The initial phase of the case was tried in a Michigan federal court in February 2013; on September 26, 2013 the court issued a decision that held NCR was liable as an “arranger” as of at least March 1969. (PCB-containing carbonless copy paper was produced from approximately 1954 to April 1971, and the majority of contamination at the Kalamazoo River site had occurred prior to 1969). NCR preserved its right to appeal the September 2013 decision.

In the 2013 decision the Court did not determine NCR’s share of the overall liability. Relative shares of liability for the four companies were tried to the court in a subsequent phase of the case in December 2015. In a ruling issued on March 29, 2018, the court addressed responsibility for the costs that GP had incurred in the past, totaling to approximately $50 million (GP had sought approximately $105 million, but $55 million of those claims were removed by the court upon motions filed by the Company and other parties); NCR and GP were each assigned a 40% share of those costs, and the other two companies were assigned 15% and 5% as their allocations. The court entered a judgment in the case on June 19, 2018, in which it indicated that it would not, allocate future costs, but would enter a declaratory judgment that the four companies together had responsibility for future costs, in amounts and shares to be determined. Cross-proceedings have been commenced to obtain recoveries from the other parties pursuant to the judgment; those proceedings are stayed pending the appeal referenced below.

NCR expects to have claims against BAT and API under the Funding Agreement, discussed above for the Kalamazoo River remediation expenses. API filed for bankruptcy protection in October 2017, and thus payment of its potential share under the Funding Agreement for so-called “future sites,” which would include the Kalamazoo River site, may be at risk, but as liability under the Cost Sharing Agreement and the Funding Agreement is joint and several, the bankruptcy is not anticipated to affect the Company’s ability to seek that amount from BAT. The Company will also have indemnity or reimbursement claims against AT&T and Nokia under the arrangement discussed above in connection with the Fox River matter after expenses have met a contractual threshold set out in the 1996 agreement referenced above in the Fox River discussion.

In light of the 2018 decision, the Company increased its reserve for the Kalamazoo River matter during 2018. The total reserve for Kalamazoo was $46 million as of March 31, 2019 as compared to $47 million as of December 31, 2018; that figure is reported on a basis that is net of expected contributions from the Company's co-obligors and, if and when the applicable threshold is reached, its indemnitors. As many aspects of the costs of remediation will not be determined for several years (and thus the high end of a range of possible costs for many areas of the site cannot be quantified at this time), the Company has made what it considers to

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**NCR Corporation**

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

be reasonable estimates of the low end of a range for such costs where remedies are identified, and/or of the costs of investigations and studies for areas of the river where remedies have not yet been determined, and the reserve is informed by those estimates. The extent of NCR’s potential liability remains subject to many uncertainties, particularly inasmuch as remedy decisions and cost estimates will not be generated until times in the future and as most of the work to be performed will not take place until the 2020s and 2030s. Under other assumptions or estimates for possible costs of remediation, which the Company does not at this point consider to be reasonably estimable or verifiable, it is possible that the reserve the Company has taken to discontinued operations reflected in this paragraph could more than approximately double the reflected reserve.

In July 2018 the Company appealed to the United States Court of Appeals for the Sixth Circuit both the 2013 court decision, which it believes is in conflict with a decision from the Fox River trial court as to Operable Unit 1 of that site and an affirmance of that decision from the Court of Appeals for the Seventh Circuit, and the 2018 court decision, on various legal grounds. The Company filed a bond to stay any execution of the judgment pending the appeal, and its application for a stay was approved by the court.

*Environmental-Related Insurance Recoveries* In connection with the Fox River and other environmental sites, through March 31, 2019, NCR has received a combined gross total of approximately $202 million in settlements reached with various of its insurance carriers. Portions of many of these settlements agreed in the 2010 through 2013 timeframe are payable to a law firm that litigated the claims on the Company's behalf. Some of the settlements cover not only the Fox River but also other environmental sites; some are limited to either the Fox River or the Kalamazoo River site. Some of the settlements are directed to defense costs and some are directed to indemnity; some settlements cover both defense costs and indemnity. The Company does not anticipate that further material insurance recoveries specific to Kalamazoo River remediation costs will be available to it, owing to considerations under applicable Michigan law. Claims with respect to Kalamazoo River defense costs have now been settled, with the amounts of those settlements included in the sum reported above.

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

**Guarantees and Product Warranties** In the ordinary course of business, NCR may issue performance guarantees on behalf of its subsidiaries to certain of its customers and other parties. Some of those guarantees may be backed by standby letters of credit, surety bonds, or similar instruments. In general, under the guarantees, NCR would be obligated to perform, or cause performance, over the term of the underlying contract in the event of an unexcused, uncured breach by its subsidiary, or some other specified triggering event, in each case as defined by the applicable guarantee. NCR believes the likelihood of having to perform under any such guarantee is remote. As of March 31, 2019 and December 31, 2018, NCR had no material obligations related to such guarantees, and therefore its Condensed Consolidated Financial Statements do not have any associated liability balance.

NCR provides its customers a standard manufacturer’s warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors, such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. When a sale is consummated, the total customer revenue is recognized, provided that all revenue recognition criteria are otherwise satisfied, and the associated warranty liability is recorded using pre-established warranty percentages for the respective product classes.

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

The Company recorded the activity related to the warranty reserve for the three months ended March 31 as follows:

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **2019** | | |  | **2018** | | |
| **Warranty reserve liability** |  | | |  |  | | |
| Beginning balance as of January 1 | **$** | **26** |  |  | $ | 26 |  |
| Accruals for warranties issued | **8** | |  |  | 8 | |  |
| Settlements (in cash or in kind) | **(10** | | **)** |  | (10 | | ) |
| Ending balance as of March 31 | **$** | **24** |  |  | $ | 24 |  |

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

**10. SERIES A CONVERTIBLE PREFERRED STOCK**

On December 4, 2015, NCR issued 820,000 shares of Series A Convertible Preferred Stock to certain entities affiliated with the Blackstone Group L.P. (collectively, Blackstone) for an aggregate purchase price of $820 million, or $1,000 per share, pursuant to an Investment Agreement between the Company and Blackstone, dated November 11, 2015. In connection with the issuance of the Series A Convertible Preferred Stock, the Company incurred direct and incremental expenses of $26 million, including financial advisory fees, closing costs, legal expenses and other offering-related expenses. These direct and incremental expenses originally reduced the Series A Convertible Preferred Stock, and will be accreted through retained earnings as a deemed dividend from the date of issuance through the first possible known redemption date, March 16, 2024. Holders of Series A Convertible Preferred Stock are entitled to a cumulative dividend at the rate of 5.5% per annum, payable quarterly in arrears. During the three months ended March 31, 2019 and 2018, the Company paid dividends-in-kind of $12 million and $11 million, respectively, associated with the Series A Convertible Preferred Stock. As of March 31, 2019 and December 31, 2018, the Company had accrued dividends of $3 million, respectively, associated with the Series A Convertible Preferred Stock. There were no cash dividends declared during the three months ended March 31, 2019 or 2018.

The Series A Convertible Preferred Stock is convertible at the option of the holders at any time into shares of common stock at a conversion price of $30.00 per share, or a conversion rate of 33.333 shares of common stock per share of Series A Convertible Preferred Stock.

As of March 31, 2019 and December 31, 2018, the maximum number of common shares that could be required to be issued upon conversion of the outstanding shares of Series A Convertible Preferred Stock was 29.4 million and 29.0 million shares, respectively.

**11. EARNINGS PER SHARE**

Basic earnings per share (EPS) is calculated by dividing net income or loss attributable to NCR, less any dividends (declared or cumulative undeclared), deemed dividends, accretion or decretion, redemption or induced conversion on our Series A Convertible Preferred Stock, by the weighted average number of shares outstanding during the period.

In computing diluted EPS, we adjust the numerator used in the basic EPS computation, subject to anti-dilution requirements, to add back the dividends (declared or cumulative undeclared), deemed dividends, accretion or decretion, redemption or induced conversion on our Series A Convertible Preferred Stock. We adjust the denominator used in the basic EPS computation, subject to anti-dilution requirements, to include the dilution from potential shares related to the Series A Convertible Preferred Stock and stock-based compensation plans.

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

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**NCR Corporation**

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

The components of basic earnings per share are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
| **In millions, except per share amounts** |  | **Three months ended March 31** | | | | | | |
|  | **2019** | | |  | **2018** | | |
| **Numerator** |  |  | | |  |  | | |
| Income from continuing operations |  | **$** | **37** |  |  | $ | 55 |  |
| Series A Convertible Preferred Stock dividends |  | **(13** | | **)** |  | (12 | | ) |
| **Income from continuing operations attributable to NCR common stockholders** |  | **24** | |  |  | 43 | |  |
| Loss from discontinued operations, net of tax |  | **—** | |  |  | (35 | | ) |
| **Net income attributable to NCR common stockholders** |  | **$** | **24** |  |  | $ | 8 |  |
|  |  |  | | |  |  | | |
| **Denominator** |  |  | | |  |  | | |
| Basic weighted average number of shares outstanding |  | **119.3** | |  |  | 119.2 | |  |
|  |  |  | | |  |  | | |
| **Basic earnings per share:** |  |  | | |  |  | | |
| From continuing operations |  | **$** | **0.20** |  |  | $ | 0.36 |  |
| From discontinued operations |  | **—** | |  |  | (0.29 | | ) |
| Total basic earnings per share |  | **$** | **0.20** |  |  | $ | 0.07 |  |

The components of diluted earnings per share are as follows:

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | |
|  |  |  |  |  |  |  |  |  |
| **In millions, except per share amounts** |  | **Three months ended March 31** | | | | | | |
|  | **2019** | | |  | **2018** | | |
| **Numerator** |  |  | | |  |  | | |
| Income from continuing operations |  | **$** | **37** |  |  | $ | 55 |  |
| Series A Convertible Preferred Stock dividends |  | **(13** | | **)** |  | (12 | | ) |
| **Income from continuing operations attributable to NCR common stockholders** |  | **24** | |  |  | 43 | |  |
| Loss from discontinued operations, net of tax |  | **—** | |  |  | (35 | | ) |
| **Net income attributable to NCR common stockholders** |  | **$** | **24** |  |  | $ | 8 |  |
|  |  |  | | |  |  | | |
| Basic weighted average number of shares outstanding |  | **119.3** | |  |  | 119.2 | |  |
| Dilutive effect of restricted stock units |  | **2.9** | |  |  | 4.6 | |  |
| **Denominator** |  | **122.2** | |  |  | 123.8 | |  |
|  |  |  | | |  |  | | |
| **Diluted earnings per share:** |  |  | | |  |  | | |
| From continuing operations |  | **$** | **0.20** |  |  | $ | 0.35 |  |
| From discontinued operations |  | **—** | |  |  | (0.29 | | ) |
| Total diluted earnings per share |  | **$** | **0.20** |  |  | $ | 0.06 |  |

For the three months ended March 31, 2019, shares related to the as-if converted Series A Convertible Preferred Stock of 29.2 million were excluded from the diluted share count because their effect would have been anti-dilutive. For the three months ended March 31, 2019, weighted average restricted stock units and stock options of 4.5 million were excluded from the diluted share count because their effect would have been anti-dilutive.

