

NCR CORP
Form 10-Q
October 27, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2017
Commission File Number 001-00395

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

Maryland 31-0387920
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)
3097 Satellite Boulevard
Duluth, GA 30096
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (937) 445-5000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Emerging Growth Company

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.

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

As of October 13, 2017, there were approximately 121.8 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 September 30		Nine months ended September 30	
	2017	2016	2017	2016
Product revenue	\$ 657	\$ 708	\$ 1,829	\$ 1,932
Service revenue	1,006	969	2,905	2,809
Total revenue	1,663	1,677	4,734	4,741
Cost of products	528	528	1,430	1,487
Cost of services	662	672	1,955	1,951
Selling, general and administrative expenses	220	225	676	678
Research and development expenses	53	56	178	159
Restructuring-related charges	—	7	—	13
Total operating expenses	1,463	1,488	4,239	4,288
Income from operations	200	189	495	453
Interest expense	(42)	(41)	(122)	(130)
Other (expense), net	(8)	(8)	(22)	(33)
Income from continuing operations before income taxes	150	140	351	290
Income tax expense	31	31	78	75
Income from continuing operations	119	109	273	215
(Loss) income from discontinued operations, net of tax	—	(2)	5	(2)
Net income	119	107	278	213
Net income attributable to noncontrolling interests	1	2	1	—
Net income attributable to NCR	\$ 118	\$ 105	\$ 277	\$ 213
Amounts attributable to NCR common stockholders:				
Income from continuing operations	\$ 118	\$ 107	\$ 272	\$ 215
Series A convertible preferred stock dividends	(12)	(13)	(36)	(37)
Deemed dividend on modification of Series A convertible preferred stock	—	—	(4)	—

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Deemed dividend on Series A convertible preferred stock related to redemption	—	—	(58))	—
Income from continuing operations attributable to NCR common stockholders	106	94	174		178
(Loss) income from discontinued operations, net of tax	—	(2))	5	(2)
Net income attributable to NCR common stockholders	\$ 106	\$ 92	\$ 179		\$ 176
Income per share attributable to NCR common stockholders:					
Income per common share from continuing operations					
Basic	\$ 0.87	\$ 0.76	\$ 1.43		\$ 1.41
Diluted	\$ 0.77	\$ 0.69	\$ 1.37		\$ 1.37
Net income per common share					
Basic	\$ 0.87	\$ 0.74	\$ 1.47		\$ 1.40
Diluted	\$ 0.77	\$ 0.68	\$ 1.41		\$ 1.36
Weighted average common shares outstanding					
Basic	121.5	123.9	121.9		126.0
Diluted	153.1	155.4	126.9		156.8

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		Nine months ended	
	September 30 2017	September 30 2016	September 30 2017	September 30 2016
Net income	\$119	\$107	\$278	\$213
Other comprehensive income (loss):				
Currency translation adjustments				
Currency translation gains (losses)	6	3	35	(23)
Derivatives				
Unrealized (losses) gains on derivatives	(5)	4	(15)	4
(Gains) losses on derivatives recognized during the period	1	—	(2)	2
Less income tax benefit (expense)	—	(1)	3	(1)
Employee benefit plans				
Amortization of prior service benefit	(1)	(4)	(6)	(14)
Amortization of actuarial benefit	(1)	—	(2)	(1)
Less income tax benefit	—	1	2	4
Other comprehensive (loss) income	—	3	15	(29)
Total comprehensive income	119	110	293	184
Less comprehensive income attributable to noncontrolling interests:				
Net income (loss)	1	2	1	—
Currency translation losses	(2)	(1)	(2)	(7)
Amounts attributable to noncontrolling interests	(1)	1	(1)	(7)
Comprehensive income attributable to NCR	\$120	\$109	\$294	191
See Notes to Condensed Consolidated Financial Statements.				

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NCR Corporation		September	December
Condensed Consolidated Balance Sheets (Unaudited)		30, 2017	31, 2016
In millions, except per share amounts			
Assets			
Current assets			
Cash and cash equivalents		\$ 405	\$ 498
Accounts receivable, net		1,408	1,282
Inventories		824	699
Other current assets		263	278
Total current assets		2,900	2,757
Property, plant and equipment, net		321	287
Goodwill		2,741	2,727
Intangibles, net		591	672
Prepaid pension cost		115	94
Deferred income taxes		595	575
Other assets		587	561
Total assets		\$ 7,850	\$ 7,673
Liabilities and stockholders' equity			
Current liabilities			
Short-term borrowings		\$ 269	\$ 50
Accounts payable		720	781
Payroll and benefits liabilities		202	234
Deferred service revenue and customer deposits		465	468
Other current liabilities		390	432
Total current liabilities		2,046	1,965
Long-term debt		2,984	3,001
Pension and indemnity plan liabilities		771	739
Postretirement and postemployment benefits liabilities		127	127
Income tax accruals		138	142
Other liabilities		197	138
Total liabilities		6,263	6,112
Commitments and Contingencies (Note 7)			
Redeemable noncontrolling interest		14	15
Series A convertible preferred stock: par value \$0.01 per share, 3.0 shares authorized, 0.8 shares issued and outstanding as of September 30, 2017 and, 0.9 shares issued and outstanding as of December 31, 2016; redemption amount and liquidation preference of \$813 and \$870 as of September 30, 2017 and December 31, 2016, respectively		799	847
Stockholders' equity			
NCR stockholders' equity			
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively		—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 121.5 and 124.6 shares issued and outstanding as of September 30, 2017 and December 31, 2016, respectively		1	1
Paid-in capital		44	32
Retained earnings		913	867
Accumulated other comprehensive loss		(188)	(205)
Total NCR stockholders' equity		770	695