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**NCR Corporation**

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

For the three months ended March 31, 2018, shares related to the as-if converted Series A Convertible Preferred Stock of 27.7 million were excluded from the diluted share count because their effect would have been anti-dilutive. For the three months ended March 31, 2018, there were 1.4 million anti-dilutive restricted stock units and stock options outstanding.

**12. DERIVATIVES AND HEDGING INSTRUMENTS**

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

***Foreign Currency Exchange Risk***

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

Our risk management strategy includes hedging, on behalf of certain subsidiaries, a portion of our forecasted, non-functional currency denominated cash flows for a period of up to 15 months. As a result, some of the impact of currency fluctuations on non-functional currency denominated transactions (and hence on subsidiary operating income, as stated in the functional currency), is mitigated in the near term. The amount we hedge and the duration of hedge contracts may vary significantly. In the longer term (greater than 15 months), the subsidiaries are still subject to the effect of translating the functional currency results to U.S. Dollars. To manage our exposures and mitigate the impact of currency fluctuations on the operations of our foreign subsidiaries, we hedge our main transactional exposures through the use of foreign exchange forward and option contracts. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by NCR’s marketing units and the foreign currency denominated inputs to our manufacturing units. The related foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses on these hedges are deferred in accumulated other comprehensive income (AOCI) and reclassified to income when the underlying hedged transaction is recorded in earnings. As of March 31, 2019, the balance in AOCI related to foreign exchange derivative transactions was a gain of $2 million, net of tax. The gains or losses from derivative contracts related to inventory purchases are recorded in cost of products when the inventory is sold to an unrelated third party.

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

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**NCR Corporation**

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

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **Fair Values of Derivative Instruments** | | | | | | | | | | | | | | | | | | |
|  | **March 31, 2019** | | | | | | | | | | | | | | | | | | |
| **In millions** | **Balance Sheet**  **Location** |  | **Notional**  **Amount** | | |  | **Fair**  **Value** | | |  | **Balance Sheet**  **Location** |  | **Notional**  **Amount** | | |  | **Fair**  **Value** | | |
| **Derivatives designated as hedging instruments** |  |  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Foreign exchange contracts | Other current assets |  | **$** | **136** |  |  | **$** | **5** |  |  | Other current liabilities |  | **$** | **—** |  |  | **$** | **—** |  |
| **Total derivatives designated as hedging instruments** |  |  |  | | |  | **$** | **5** |  |  |  |  |  | | |  | **$** | **—** |  |
| **Derivatives not designated as hedging instruments** |  |  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Foreign exchange contracts | Other current assets |  | **$** | **58** |  |  | **$** | **—** |  |  | Other current liabilities |  | **$** | **276** |  |  | **$** | **1** |  |
| **Total derivatives not designated as hedging instruments** |  |  |  | | |  | **$** | **—** |  |  |  |  |  | | |  | **$** | **1** |  |
| **Total derivatives** |  |  |  | | |  | **$** | **5** |  |  |  |  |  | | |  | **$** | **1** |  |
|  |  |  |  | | |  |  | | |  |  |  |  | | |  |  | | |
|  |  |  |  | | |  |  | | |  |  |  |  | | |  |  | | |
|  | **Fair Values of Derivative Instruments** | | | | | | | | | | | | | | | | | | |
|  | **December 31, 2018** | | | | | | | | | | | | | | | | | | |
| **In millions** | **Balance Sheet**  **Location** |  | **Notional**  **Amount** | | |  | **Fair**  **Value** | | |  | **Balance Sheet**  **Location** |  | **Notional**  **Amount** | | |  | **Fair**  **Value** | | |
| **Derivatives designated as hedging instruments** |  |  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Foreign exchange contracts | Other current assets |  | $ | 169 |  |  | $ | 4 |  |  | Other current liabilities |  | $ | — |  |  | $ | — |  |
| **Total derivatives designated as hedging instruments** |  |  |  | | |  | $ | 4 |  |  |  |  |  | | |  | $ | — |  |
| **Derivatives not designated as hedging instruments** |  |  |  | | |  |  | | |  |  |  |  | | |  |  | | |
| Foreign exchange contracts | Other current assets |  | $ | 219 |  |  | $ | 1 |  |  | Other current liabilities |  | $ | 157 |  |  | $ | 1 |  |
| **Total derivatives not designated as hedging instruments** |  |  |  | | |  | $ | 1 |  |  |  |  |  | | |  | $ | 1 |  |
| **Total derivatives** |  |  |  | | |  | $ | 5 |  |  |  |  |  | | |  | $ | 1 |  |

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**NCR Corporation**

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

The effects of derivative instruments on the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income for the three months ended March 31, 2019 and 2018 were as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **In millions** | **Amount of Gain (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative** | | | | | | |  |  |  | **Amount of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations** | | | | | | |
| **Derivatives in Cash Flow Hedging Relationships** | **For the three months ended March 31, 2019** | | |  | **For the three months ended March 31, 2018** | | |  | **Location of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations** |  | **For the three months ended March 31, 2019** | | |  | **For the three months ended March 31, 2018** | | |
| Foreign exchange contracts | **$** | **1** |  |  | $ | (5 | ) |  | Cost of products |  | **$** | **(1** | **)** |  | $ | 1 |  |

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |
| **In millions** |  |  | **Amount of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations** | | | | | | |
|  |  |  | **Three months ended March 31** | | | | | | |
| **Derivatives not Designated as Hedging Instruments** | **Location of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations** |  | **2019** | | |  | **2018** | | |
| Foreign exchange contracts | Other (expense), net |  | **$** | **(5** | **)** |  | $ | — |  |

Refer to Note 13, “Fair Value of Assets and Liabilities” for further information on derivative assets and liabilities recorded at fair value on a recurring basis.

***Concentration of Credit Risk***

NCR is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the Condensed Consolidated Balance Sheets. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. NCR’s business often involves large transactions with customers, and if one or more of those customers were to default on its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses are adequate. As of March 31, 2019, we did not have any significant concentration of credit risk related to financial instruments.

**13. FAIR VALUE OF ASSETS AND LIABILITIES**

***Assets and Liabilities Measured at Fair Value on a Recurring Basis***

Assets and liabilities recorded at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 are set forth as follows:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **March 31, 2019** | | | | | | | | | | | | | | |
| **In millions** | **Total** | | |  | **Quoted Prices in**  **Active Markets for**  **Identical Assets**  **(Level 1)** | | |  | **Significant Other**  **Observable Inputs**  **(Level 2)** | | |  | **Significant**  **Unobservable Inputs**  **(Level 3)** | | |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |
| Deposits held in money market mutual funds (1) | **$** | **13** |  |  | **$** | **13** |  |  | **$** | **—** |  |  | **$** | **—** |  |
| Foreign exchange contracts (2) | **5** | |  |  | **—** | |  |  | **5** | |  |  | **—** | |  |
| **Total** | **$** | **18** |  |  | **$** | **13** |  |  | **$** | **5** |  |  | **$** | **—** |  |
| **Liabilities:** |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts (3) | **$** | **1** |  |  | **$** | **—** |  |  | **$** | **1** |  |  | **$** | **—** |  |
| **Total** | **$** | **1** |  |  | **$** | **—** |  |  | **$** | **1** |  |  | **$** | **—** |  |

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  | **December 31, 2018** | | | | | | | | | | | | | | |
| **In millions** | **Total** | | |  | **Quoted Prices in**  **Active Markets for**  **Identical Assets**  **(Level 1)** | | |  | **Significant Other**  **Observable Inputs**  **(Level 2)** | | |  | **Significant**  **Unobservable Inputs**  **(Level 3)** | | |
| **Assets:** |  | | |  |  | | |  |  | | |  |  | | |
| Deposits held in money market mutual funds (1) | $ | 8 |  |  | $ | 8 |  |  | $ | — |  |  | $ | — |  |
| Foreign exchange contracts (2) | 5 | |  |  | — | |  |  | 5 | |  |  | — | |  |
| **Total** | $ | 13 |  |  | $ | 8 |  |  | $ | 5 |  |  | $ | — |  |
| **Liabilities:** |  | | |  |  | | |  |  | | |  |  | | |
| Foreign exchange contracts (3) | $ | 1 |  |  | $ | — |  |  | $ | 1 |  |  | $ | — |  |
| **Total** | $ | 1 |  |  | $ | — |  |  | $ | 1 |  |  | $ | — |  |

(1)    Included in Cash and cash equivalents in the Condensed Consolidated Balance Sheets.

(2)    Included in Other current assets in the Condensed Consolidated Balance Sheets.

(3)    Included in Other current liabilities in the Condensed Consolidated Balance Sheets.

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

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

***Assets Measured at Fair Value on a Non-recurring Basis***

From time to time, certain assets are measured at fair value on a nonrecurring basis using significant unobservable inputs (Level 3). NCR reviews the carrying values of investments when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary declines. There were no material impairment charges or non-recurring fair value adjustments were recorded during the three months ended March 31, 2019 and 2018.

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**NCR Corporation**

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

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

**Changes in AOCI by Component**

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **In millions** | **Currency Translation Adjustments** | | | **Changes in Employee Benefit Plans** | | | **Changes in Fair Value of Effective Cash Flow Hedges** | | | **Total** | | |
| Balance as of December 31, 2018 | $ | (234 | ) | $ | (14 | ) | $ | 2 |  | $ | (246 | ) |
| Other comprehensive income (loss) before reclassifications | 19 | |  | — | |  | 1 | |  | 20 | |  |
| Amounts reclassified from AOCI | — | |  | (3 | | ) | (1 | | ) | (4 | | ) |
| Net current period other comprehensive (loss) income | 19 | |  | (3 | | ) | — | |  | 16 | |  |
| Balance as of March 31, 2019 | $ | (215 | ) | $ | (17 | ) | $ | 2 |  | $ | (230 | ) |

**Reclassifications Out of AOCI**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **For the three months ended March 31, 2019** | | | | | | | | | | | | |
|  | | **Employee Benefit Plans** | | | | | |  | | |  |  | | |
| **In millions** | | **Amortization of Actuarial Loss (Gain)** | | | **Amortization of Prior Service Benefit** | | | **Effective Cash Flow Hedge Loss (Gain)** | | |  | **Total** | | |
| Affected line in Condensed Consolidated Statement of Operations: | |  | | |  | | |  | | |  |  | | |
|  | Cost of products | $ | — |  | $ | — |  | $ | (1 | ) |  | $ | (1 | ) |
|  | Cost of services | (1 | | ) | (2 | | ) | — | |  |  | (3 | | ) |
|  | Total before tax | $ | (1 | ) | $ | (2 | ) | $ | (1 | ) |  | $ | (4 | ) |
|  | Tax expense |  | | |  | | |  | | |  | — | |  |
|  | Total reclassifications, net of tax |  | | |  | | |  | | |  | $ | (4 | ) |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
|  |  | **For the three months ended March 31, 2018** | | | | | | | | | | | | |
|  | | **Employee Benefit Plans** | | | | | |  | | |  |  | | |
| **In millions** | | **Amortization of Actuarial Loss (Gain)** | | | **Amortization of Prior Service Benefit** | | | **Effective Cash Flow Hedge Loss (Gain)** | | |  | **Total** | | |
| Affected line in Condensed Consolidated Statement of Operations: | |  | | |  | | |  | | |  |  | | |
|  | Cost of products | $ | — |  | $ | — |  | $ | 1 |  |  | $ | 1 |  |
|  | Cost of services | — | |  | (2 | | ) | — | |  |  | (2 | | ) |
|  | Total before tax | $ | — |  | $ | (2 | ) | $ | 1 |  |  | $ | (1 | ) |
|  | Tax expense |  | | |  | | |  | | |  | 1 | |  |
|  | Total reclassifications, net of tax |  | | |  | | |  | | |  | $ | — |  |

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**NCR Corporation**

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

**15. RESTRUCTURING PLAN**

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

As a result of the restructuring plan, the Company recorded a total charge of $2 million in the three months ended March 31, 2019. The restructuring program was substantially completed during the three months ended March 31, 2019.

*Severance and other employee related costs* The Company recorded $1 million of employee related costs in accordance with ASC 420, *Exit or* *Disposal Cost Obligations*. These costs were included within cost of products in the Condensed Consolidated Statement of Operations. The Company made $3 million in severance-related payments under ASC 420 in the three months ended March 31, 2019.

*Other exit costs*The Company recorded $1 million in the three months ended March 31, 2019 that were included within cost of products in the Condensed Consolidated Statement of Operations.

The results by segment, as disclosed in Note 3. Segment Information and Concentrations, exclude the impact of these costs, which is consistent with the manner by which management assesses the performance and evaluates the results of each segment. The following table summarizes the costs recorded in accordance with ASC 420, *Exit or Disposal Cost Obligations,*and ASC 712, *Employers’ Accounting for Postemployment Benefits,*and the remaining liabilities as of March 31, 2019, which are included in the Condensed Consolidated Balance Sheet in Other Current Liabilities.

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
| **In millions** | **March 31, 2019** | | |
| **Employee Severance and Other Exit Costs** |  | | |
| Beginning balance as of January 1 | $ | 2 |  |
| Cost recognized during the period | 2 | |  |
| Utilization | (4 | | ) |
| Ending balance as of March 31 | $ | — |  |

**16. SUPPLEMENTAL FINANCIAL INFORMATION**

The components of accounts receivable are summarized as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **March 31, 2019** | | |  | **December 31, 2018** | | |
| **Accounts receivable** |  | | |  |  | | |
| Trade | **$** | **1,342** |  |  | $ | 1,364 |  |
| Other | **25** | |  |  | 23 | |  |
| Accounts receivable, gross | **1,367** | |  |  | 1,387 | |  |
| Less: allowance for doubtful accounts | **(32** | | **)** |  | (31 | | ) |
| **Total accounts receivable, net** | **$** | **1,335** |  |  | $ | 1,356 |  |

The components of inventory are summarized as follows:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
| **In millions** | **March 31, 2019** | | |  | **December 31, 2018** | | |
| **Inventories** |  | | |  |  | | |
| Work in process and raw materials | **$** | **233** |  |  | $ | 237 |  |
| Finished goods | **278** | |  |  | 214 | |  |
| Service parts | **363** | |  |  | 355 | |  |
| **Total inventories** | **$** | **874** |  |  | $ | 806 |  |

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**NCR Corporation**

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

**17. CONDENSED CONSOLIDATING SUPPLEMENTAL GUARANTOR INFORMATION**

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

|  |  |
| --- | --- |
|  |  |
| • | the designation of the Guarantor Subsidiary as an unrestricted subsidiary under the indenture governing the notes; |

|  |  |
| --- | --- |
|  |  |
| • | the release of the Guarantor Subsidiary from its guarantee under the Senior Secured Credit Facility; |

|  |  |
| --- | --- |
|  |  |
| • | the release or discharge of the indebtedness that required the guarantee of the notes by the Guarantor Subsidiary; |

|  |  |
| --- | --- |
|  |  |
| • | the permitted sale or other disposition of the Guarantor Subsidiary to a third party; and |

|  |  |
| --- | --- |
|  |  |
| • | the Company's exercise of its legal defeasance option of its covenant defeasance option under the indenture governing the notes. |

Refer to Note 5. Debt Obligations for additional information.

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

The following supplemental information sets forth, on a consolidating basis, the condensed statements of operations and comprehensive income (loss), the condensed balance sheets and the condensed statements of cash flows for the parent issuer of these senior unsecured notes, for the Guarantor Subsidiary and for the Company and all of its consolidated subsidiaries.

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)** | | | | | | | | | | | | | | | | | | | |
| **For the three months ended March 31, 2019** | | | | | | | | | | | | | | | | | | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **In millions** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| Product revenue | $ | 272 |  |  | $ | 3 |  |  | $ | 310 |  |  | $ | (46 | ) |  | $ | 539 |  |
| Service revenue | 517 | |  |  | 8 | |  |  | 472 | |  |  | — | |  |  | 997 | |  |
| **Total revenue** | **789** | |  |  | **11** | |  |  | **782** | |  |  | **(46** | | **)** |  | **1,536** | |  |
| Cost of products | 244 | |  |  | 2 | |  |  | 253 | |  |  | (46 | | ) |  | 453 | |  |
| Cost of services | 361 | |  |  | 3 | |  |  | 308 | |  |  | — | |  |  | 672 | |  |
| Selling, general and administrative expenses | 139 | |  |  | 1 | |  |  | 112 | |  |  | — | |  |  | 252 | |  |
| Research and development expenses | 33 | |  |  | — | |  |  | 26 | |  |  | — | |  |  | 59 | |  |
| **Total operating expenses** | **777** | |  |  | **6** | |  |  | **699** | |  |  | **(46** | | **)** |  | **1,436** | |  |
| **Income (loss) from operations** | **12** | |  |  | **5** | |  |  | **83** | |  |  | **—** | |  |  | **100** | |  |
| Interest expense | (43 | | ) |  | — | |  |  | (5 | | ) |  | 3 | |  |  | (45 | | ) |
| Other (expense) income, net | (13 | | ) |  | 2 | |  |  | 6 | |  |  | (3 | | ) |  | (8 | | ) |
| Income (loss) from continuing operations before income taxes | (44 | | ) |  | 7 | |  |  | 84 | |  |  | — | |  |  | 47 | |  |
| Income tax expense (benefit) | 38 | |  |  | (1 | | ) |  | (28 | | ) |  | — | |  |  | 9 | |  |
| Income (loss) from continuing operations before earnings in subsidiaries | (82 | | ) |  | 8 | |  |  | 112 | |  |  | — | |  |  | 38 | |  |
| Equity in earnings of consolidated subsidiaries | 119 | |  |  | 93 | |  |  | — | |  |  | (212 | | ) |  | — | |  |
| Income (loss) from continuing operations | 37 | |  |  | 101 | |  |  | 112 | |  |  | (212 | | ) |  | 38 | |  |
| Income (loss) from discontinued operations, net of tax | — | |  |  | — | |  |  | — | |  |  | — | |  |  | — | |  |
| **Net income (loss)** | **$** | **37** |  |  | **$** | **101** |  |  | **$** | **112** |  |  | **$** | **(212** | **)** |  | **$** | **38** |  |
| Net income (loss) attributable to noncontrolling interests | — | |  |  | — | |  |  | 1 | |  |  | — | |  |  | 1 | |  |
| **Net income (loss) attributable to NCR** | **$** | **37** |  |  | **$** | **101** |  |  | **$** | **111** |  |  | **$** | **(212** | **)** |  | **$** | **37** |  |
| Total comprehensive income (loss) | 53 | |  |  | 117 | |  |  | 127 | |  |  | (243 | | ) |  | 54 | |  |
| Less comprehensive income (loss) attributable to noncontrolling interests | — | |  |  | — | |  |  | 1 | |  |  | — | |  |  | 1 | |  |
| **Comprehensive income (loss) attributable to NCR common stockholders** | **$** | **53** |  |  | **$** | **117** |  |  | **$** | **126** |  |  | **$** | **(243** | **)** |  | **$** | **53** |  |

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Condensed Consolidating Statements of Operations and Comprehensive Income (Loss)** | | | | | | | | | | | | | | | | | | | |
| **For the three months ended March 31, 2018** | | | | | | | | | | | | | | | | | | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **In millions** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| Product revenue | $ | 277 |  |  | $ | 5 |  |  | $ | 282 |  |  | $ | (38 | ) |  | $ | 526 |  |
| Service revenue | 517 | |  |  | 8 | |  |  | 466 | |  |  | — | |  |  | 991 | |  |
| **Total revenue** | **794** | |  |  | **13** | |  |  | **748** | |  |  | **(38** | | **)** |  | **1,517** | |  |
| Cost of products | 229 | |  |  | 4 | |  |  | 225 | |  |  | (38 | | ) |  | 420 | |  |
| Cost of services | 342 | |  |  | 3 | |  |  | 332 | |  |  | — | |  |  | 677 | |  |
| Selling, general and administrative expenses | 164 | |  |  | 1 | |  |  | 80 | |  |  | — | |  |  | 245 | |  |
| Research and development expenses | 46 | |  |  | — | |  |  | 20 | |  |  | — | |  |  | 66 | |  |
| **Total operating expenses** | **781** | |  |  | **8** | |  |  | **657** | |  |  | **(38** | | **)** |  | **1,408** | |  |
| **Income (loss) from operations** | **13** | |  |  | **5** | |  |  | **91** | |  |  | **—** | |  |  | **109** | |  |
| Interest expense | (39 | | ) |  | — | |  |  | (3 | | ) |  | 1 | |  |  | (41 | | ) |
| Other (expense) income, net | (3 | | ) |  | 1 | |  |  | (2 | | ) |  | (1 | | ) |  | (5 | | ) |
| Income (loss) from continuing operations before income taxes | (29 | | ) |  | 6 | |  |  | 86 | |  |  | — | |  |  | 63 | |  |
| Income tax expense (benefit) | (8 | | ) |  | 2 | |  |  | 13 | |  |  | — | |  |  | 7 | |  |
| Income (loss) from continuing operations before earnings in subsidiaries | (21 | | ) |  | 4 | |  |  | 73 | |  |  | — | |  |  | 56 | |  |
| Equity in earnings of consolidated subsidiaries | 76 | |  |  | 59 | |  |  | — | |  |  | (135 | | ) |  | — | |  |
| Income (loss) from continuing operations | 55 | |  |  | 63 | |  |  | 73 | |  |  | (135 | | ) |  | 56 | |  |
| Income (loss) from discontinued operations, net of tax | (35 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (35 | | ) |
| **Net income (loss)** | **$** | **20** |  |  | **$** | **63** |  |  | **$** | **73** |  |  | **$** | **(135** | **)** |  | **$** | **21** |  |
| Net income (loss) attributable to noncontrolling interests | — | |  |  | — | |  |  | 1 | |  |  | — | |  |  | 1 | |  |
| **Net income (loss) attributable to NCR** | **$** | **20** |  |  | **$** | **63** |  |  | **$** | **72** |  |  | **$** | **(135** | **)** |  | **$** | **20** |  |
| Total comprehensive income (loss) | 35 | |  |  | 62 | |  |  | 88 | |  |  | (149 | | ) |  | 36 | |  |
| Less comprehensive income (loss) attributable to noncontrolling interests | — | |  |  | — | |  |  | 1 | |  |  | — | |  |  | 1 | |  |
| **Comprehensive income (loss) attributable to NCR common stockholders** | **$** | **35** |  |  | **$** | **62** |  |  | **$** | **87** |  |  | **$** | **(149** | **)** |  | **$** | **35** |  |

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Condensed Consolidating Balance Sheet** | | | | | | | | | | | | | | | | | | | |
| **March 31, 2019** | | | | | | | | | | | | | | | | | | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **In millions** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| **Assets** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Current assets |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Cash and cash equivalents | $ | 18 |  |  | $ | 6 |  |  | $ | 390 |  |  | $ | — |  |  | $ | 414 |  |
| Accounts receivable, net | 43 | |  |  | 14 | |  |  | 1,278 | |  |  | — | |  |  | 1,335 | |  |
| Inventories | 293 | |  |  | 7 | |  |  | 574 | |  |  | — | |  |  | 874 | |  |
| Due from affiliates | 615 | |  |  | 2,074 | |  |  | 404 | |  |  | (3,093 | | ) |  | — | |  |
| Other current assets | 133 | |  |  | 46 | |  |  | 255 | |  |  | (41 | | ) |  | 393 | |  |
| Total current assets | 1,102 | |  |  | 2,147 | |  |  | 2,901 | |  |  | (3,134 | | ) |  | 3,016 | |  |
| Property, plant and equipment, net | 257 | |  |  | 1 | |  |  | 115 | |  |  | — | |  |  | 373 | |  |
| Goodwill | 2,194 | |  |  | — | |  |  | 511 | |  |  | — | |  |  | 2,705 | |  |
| Intangibles, net | 515 | |  |  | — | |  |  | 58 | |  |  | — | |  |  | 573 | |  |
| Operating lease assets | 282 | |  |  | — | |  |  | 151 | |  |  | — | |  |  | 433 | |  |
| Prepaid pension cost | — | |  |  | — | |  |  | 148 | |  |  | — | |  |  | 148 | |  |
| Deferred income taxes | 318 | |  |  | — | |  |  | 148 | |  |  | (13 | | ) |  | 453 | |  |
| Investments in subsidiaries | 3,338 | |  |  | 3,001 | |  |  | — | |  |  | (6,339 | | ) |  | — | |  |
| Due from affilates | 16 | |  |  | 1 | |  |  | 35 | |  |  | (52 | | ) |  | — | |  |
| Other assets | 442 | |  |  | 3 | |  |  | 52 | |  |  | — | |  |  | 497 | |  |
| **Total assets** | **$** | **8,464** |  |  | **$** | **5,153** |  |  | **$** | **4,119** |  |  | **$** | **(9,538** | **)** |  | **$** | **8,198** |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Liabilities and stockholders’ equity** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Current liabilities |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Short-term borrowings | $ | 91 |  |  | $ | — |  |  | $ | 206 |  |  | $ | — |  |  | $ | 297 |  |
| Accounts payable | 379 | |  |  | 2 | |  |  | 407 | |  |  | — | |  |  | 788 | |  |
| Payroll and benefits liabilities | 90 | |  |  | — | |  |  | 94 | |  |  | — | |  |  | 184 | |  |
| Contract liabilities | 283 | |  |  | 13 | |  |  | 270 | |  |  | — | |  |  | 566 | |  |
| Due to affiliates | 2,231 | |  |  | 126 | |  |  | 736 | |  |  | (3,093 | | ) |  | — | |  |
| Other current liabilities | 213 | |  |  | 4 | |  |  | 370 | |  |  | (41 | | ) |  | 546 | |  |
| Total current liabilities | 3,287 | |  |  | 145 | |  |  | 2,083 | |  |  | (3,134 | | ) |  | 2,381 | |  |
| Long-term debt | 2,911 | |  |  | — | |  |  | 3 | |  |  | — | |  |  | 2,914 | |  |
| Pension and indemnity plan liabilities | 508 | |  |  | — | |  |  | 252 | |  |  | — | |  |  | 760 | |  |
| Postretirement and postemployment benefits liabilities | 17 | |  |  | 4 | |  |  | 99 | |  |  | — | |  |  | 120 | |  |
| Income tax accruals | 19 | |  |  | 6 | |  |  | 68 | |  |  | — | |  |  | 93 | |  |
| Due to affiliates | — | |  |  | 35 | |  |  | 17 | |  |  | (52 | | ) |  | — | |  |
| Operating lease liabilities | 307 | |  |  | — | |  |  | 99 | |  |  | — | |  |  | 406 | |  |
| Other liabilities | 94 | |  |  | 19 | |  |  | 84 | |  |  | (13 | | ) |  | 184 | |  |
| **Total liabilities** | **7,143** | |  |  | **209** | |  |  | **2,705** | |  |  | **(3,199** | | **)** |  | **6,858** | |  |
| Redeemable noncontrolling interest | — | |  |  | — | |  |  | 14 | |  |  | — | |  |  | 14 | |  |
| Series A convertible preferred stock | 872 | |  |  | — | |  |  | — | |  |  | — | |  |  | 872 | |  |
| **Stockholders’ equity** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Total NCR stockholders’ equity** | **449** | |  |  | **4,944** | |  |  | **1,395** | |  |  | **(6,339** | | **)** |  | **449** | |  |
| Noncontrolling interests in subsidiaries | — | |  |  | — | |  |  | 5 | |  |  | — | |  |  | 5 | |  |
| **Total stockholders’ equity** | **449** | |  |  | **4,944** | |  |  | **1,400** | |  |  | **(6,339** | | **)** |  | **454** | |  |
| **Total liabilities and stockholders’ equity** | **$** | **8,464** |  |  | **$** | **5,153** |  |  | **$** | **4,119** |  |  | **$** | **(9,538** | **)** |  | **$** | **8,198** |  |

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Condensed Consolidating Balance Sheet** | | | | | | | | | | | | | | | | | | | |
| **December 31, 2018** | | | | | | | | | | | | | | | | | | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **In millions** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| **Assets** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Current assets |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Cash and cash equivalents | $ | 6 |  |  | $ | 8 |  |  | 450 | |  |  | $ | — |  |  | $ | 464 |  |
| Accounts receivable, net | 37 | |  |  | 10 | |  |  | 1,309 | |  |  | — | |  |  | 1,356 | |  |
| Inventories | 288 | |  |  | 4 | |  |  | 514 | |  |  | — | |  |  | 806 | |  |
| Due from affiliates | 708 | |  |  | 2,092 | |  |  | 457 | |  |  | (3,257 | | ) |  | — | |  |
| Other current assets | 137 | |  |  | 47 | |  |  | 255 | |  |  | (42 | | ) |  | 397 | |  |
| Total current assets | 1,176 | |  |  | 2,161 | |  |  | 2,985 | |  |  | (3,299 | | ) |  | 3,023 | |  |
| Property, plant and equipment, net | 245 | |  |  | 1 | |  |  | 113 | |  |  | — | |  |  | 359 | |  |
| Goodwill | 2,168 | |  |  | — | |  |  | 524 | |  |  | — | |  |  | 2,692 | |  |
| Intangibles, net | 536 | |  |  | — | |  |  | 59 | |  |  | — | |  |  | 595 | |  |
| Prepaid pension cost | — | |  |  | — | |  |  | 140 | |  |  | — | |  |  | 140 | |  |
| Deferred income taxes | 317 | |  |  | — | |  |  | 149 | |  |  | (18 | | ) |  | 448 | |  |
| Investments in subsidiaries | 3,244 | |  |  | 2,854 | |  |  | — | |  |  | (6,098 | | ) |  | — | |  |
| Due from affiliates | 16 | |  |  | 1 | |  |  | 35 | |  |  | (52 | | ) |  | — | |  |
| Other assets | 453 | |  |  | 4 | |  |  | 47 | |  |  | — | |  |  | 504 | |  |
| **Total assets** | $ | 8,155 |  |  | $ | 5,021 |  |  | $ | 4,052 |  |  | $ | (9,467 | ) |  | $ | 7,761 |  |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Liabilities and stockholders’ equity** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Current liabilities |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Short-term borrowings | $ | 85 |  |  | $ | — |  |  | $ | 100 |  |  | $ | — |  |  | $ | 185 |  |
| Accounts payable | 397 | |  |  | 2 | |  |  | 498 | |  |  | — | |  |  | 897 | |  |
| Payroll and benefits liabilities | 141 | |  |  | — | |  |  | 97 | |  |  | — | |  |  | 238 | |  |
| Contract liabilities | 221 | |  |  | 5 | |  |  | 235 | |  |  | — | |  |  | 461 | |  |
| Due to affiliates | 2,177 | |  |  | 143 | |  |  | 937 | |  |  | (3,257 | | ) |  | — | |  |
| Other current liabilities | 201 | |  |  | 6 | |  |  | 336 | |  |  | (42 | | ) |  | 501 | |  |
| Total current liabilities | 3,222 | |  |  | 156 | |  |  | 2,203 | |  |  | (3,299 | | ) |  | 2,282 | |  |
| Long-term debt | 2,978 | |  |  | — | |  |  | 2 | |  |  | — | |  |  | 2,980 | |  |
| Pension and indemnity plan liabilities | 502 | |  |  | — | |  |  | 257 | |  |  | — | |  |  | 759 | |  |
| Postretirement and postemployment benefits liabilities | 18 | |  |  | 3 | |  |  | 97 | |  |  | — | |  |  | 118 | |  |
| Income tax accruals | 19 | |  |  | 5 | |  |  | 67 | |  |  | — | |  |  | 91 | |  |
| Due to affiliates | — | |  |  | 36 | |  |  | 16 | |  |  | (52 | | ) |  | — | |  |
| Other liabilities | 162 | |  |  | 24 | |  |  | 91 | |  |  | (18 | | ) |  | 259 | |  |
| **Total liabilities** | 6,901 | |  |  | 224 | |  |  | 2,733 | |  |  | (3,369 | | ) |  | 6,489 | |  |
| Redeemable noncontrolling interest | — | |  |  | — | |  |  | 14 | |  |  | — | |  |  | 14 | |  |
| Series A convertible preferred stock | 859 | |  |  | — | |  |  | — | |  |  | — | |  |  | 859 | |  |
| **Stockholders’ equity** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **Total NCR stockholders’ equity** | 395 | |  |  | 4,797 | |  |  | 1,301 | |  |  | (6,098 | | ) |  | 395 | |  |
| Noncontrolling interests in subsidiaries | — | |  |  | — | |  |  | 4 | |  |  | — | |  |  | 4 | |  |
| **Total stockholders’ equity** | 395 | |  |  | 4,797 | |  |  | 1,305 | |  |  | (6,098 | | ) |  | 399 | |  |
| **Total liabilities and stockholders’ equity** | $ | 8,155 |  |  | $ | 5,021 |  |  | $ | 4,052 |  |  | $ | (9,467 | ) |  | $ | 7,761 |  |

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Condensed Consolidating Statement of Cash Flows** | | | | | | | | | | | | | | | | | | | |
| **For the three months ended March 31, 2019** | | | | | | | | | | | | | | | | | | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **In millions** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| **Net cash provided by (used in) operating activities** | **$** | **112** |  |  | **$** | **(22** | **)** |  | **$** | **(106** | **)** |  | **$** | **—** |  |  | **$** | **(16** | **)** |
| **Investing activities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Expenditures for property, plant and equipment | (13 | | ) |  | — | |  |  | (9 | | ) |  | — | |  |  | (22 | | ) |
| Additions to capitalized software | (36 | | ) |  | — | |  |  | (7 | | ) |  | — | |  |  | (43 | | ) |
| Proceeds from (payments of) intercompany notes | 29 | |  |  | 30 | |  |  | — | |  |  | (59 | | ) |  | — | |  |
| Investments in equity affiliates | — | |  |  | — | |  |  | 10 | |  |  | (10 | | ) |  | — | |  |
| Acquisitions | (6 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (6 | | ) |
| Other investing activities, net | 3 | |  |  | — | |  |  | — | |  |  | — | |  |  | 3 | |  |
| **Net cash provided by (used in) investing activities** | **(23** | | **)** |  | **30** | |  |  | **(6** | | **)** |  | **(69** | | **)** |  | **(68** | | **)** |
| **Financing activities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Short term borrowings, net | — | |  |  | — | |  |  | 7 | |  |  | — | |  |  | 7 | |  |
| Payments on term credit facilities | (17 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (17 | | ) |
| Payments on revolving credit facilities | (375 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (375 | | ) |
| Borrowings on revolving credit facilities | 330 | |  |  | — | |  |  | 100 | |  |  | — | |  |  | 430 | |  |
| Proceeds from employee stock plans | 4 | |  |  | — | |  |  | — | |  |  | — | |  |  | 4 | |  |
| Equity contribution | — | |  |  | (10 | | ) |  | — | |  |  | 10 | |  |  | — | |  |
| Borrowings (repayments) of intercompany notes | — | |  |  | — | |  |  | (59 | | ) |  | 59 | |  |  | — | |  |
| Tax withholding payments on behalf of employees | (13 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (13 | | ) |
| **Net cash provided by (used in) financing activities** | **(71** | | **)** |  | **(10** | | **)** |  | **48** | |  |  | **69** | |  |  | **36** | |  |
| **Cash flows from discontinued operations** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net cash used in operating activities | (6 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (6 | | ) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | — | |  |  | — | |  |  | 1 | |  |  | — | |  |  | 1 | |  |
| Increase (decrease) in cash, cash equivalents and restricted cash | 12 | |  |  | (2 | | ) |  | (63 | | ) |  | — | |  |  | (53 | | ) |
| Cash, cash equivalents and restricted cash at beginning of period | 7 | |  |  | 8 | |  |  | 461 | |  |  | — | |  |  | 476 | |  |
| **Cash, cash equivalents and restricted cash at end of period** | **$** | **19** |  |  | **$** | **6** |  |  | **$** | **398** |  |  | **$** | **—** |  |  | **$** | **423** |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **In millions** | **March 31, 2019** | | | | | | | | | | | | | | | | | | |
| **Reconciliation of cash, cash equivalents and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| Cash and cash equivalents | $ | 18 |  |  | $ | 6 |  |  | $ | 390 |  |  | $ | — |  |  | $ | 414 |  |
| Restricted cash included in Other assets | 1 | |  |  | — | |  |  | 8 | |  |  | — | |  |  | 9 | |  |
| **Total cash, cash equivalents and restricted cash** | **$** | **19** |  |  | **$** | **6** |  |  | **$** | **398** |  |  | **$** | **—** |  |  | **$** | **423** |  |

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**NCR Corporation**

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

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **Condensed Consolidating Statement of Cash Flows** | | | | | | | | | | | | | | | | | | | |
| **For the three months ended March 31, 2018** | | | | | | | | | | | | | | | | | | | |
|  |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| **In millions** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| **Net cash provided by (used in) operating activities** | **$** | **26** |  |  | **$** | **(124** | **)** |  | **$** | **74** |  |  | **$** | **—** |  |  | **$** | **(24** | **)** |
| **Investing activities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Expenditures for property, plant and equipment | (24 | | ) |  | — | |  |  | (5 | | ) |  | — | |  |  | (29 | | ) |
| Additions to capitalized software | (35 | | ) |  | — | |  |  | (7 | | ) |  | — | |  |  | (42 | | ) |
| Proceeds from (payments of) intercompany notes | 54 | |  |  | 125 | |  |  | — | |  |  | (179 | | ) |  | — | |  |
| Other investing activities, net | (3 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (3 | | ) |
| **Net cash provided by (used in) investing activities** | **(8** | | **)** |  | **125** | |  |  | **(12** | | **)** |  | **(179** | | **)** |  | **(74** | | **)** |
| **Financing activities** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Short term borrowings, net | (1 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (1 | | ) |
| Payments on term credit facilities | (34 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (34 | | ) |
| Payments on revolving credit facilities | (260 | | ) |  | — | |  |  | (238 | | ) |  | — | |  |  | (498 | | ) |
| Borrowings on revolving credit facilities | 375 | |  |  | — | |  |  | 238 | |  |  | — | |  |  | 613 | |  |
| Repurchase of Company common stock | (165 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (165 | | ) |
| Proceeds from employee stock plans | 5 | |  |  | — | |  |  | — | |  |  | — | |  |  | 5 | |  |
| Borrowings (repayments) of intercompany notes | — | |  |  | — | |  |  | (179 | | ) |  | 179 | |  |  | — | |  |
| Tax withholding payments on behalf of employees | (11 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (11 | | ) |
| **Net cash provided by (used in) financing activities** | **(91** | | **)** |  | **—** | |  |  | **(179** | | **)** |  | **179** | |  |  | **(91** | | **)** |
| **Cash flows from discontinued operations** |  | | |  |  | | |  |  | | |  |  | | |  |  | | |
| Net cash used in operating activities | (4 | | ) |  | — | |  |  | — | |  |  | — | |  |  | (4 | | ) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | — | |  |  | — | |  |  | 5 | |  |  | — | |  |  | 5 | |  |
| Increase (decrease) in cash, cash equivalents, and restricted cash | (77 | | ) |  | 1 | |  |  | (112 | | ) |  | — | |  |  | (188 | | ) |
| Cash, cash equivalents and restricted cash at beginning of period | 98 | |  |  | 10 | |  |  | 435 | |  |  | — | |  |  | 543 | |  |
| **Cash, cash equivalents and restricted cash at end of period** | **$** | **21** |  |  | **$** | **11** |  |  | **$** | **323** |  |  | **$** | **—** |  |  | **$** | **355** |  |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| **In millions** | **March 31, 2018** | | | | | | | | | | | | | | | | | | |
| **Reconciliation of cash, cash equivalents and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows** | **Parent Issuer** | | |  | **Guarantor Subsidiary** | | |  | **Non-Guarantor Subsidiaries** | | |  | **Eliminations** | | |  | **Consolidated** | | |
| Cash and cash equivalents | $ | 21 |  |  | $ | 11 |  |  | $ | 316 |  |  | $ | — |  |  | $ | 348 |  |
| Restricted cash included in Other assets | — | |  |  | — | |  |  | 7 | |  |  | — | |  |  | 7 | |  |
| **Total cash, cash equivalents and restricted cash** | **$** | **21** |  |  | **$** | **11** |  |  | **$** | **323** |  |  | **$** | **—** |  |  | **$** | **355** |  |

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

***First Quarter Overview***

The following were the significant events for the first quarter of 2019, each of which is discussed more fully in later sections of this MD&A:

|  |  |
| --- | --- |
|  |  |
| • | Revenue increased approximately 1% from the prior year period and 4% excluding unfavorable foreign currency impacts; |

|  |  |
| --- | --- |
|  |  |
| • | Change in management of the business to an industry basis from the previous model on a solution basis to align focus to drive strategic initiatives discussed below; |

|  |  |
| --- | --- |
|  |  |
| • | Banking revenue increased 5% and operating margin increased 80 basis points from the prior year period; |

|  |  |
| --- | --- |
|  |  |
| • | Retail revenue decreased 2% and operating margin rate declined 160 basis points from the prior year period; and |

|  |  |
| --- | --- |
|  |  |
| • | Hospitality revenue decreased 5% and operating margin rate declined 100 basis points from the prior year period. |

***Strategic Overview***

The rise of digital first commerce, mobile engagement and globalization have dramatically altered the relationship between business and consumer. Increasingly, mega-trends such as big data, the Internet of things and the cloud are driving the next generation of changes in consumer behavior. Consumers now expect businesses to provide a rich, integrated and personalized experience across all commerce channels, including online, mobile and in-store. NCR is at the forefront of this commerce shift, assisting businesses of every size in their digital first channel transformation journeys. Our mission is to be the leading software- and services-led enterprise provider in the financial, retail, hospitality and telecommunications and technology industries, with solutions designed to allow businesses in the industries we serve to deliver a rich, integrated and personalized experience to consumers across digital and physical commerce channels, enabling our customers to move their business forward in a digital first environment. To fulfill this mission, we have developed a long-term growth strategy built on taking better care of our customers, improving execution of new product introductions, accelerating revenue growth and executing spend optimization programs. We believe that our mission and long-term strategy position NCR to continue to drive growth, sustainable revenue, profit and cash flow, and to improve value for all of our stakeholders.

To deliver on our mission and strategy, we are focused on the following main initiatives in 2019:

|  |  |
| --- | --- |
|  |  |
| • | *Customer Care* - Improve the customer experience and execution of new product introductions; |

|  |  |
| --- | --- |
|  |  |
| • | *Stockholder Value* - Accelerate profitable top-line revenue growth by investing in and shifting our revenue mix to recurring software and services revenue streams we identify as strategic growth platforms, while improving the Company’s cost structure; |

|  |  |
| --- | --- |
|  |  |
| • | *Strategic Growth Platforms and Targeted Acquisitions* - Increase capital expenditures in strategic growth platforms and target acquisitions to gain solutions that drive the highest growth and return on investment; |

|  |  |
| --- | --- |
|  |  |
| • | *Talent and Employee Care* - Develop, reward and retain talent with competitive recruiting, training and effective incentive-based compensation programs; and |

|  |  |
| --- | --- |
|  |  |
| • | *Sales Enablement* - Provide our sales force with top-performing and secure products packaged to target our desired revenue mix and drive customer delight and stockholder value, as well as invest in appropriate training programs to enable success. |

Potentially significant risks to the execution of our initiatives and achievement of our strategy include the strength of demand for the products we offer or will offer in the future consistent with our strategy and its effect on our businesses; domestic and global economic and credit conditions including, in particular, those resulting from the imposition or threat of protectionist trade policies or import or export tariffs, global and regional market conditions and spending trends in the financial, retail and hospitality industries, modified or new global or regional trade agreements, the determination by the United Kingdom to exit the European Union and the execution of the same; uncertainty over further potential changes in Eurozone participation and fluctuations in oil and commodity prices; our ability to transform our business model and to sell higher-margin software and services with recurring revenue, including our ability to successfully streamline our hardware operations; the success of our restructuring plans and spend optimization program; our ability to improve execution of new product offering or integration of acquired product offerings; market acceptance of new solutions; competition in the information technology industry; cybersecurity risks and compliance with data privacy and

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protection requirements; disruptions in or problems with our data center hosting facilities; defects or errors in our products; the historical seasonality of our sales; tax rates and new US tax legislation; and foreign currency fluctuations.

*Cybersecurity Risk Management*

Similar to most companies, NCR is subject to more frequent and increasingly sophisticated cybersecurity attacks. The Company maintains cybersecurity risk management policies and procedures including disclosure controls, which it regularly evaluates for updates, for handling and responding to cybersecurity events. These policies and procedures include internal notifications and engagements and, as necessary, cooperation with law enforcement. Personnel involved in handling and responding to cybersecurity events periodically undertake tabletop exercises to simulate an event. The internal notification procedures include notifying the applicable Company attorneys, which, depending on the level of severity assigned to the event, may include direct notice to, among others, the Company’s General Counsel, Ethics & Compliance Officer, and Chief Privacy Officer. Company attorneys support efforts to evaluate the materiality of any incidents, determine whether notice to third parties such as customers or vendors is required, determine whether any prohibition on insider trading is appropriate, and assess whether disclosure to stockholders or governmental filings, including with the SEC, are required. The internal notification procedures also include notifying various NCR Information Technology Services managers, subject matter experts in the Company’s software department and Company leadership, depending on the level of severity assigned to the event.

***Results from Operations***

***Three months ended March 31, 2019 Compared to Three months ended March 31, 2018***

The following table shows our results for the three months ended March 31:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **In millions** | **2019** | | |  | **2018** | | |
| Revenue | **$** | **1,536** |  |  | $ | 1,517 |  |
| Gross margin | **411** | |  |  | 420 | |  |
| Gross margin as a percentage of revenue | **26.8** | | **%** |  | **27.7** | | **%** |
| Operating expenses |  | | |  |  | | |
| Selling, general and administrative expenses | **252** | |  |  | 245 | |  |
| Research and development expenses | **59** | |  |  | 66 | |  |
| Income from operations | **$** | **100** |  |  | $ | 109 |  |

The following table shows our revenue by geography for the three months ended March 31:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **In millions** | **2019** | | | **% of Total** |  | **2018** | | | **% of Total** |  | **% Increase (Decrease)** | **% Increase (Decrease) Constant Currency (1)** |
| Americas | **$** | **920** |  | **60%** |  | $ | 889 |  | 58% |  | 3% | 5% |
| Europe, Middle East and Africa (EMEA) | **419** | |  | **27%** |  | 408 | |  | 27% |  | 3% | 9% |
| Asia Pacific (APJ) | **197** | |  | **13%** |  | 220 | |  | 15% |  | (10)% | (6)% |
| Consolidated revenue | **$** | **1,536** |  | **100%** |  | $ | 1,517 |  | 100% |  | 1% | 4% |

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The following table shows our revenue by segment for the three months ended March 31:

|  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | | | | | | |
|  |  |  |  |  |  |  |  |  |  |  |  |  |
| **In millions** | **2019** | | | **% of Total** |  | **2018** | | | **% of Total** |  | **% Increase (Decrease)** | **% Increase (Decrease) Constant Currency (1)** |
| Banking | **$** | **758** |  | **49%** |  | $ | 721 |  | 48% |  | 5% | 9% |
| Retail | **511** | |  | **33%** |  | 521 | |  | 34% |  | (2)% | 1% |
| Hospitality | **193** | |  | **13%** |  | 204 | |  | 13% |  | (5)% | (4)% |
| Other | **74** | |  | **5%** |  | 71 | |  | 5% |  | 4% | 7% |
| Consolidated revenue | **$** | **1,536** |  | **100%** |  | $ | 1,517 |  | 100% |  | 1% | 4% |

(1) The tables above for the three months ended March 31 are presented with period-over-period revenue growth or declines on a constant currency basis. Constant currency is a non-GAAP measure that excludes the effects of foreign currency fluctuations. We calculate this information by translating prior period revenue growth at current period monthly average exchange rates. We believe that examining period-over-period revenue growth or decline excluding foreign currency fluctuations is useful for assessing the underlying performance of our business, and our management uses revenue growth adjusted for constant currency to evaluate period-over-period operating performance. This non-GAAP measure should not be considered a substitute for, or superior to, period-over-period revenue growth under GAAP.

The following table provides a reconciliation of geographic revenue percentage growth (GAAP) to revenue percentage growth constant currency (non-GAAP) for the three months ended March 31, 2019:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **Revenue % Growth (GAAP)** | **Favorable (unfavorable) FX impact** | **Revenue % Growth Constant Currency (non-GAAP)** |
| Americas | 3% | (2)% | 5% |
| EMEA | 3% | (6)% | 9% |
| APJ | (10)% | (4)% | (6)% |
| Consolidated revenue | 1% | (3)% | 4% |

The following table provides a reconciliation of segment revenue percentage growth (GAAP) to revenue percentage growth constant currency (non-GAAP) for the three months ended March 31, 2019:

|  |  |  |  |
| --- | --- | --- | --- |
|  | | | |
|  |  |  |  |
|  | **Revenue % Growth (GAAP)** | **Favorable (unfavorable) FX impact** | **Revenue % Growth Constant Currency (non-GAAP)** |
| Banking | 5% | (4)% | 9% |
| Retail | (2)% | (3)% | 1% |
| Hospitality | (5)% | (1)% | (4)% |
| Other | 4% | (3)% | 7% |
| Consolidated revenue | 1% | (3)% | 4% |

***Revenue***

For the three months ended March 31, 2019 compared to the three months ended March 31, 2018, revenue increased 1% due to a an increase in Banking offset by decreases in Retail and Hospitality. Foreign currency fluctuations had an unfavorable impact of 3% to the revenue comparison.

Banking revenue increased 5% due to a 21% growth in ATM revenue driven by higher backlog conversion as well as higher recurring revenue. Foreign currency fluctuations unfavorably impacted the revenue comparison by 4%.

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Retail revenue decreased 2% driven by a large implementation services project in the prior year partially offset by an increase in payments and strength in self-checkout revenue. Foreign currency fluctuations had an unfavorable impact of 3% on the revenue comparison.

Hospitality revenue decreased 5% driven by lower hardware revenue partially offset by higher recurring revenue. Foreign currency fluctuations unfavorably impacted the revenue comparison by 1%.

The changes to segment revenue and the drivers thereof are discussed in further detail under "Revenue and Operating Income by Segment" below.

***Gross Margin***

Gross margin as a percentage of revenue in the three months ended March 31, 2019 was 26.8% compared to 27.7% in the three months ended March 31, 2018. Gross margin in the three months ended March 31, 2019 included $8 million of costs related to restructuring and transformation initiatives and $6 million related to acquisition-related amortization of intangibles. Gross margin in the three months ended March 31, 2018 included of $4 million of costs related to transformation initiatives and $7 million related to acquisition-related amortization of intangibles. Excluding these items, gross margin as a percentage of revenue decreased from 28.4% to 27.7% due to an overall unfavorable mix of revenue partially offset by gains from our services transformation initiatives.

***Operating Expenses***

Selling, general and administrative expenses were $252 million, or 16.4% as a percentage of revenue, as compared to $245 million, or 16.2% as a percentage of revenue, in the three months ended March 31, 2019 and March 31, 2018, respectively. Selling, general and administrative expenses in the three months ended March 31, 2019 included $15 million of acquisition-related amortization of intangibles and $15 million of costs related to restructuring and transformation initiatives. Selling, general, and administrative expenses in the three months ended March 31, 2018 included $16 million of acquisition-related amortization of intangibles and $10 million of costs related to our transformation initiatives costs. Excluding these items, selling, general and administrative expenses increased slightly from 14.4% as a percentage of revenue in the three months ended March 31, 2018 to 14.5% as a percentage of revenue in the three months ended March 31, 2019.

Research and development expenses were $59 million, or 3.8% as a percentage of revenue, in the three months ended March 31, 2019 as compared to $66 million, or 4.4% as a percentage of revenue, in the three months ended March 31, 2018. Research and development expenses in the three months ended March 31, 2019 and March 31, 2018 included $3 million and $2 million, respectively, of costs related to our restructuring and transformation initiatives. Excluding these costs, research and development expenses as a percentage of revenue decreased from 4.2% in the three months ended March 31, 2018 to 3.6% in the three months ended March 31, 2019 due to cost reduction benefits realized as well as an increased investment in our strategic growth platforms.

***Interest and Other Expense Items***

Interest expense was $45 million in the three months ended March 31, 2019 compared to $41 million in the three months ended March 31, 2018 due to higher interest rates.

Other expense, net was $8 million in the three months ended March 31, 2019 compared to $5 million in the three months ended March 31, 2018. Other expense, net in the three months ended March 31, 2019 and 2018 each included $6 million of losses from foreign currency remeasurement and foreign exchange contracts not designated as hedging instruments.

***Provision for Income Taxes***

Income tax provisions for interim (quarterly) periods are based on an estimated annual effective income tax rate calculated separately from the effect of significant, infrequent or unusual items. Income tax expense was $9 million for the three months ended March 31, 2019 compared to income tax expense of $7 million for the three months ended March 31, 2018. The increase was primarily driven by a decrease in discrete benefits offset by lower income before taxes in the three months ended March 31, 2019. The decrease in discrete benefits was primarily driven by favorable audit settlements in international jurisdictions during the three months ended March 31, 2018 that did not recur during the three months ended March 31, 2019.

NCR is subject to numerous federal, state and foreign tax audits. While NCR believes that appropriate reserves exist for issues that might arise from these audits, should these audits be settled, the resulting tax effect could impact the tax provision and cash flows in 2019 or future periods. The Company regularly reviews our deferred tax assets for recoverability based on the evaluation

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of positive and negative evidence; given current earnings and anticipated future earnings at certain subsidiaries, the Company believes that there is a reasonable possibility that sufficient positive evidence may become available that would allow the release of a valuation allowance within the next twelve months.

***Loss from Discontinued Operations***

In the three months ended March 31, 2019, there was no activity related to discontinued operations. In the three months ended March 31, 2018, the loss from discontinued operations, net of tax, was $35 million driven by a ruling on the Kalamazoo environmental site.

***Revenue and Operating Income by Segment***

The Company manages and reports the following segments:

|  |  |
| --- | --- |
|  |  |
| • | **Banking** - We offer solutions to enable customers in the financial services industry to reduce costs, generate new revenue streams and enhance customer loyalty. These solutions include a comprehensive line of ATM processing hardware and software; cash management and video banking software and customer-facing digital banking services; and related installation, maintenance, and managed and professional services. |

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

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

|  |  |
| --- | --- |
|  |  |
| • | **Other -** This category includes telecommunications and technology solutions where we offer maintenance as well as managed and professional services for third-party hardware provided to select manufacturers who value and leverage our global service capability. |

Each of these segments derives its revenue by selling in the geographies in which NCR operates. Segments are measured for profitability by the Company’s chief operating decision maker based on revenue and segment operating income. For purposes of discussing our operating results by segment, we exclude the impact of certain non-operational items from segment operating income, consistent with the manner by which management reviews each segment, evaluates performance, and reports our segment results under GAAP. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by NCR management to make decisions regarding the segments and to assess our financial performance. Our segment results are reconciled to total Company results reported under GAAP in Note 3. Segment Information and Concentrations of the Notes to Condensed Consolidated Financial Statements.

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

***Banking***

The following table shows the Banking revenue and operating income for the three months ended March 31:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **In millions** | **2019** | | |  | **2018** | | |
| Revenue | **$** | **758** |  |  | $ | 721 |  |
| Operating income | **$** | **95** |  |  | $ | 84 |  |
| Operating income as a percentage of revenue | **12.5** | | **%** |  | 11.7 | | % |

In the three months ended March 31, 2019 compared to the three months ended March 31, 2018, revenue increased 5%, due to growth of 21% in ATM revenue driven by higher backlog conversion as well as higher recurring revenue. The revenue growth was mainly driven by strength in North America partially offset by a decline in Asia Pacific. Foreign currency fluctuations had an unfavorable impact of 4% on the revenue comparison.

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Operating income increased in the three months ended March 31, 2019 compared to the three months ended March 31, 2018. The increase in operating income was primarily due to a favorable mix of revenue, both by product and geography, as well as a favorable impact from productivity initiatives.

***Retail***

The following table shows the Retail revenue and operating income for the three months ended March 31:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **In millions** | **2019** | | |  | **2018** | | |
| Revenue | **$** | **511** |  |  | $ | 521 |  |
| Operating income | **$** | **26** |  |  | $ | 35 |  |
| Operating income as a percentage of revenue | **5.1** | | **%** |  | 6.7 | | % |

In the three months ended March 31, 2019 compared to the three months ended March 31, 2018, revenue decreased 2% driven by a large implementation services project in the prior year partially offset by increase in payment processing revenue and strength in self-checkout revenue. The revenue decline was mainly driven by North America and Japan partially offset by growth in Europe. Foreign currency fluctuations had an unfavorable impact of 3% on the revenue comparison.

Operating income decreased in the three months ended March 31, 2019 compared to the three months ended March 31, 2018 primarily due to an unfavorable mix of revenue.

***Hospitality***

The following table shows the Hospitality revenue and operating loss for the three months ended March 31:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **In millions** | **2019** | | |  | **2018** | | |
| Revenue | **$** | **193** |  |  | $ | 204 |  |
| Operating income | **$** | **16** |  |  | $ | 19 |  |
| Operating income as a percentage of revenue | **8.3** | | **%** |  | 9.3 | | % |

In the three months ended March 31, 2019 compared to the three months ended March 31, 2018, revenue decreased 5% due to lower hardware revenue partially offset by higher recurring revenue. The revenue decline was mainly driven by North America. Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison.

Operating income decreased in the three months ended March 31, 2019 compared to the three months ended March 31, 2018 driven by a decline in hardware revenue, continued investment in customer satisfaction initiatives partially offset by an increase in software revenue.

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***Other***

The following table shows the Other revenue and operating income for the three months ended March 31:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **In millions** | **2019** | | |  | **2018** | | |
| Revenue | **$** | **74** |  |  | $ | 71 |  |
| Operating income | **$** | **10** |  |  | $ | 10 |  |
| Operating income as a percentage of revenue | **13.5** | | **%** |  | 14.1 | | % |

In the three months ended March 31, 2019 compared to the three months ended March 31, 2018, revenue increased 4% due to an increase in recurring revenue. Foreign currency fluctuations had an unfavorable impact of 3% on the revenue comparison.

Operating income was flat in the three months ended March 31, 2019 compared to the three months ended March 31, 2018 driven by the increase in revenue offset by investment in sales resources.

*Financial Condition, Liquidity, and Capital Resources*

Cash used in operating activities was $16 million in the three months ended March 31, 2019 compared to cash used in operating activities of $24 million in the three months ended March 31, 2018. The decrease in cash used in operating activities was due to working capital improvements.

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

The table below reconciles net cash provided by operating activities to NCR’s non-GAAP measure of free cash flow for the three months ended March 31:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | | | | | | | |
|  |  |  |  |  |  |  |  |
|  | **Three months ended March 31** | | | | | | |
| **In millions** | **2019** | | |  | **2018** | | |
| Net cash used in operating activities | **$** | **(16** | **)** |  | $ | (24 | ) |
| Expenditures for property, plant and equipment | **(22** | | **)** |  | (29 | | ) |
| Additions to capitalized software | **(43** | | **)** |  | (42 | | ) |
| Net cash used in discontinued operations | **(6** | | **)** |  | (4 | | ) |
| Free cash outflow (non-GAAP) | **$** | **(87** | **)** |  | $ | (99 | ) |

The decrease in expenditures for property, plant and equipment is primarily due to tenant improvements in our new world headquarters completed in the previous period, which were partially reimbursed by the lessor and included in net cash provided by operating activities.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. Other investing activities primarily include business acquisitions, divestitures and investments as well as proceeds from the sale of property, plant and equipment.

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Our financing activities primarily include proceeds from employee stock plans, repurchases of NCR common stock and borrowings and repayments of credit facilities and notes. During the three months ended March 31, 2018, we repurchased a total of $165 million of our common stock. There were no repurchases of our common stock completed during the three months ended March 31, 2019. During the three months ended March 31, 2019 and 2018, proceeds from employee stock plans were $4 million and $5 million, respectively. During the three months ended March 31, 2019 and 2018, we paid $13 million and $11 million, respectively, of tax withholding payments on behalf of employees for stock based awards that vested.

**Long Term Borrowings** As of March 31, 2019, our senior secured credit facility consisted of a term loan facility with an aggregate outstanding principal balance of $743 million, and a revolving credit facility in an aggregate principal amount of $1.1 billion, of which $75 million was outstanding, subject to certain covenant limitations. Additionally, the revolving credit facility has up to $400 million available to certain foreign subsidiaries. Loans under the revolving credit facility are available in U.S. Dollars, Euros and Pound Sterling. The revolving credit facility also allows a portion of the availability to be used for outstanding letters of credit, and as of March 31, 2019, there were no letters of credit outstanding. As of December 31, 2018, the outstanding principal balance of the term loan facility was $759 million and the outstanding balance on the revolving facility was $120 million.

As of March 31, 2019 and December 31, 2018, we had outstanding $700 million in aggregate principal balance of 6.375% senior unsecured notes due in 2023, $600 million in aggregate principal balance of 5.00% senior unsecured notes due in 2022, $500 million in aggregate principal balance of 4.625% senior unsecured notes due in 2021 and $400 million in aggregate principal balance of 5.875% senior unsecured notes due in 2021.

Our revolving trade receivables securitization facility provides the Company with up to $200 million in funding based on the availability of eligible receivables and other customary factors and conditions. As of March 31, 2019 and December 31, 2018, the Company had $200 million and $100 million, respectively, outstanding under the facility.

**Employee Benefit Plans** In 2019, we expect to make contributions of $28 million to our international pension plans, $30 million to our postemployment plan and $2 million to our postretirement plan. For additional information, refer to Note 8. Employee Benefit Plans of the Notes to the Condensed Consolidated Financial Statements.

**Transformation and Restructuring Initiatives** Our previously announced transformation and restructuring initiatives continue to progress and remain on track. Our services performance and profit improvement program continues to deliver revenue growth and margin expansion. Our manufacturing transformation initiatives to move to a variable cost structure by reducing the number of manufacturing plants and ramping up production with contract manufacturers is substantially complete. Additionally, we are benefiting from our spend optimization program to drive cost savings through operational efficiencies to generate at least $100 million of savings in 2019 and are on track with the actions completed and delivering benefits through March 31, 2019. This initiative will create efficiencies in our corporate functions, reduce spend in the non-strategic areas and limit discretionary spending. We incurred a pre-tax charge of $26 million in the first quarter of 2019 with a cash impact of $18 million. In 2019, for all initiatives, we expect to incur a pre-tax charge of $60 million and a cash impact of $70 million to $80 million.

**Series A Convertible Preferred Stock** On December 4, 2015, NCR issued 820,000 shares of Series A Convertible Preferred Stock to certain entities affiliated with the Blackstone Group L.P. for an aggregate purchase price of $820 million, or $1,000 per share, pursuant to an Investment Agreement between the Company and Blackstone, dated November 11, 2015. In connection with the issuance of the Series A Convertible Preferred Stock, the Company incurred direct and incremental expenses of $26 million. These direct and incremental expenses reduced the Series A Convertible Preferred Stock, and will be accreted through retained earnings as a deemed dividend from the date of issuance through the first possible known redemption date, March 16, 2024. Holders of Series A Convertible Preferred Stock are entitled to a cumulative dividend at the rate of 5.5% per annum, payable quarterly in arrears. During the three months ended March 31, 2019 and 2018, the Company paid dividends-in-kind of $12 million and $11 million, respectively, associated with the Series A Convertible Preferred Stock. As of March 31, 2019 and December 31, 2018, the Company had accrued dividends of $3 million, respectively, associated with the Series A Convertible Preferred Stock. There were no cash dividends declared during the three months ended March 31, 2019 or 2018.

The Series A Convertible Preferred Stock is convertible at the option of the holders at any time into shares of common stock at a conversion price of $30.00 per share, or a conversion rate of 33.333 shares of common stock per share of Series A Convertible Preferred Stock.

As of March 31, 2019 and December 31, 2018, the maximum number of common shares that could be required to be issued upon conversion of the outstanding shares of the Series A Convertible Preferred Stock was 29.4 million and 29.0 million, respectively.

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**Cash and Cash Equivalents Held by Foreign Subsidiaries** Cash and cash equivalents held by the Company's foreign subsidiaries at March 31, 2019 and December 31, 2018 were $395 million and $443 million, respectively. Under current tax laws and regulations, if cash and cash equivalents and short-term investments held outside the U.S. are distributed to the U.S. in the form of dividends or otherwise, we may be subject to additional U.S. income taxes and foreign withholding taxes, which could be significant.

**Summary** As of March 31, 2019, our cash and cash equivalents totaled $414 million and our total debt was $3.23 billion. As of March 31, 2019, our borrowing capacity under the revolving credit facility was approximately $1.0 billion, and under our trade receivables securitization facility was zero. Our ability to generate positive cash flows from operations is dependent on general economic conditions, competitive pressures, and other business and risk factors described in Item 1A of Part I of the Company’s 2018 Annual Report on Form 10-K and Item 1A of Part II of this Quarterly Report on Form 10-Q. If we are unable to generate sufficient cash flows from operations, or otherwise comply with the terms of our credit facilities or senior unsecured notes, we may be required to seek additional financing alternatives.

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

*Contractual and Other Commercial Commitments*

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

*Off-Balance Sheet Arrangements*

We have no material off-balance sheet arrangements as defined by SEC Regulation S-K Item 303 (a) (4) (ii).

*Critical Accounting Policies and Estimates*

Management reassessed the critical accounting policies as disclosed in our 2018 Annual Report on Form 10-K and determined that there were no changes to our critical accounting policies or our estimates associated with those policies in the three months ended March 31, 2019.

*New Accounting Pronouncements*

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

*Forward-Looking Statements*

This quarterly report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements use words such as “expect,” “anticipate,” “outlook,” “intend,” “plan,” “believe,” “will,” “should,” “would,” “could” and words of similar meaning. Statements that describe or relate to NCR’s plans, goals, intentions, strategies or financial outlook, and statements that do not relate to historical or current fact, are examples of forward-looking statements. Forward-looking statements are based on our current beliefs, expectations and assumptions, which may not prove to be accurate, and involve a number of known and unknown risks and uncertainties, many of which are out of NCR's control. Forward-looking statements are not guarantees of future performance, and there are a number of important factors that could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements, including those factors relating to: the strength of demand for ATMs and other financial services hardware and its effect on the results of our businesses and reportable segments; our ability to generate accurate forecasts of product demand and to engage third-party suppliers appropriately to meet that demand, including the on-boarding of new or additional suppliers; domestic and global economic and credit conditions including, in particular, those resulting from uncertainty in the "BRIC" economies, economic sanctions against Russia, the determination by Britain to exit the European Union, the potential for changes to global or regional trade agreements or the imposition of protectionist trade policies, and the imposition of import or export tariffs or border adjustments; the impact of our indebtedness and its terms on our financial and operating activities; the impact of the terms of our strategic relationship with Blackstone and our Series A Convertible Preferred Stock; the transformation of our business model and our ability to sell higher-margin software and services; the possibility of disruptions in or problems with our data center hosting facilities; cybersecurity risks and compliance with data privacy and protection requirements; our ability to successfully introduce new solutions and compete in the information technology industry; our ability to improve execution in our sales and services organizations; defects or errors in our products; manufacturing disruptions, including those caused by or related to outsourced

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manufacturing; collectability difficulties in subcontracting relationships in Emerging Industries; the historical seasonality of our sales; foreign currency fluctuations; the availability and success of acquisitions, divestitures and alliances; our pension strategy and underfunded pension obligation; the success of our restructuring plans and cost reduction initiatives, including those in our Hardware segment; tax rates; reliance on third party suppliers; development and protection of intellectual property; workforce turnover and the ability to attract and retain skilled employees; uncertainties or delays associated with the transition of key business leaders; environmental exposures from our historical and ongoing manufacturing activities; and uncertainties with regard to regulations, lawsuits, claims and other matters across various jurisdictions. Additional information concerning these and other factors can be found in the Company's filings with the U.S. Securities and Exchange Commission, including the Company’s most recent annual report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K. Any forward-looking statement speaks only as of the date on which it is made. The Company does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

*Information About NCR*

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

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|  |  |
| **Item 3.** | **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK** |

*Market Risk*

We are exposed to market risks primarily from changes in foreign currency exchange rates and interest rates. It is our policy to manage our foreign exchange exposure and debt structure in order to manage capital costs, control financial risks and maintain financial flexibility over the long term. In managing market risks, we employ derivatives according to documented policies and procedures, including foreign currency contracts and interest rate swaps. We do not use derivatives for trading or speculative purposes.

*Foreign Exchange Risk*

Since a substantial portion of our operations and revenue occur outside the United States, and in currencies other than the U.S. Dollar, our results can be significantly impacted by changes in foreign currency exchange rates. We have exposure to approximately 50 functional currencies and are exposed to foreign currency exchange risk with respect to our sales, profits and assets and liabilities denominated in currencies other than the U.S. Dollar. Although we use financial instruments to hedge certain foreign currency risks, we are not fully protected against foreign currency fluctuations and our reported results of operations could be affected by changes in foreign currency exchange rates. To manage our exposures and mitigate the impact of currency fluctuations on the operations of our foreign subsidiaries, we hedge our main transactional exposures through the use of foreign exchange forward and option contracts. These foreign exchange contracts are designated as highly effective cash flow hedges. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by the marketing units. All of these transactions are forecasted. We also use derivatives not designated as hedging instruments consisting primarily of forward contracts to hedge foreign currency denominated balance sheet exposures. For these derivatives we recognize gains and losses in the same period as the remeasurement losses and gains of the related foreign currency-denominated exposures.

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

For purposes of analyzing potential risk, we use sensitivity analysis to quantify potential impacts that market rate changes may have on the fair values of our hedge portfolio related to firmly committed or forecasted transactions. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the related gain or loss on the forecasted underlying transaction. A 10% appreciation or depreciation in the value of the U.S. Dollar against foreign currencies from the prevailing market rates would have resulted in a corresponding increase or decrease of $12 million as of March 31, 2019 in the fair value of the hedge portfolio. The Company expects that any increase or decrease in the fair value of the portfolio would be substantially offset by increases or decreases in the underlying exposures being hedged.

The U.S. Dollar was stronger in the first quarter of 2019 compared to the first quarter of 2018 based on comparable weighted averages for our functional currencies. This had an unfavorable impact of 3% on first quarter 2019 revenue versus first quarter 2018 revenue. This excludes the effects of our hedging activities and, therefore, does not reflect the actual impact of fluctuations in exchange rates on our operating income.

*Interest Rate Risk*

We are subject to interest rate risk principally in relation to variable-rate debt. Approximately 68% of our borrowings were on a fixed rate basis as of March 31, 2019. The increase in pre-tax interest expense for the three months ended March 31, 2019 from a hypothetical 100 basis point increase in variable interest rates would be approximately $3 million.

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*Concentrations of Credit Risk*

We are potentially subject to concentrations of credit risk on accounts receivable and financial instruments, such as hedging instruments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Our business often involves large transactions with customers for which we do not require collateral. If one or more of those customers were to default in its obligations under applicable contractual arrangements, we could be exposed to potentially significant losses. Moreover, a prolonged downturn in the global economy could have an adverse impact on the ability of our customers to pay their obligations on a timely basis. We believe that the reserves for potential losses are adequate. As of March 31, 2019, we did not have any significant concentration of credit risk related to financial instruments.

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| **Item 4.** | **CONTROLS AND PROCEDURES** |

*Evaluation of Disclosure Controls and Procedures*

NCR has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) to provide reasonable assurance that information required to be disclosed by NCR in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by NCR in the reports that it files or submits under the Exchange Act is accumulated and communicated to NCR’s management, including its Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation as of the end of the first quarter of 2019, conducted under their supervision and with the participation of management, the Company’s Chief Executive and Chief Financial Officers have concluded that NCR’s disclosure controls and procedures are effective to meet such objectives and that NCR’s disclosure controls and procedures adequately alert them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in NCR’s Exchange Act filings.

*Changes in Internal Control over Financial Reporting*

We have implemented new internal controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new accounting standard related to leases on our financial statements as result of the adoption of new accounting guidance which was effective on January 1, 2019. There have been no other changes in our internal control over financial reporting during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**Part II. Other Information**

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| **Item 1.** | **LEGAL PROCEEDINGS** |

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

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| **Item 1A.** | **RISK FACTORS** |

There have been no material changes to the risk factors previously disclosed in Part I, Item IA ("Risk Factors") of the Company's 2018 Annual Report on Form 10-K.

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| --- | --- |
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| **Item 2.** | **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS** |

On October 19, 2016, the Board approved a share repurchase program, with no expiration from the date of authorization, for the systematic repurchase of the Company’s common stock to offset the dilutive effects of the Company’s employee stock purchase plan, equity awards and in-kind dividends on the Company’s Series A Convertible Preferred Stock. Availability under this program accrues quarterly based on the average value of dilutive issuances during the quarter.

On March 12, 2017, the Board approved a second share repurchase program, with no expiration from the date of authorization, that provides for the repurchase of up to $300 million of the Company’s common stock. On July 25, 2018, the Board authorized an incremental $200 million of share repurchases under this program.

No shares were repurchased under these programs during the three months ended March 31, 2019.

As of March 31, 2019, $290 million was available for repurchases under the March 2017 program, and approximately $363 million was available for repurchases under the October 2016 dilution offset program. The timing and amount of repurchases under these programs depend upon market conditions and may be made from time to time in open market purchases, privately negotiated transactions, accelerated stock repurchase programs, issuer self-tender offers or otherwise. The repurchases will be made in compliance with applicable securities laws and may be discontinued at any time.

The Company occasionally purchases vested restricted stock or exercised stock options at the current market price to cover withholding taxes. For the three months ended March 31, 2019, 474,191 shares were purchased at an average price of $28.67 per share.

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

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**Item 6.     EXHIBITS**

|  |  |
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| [10.1](exhibit1012019optionaw.htm) | Form of 2019 Stock Option Award Agreement under the NCR Corporation 2017 Stock Incentive Plan (the “2017 Stock Incentive Plan”). |
|  |  |
| [10.2](exhibit1022019timebase.htm) | Form of 2019 Time-Based Restricted Stock Unit Award Agreement under the 2017 Stock Incentive Plan. |
|  |  |
| [10.3](exhibit1032019performa.htm) | Form of 2019 Performance-Based Restricted Stock Unit Award Agreement under the 2017 Stock Incentive Plan. |
|  |  |
| [10.4](exhibit104bobfishmanre.htm) | Retirement Agreement, dated March 11, 2019, between Robert P. Fishman and NCR Corporation. |
|  |  |
| [21](exhibit21subsofncrcorp.htm) | Subsidiaries of NCR Corporation. |
|  |  |
| [31.1](exhibit311sec302ceocer.htm) | Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934. |
|  |  |
| [31.2](exhibit312sec302cfocer.htm) | Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934. |
|  |  |
| [32](exhibit32sec906ceoandc.htm) | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
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**SIGNATURES**

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

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|  |  |  |  |  |
|  |  | NCR CORPORATION | | |
|  |  |  |  | |
| Date: | May 7, 2019 | By: |  | /s/ Andre J. Fernandez |
|  |  |  |  | **Andre J. Fernandez**  **Executive Vice President and Chief Financial Officer** |

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