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Noncontrolling interests in subsidiaries	4	4
Total stockholders' equity	774	699
Total liabilities and stockholders' equity	\$ 7,850	\$ 7,673

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine months ended September 30	
	2017	2016
Operating activities		
Net income	\$278	\$213
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	(5)	2
Depreciation and amortization	263	259
Stock-based compensation expense	60	45
Deferred income tax expense	19	39
Gain on sale of property, plant and equipment	(2)	—
Loss on divestiture	—	1
Impairment of other assets	1	2
Changes in assets and liabilities:		
Receivables	(107)	(138)
Inventories	(120)	(128)
Current payables and accrued expenses	(132)	68
Deferred service revenue and customer deposits	20	78
Employee benefit plans	(13)	(38)
Other assets and liabilities	9	(34)
Net cash provided by operating activities	271	369
Investing activities		
Expenditures for property, plant and equipment	(81)	(45)
Proceeds from sale of property, plant and equipment	6	—
Additions to capitalized software	(125)	(115)
Proceeds from divestiture	—	47
Other investing activities, net	—	(8)
Net cash used in investing activities	(200)	(121)
Financing activities		
Short term borrowings, net	10	(2)
Payments on term credit facilities	(37)	(84)
Payments on revolving credit facilities	(1,110)	(736)
Borrowings on revolving credit facilities	1,335	856
Debt issuance costs	—	(8)
Repurchases of Company common stock	(350)	(250)
Proceeds from employee stock plans	11	10
Tax withholding payments on behalf of employees	(24)	(7)
Other financing activities	(1)	(2)
Net cash used in financing activities	(166)	(223)
Cash flows from discontinued operations		
Net cash used in operating activities	(14)	(30)
Effect of exchange rate changes on cash and cash equivalents	16	(5)
(Decrease) increase in cash and cash equivalents	(93)	(10)
Cash and cash equivalents at beginning of period	498	328
Cash and cash equivalents at end of period	\$405	\$318

See Notes to Condensed Consolidated Financial Statements.

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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 2016 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, 2016.

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. Other than as described below, no matters were identified that required adjustment of the Condensed Consolidated Financial Statements or additional disclosure.

On October 1, 2017, Appvion, Inc., formerly known as Appleton Papers, Inc. and referred to in Note 7, "Commitments and Contingencies," as "API," filed for bankruptcy protection. API had made all of the Fox River-related payments required of it under the 2014 Funding Agreement, and therefore the Company expects no material impact on the Fox River matter from API's bankruptcy. The 2014 Funding Agreement, as had the 1997 CSA (described in Note 7, "Commitments and Contingencies,"), also provided for API to fund certain activities with respect to so-called "future sites," which included the Kalamazoo River. While that potential funding may now be called into question, the Company does not expect a material impact from the API bankruptcy with respect to such sites, inasmuch as BAT (as set out in Note 7, "Commitments and Contingencies,") shares that particular API liability to the Company on a joint and several basis under those agreements.

On October 11, 2017, the federal court in Wisconsin entered an order dismissing the contribution or allocation case referred to in Note 7, "Commitments and Contingencies," and directed the clerk to mark the case as closed. The government enforcement action continues, although NCR is no longer a party to it.

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.

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 \$37 million and \$43 million during the three and nine months ended September 30, 2017, respectively, as compared to \$24 million and \$52

million during the three and nine months ended September 30, 2016, respectively. As of September 30, 2017 and December 31, 2016, we had \$36 million and \$10 million, respectively, in receivables outstanding from Bradesco.

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

Recent Accounting Pronouncements

Issued

In May 2014, the Financial Accounting Standards Board (FASB) issued a new revenue recognition standard that will supersede current revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will be effective for the first interim period within annual periods beginning after December 15, 2017, with early adoption permitted for annual periods beginning after December 15, 2016, and can be adopted either retrospectively to each prior reporting period presented (“full retrospective method”) or as a cumulative effect adjustment as of the date of adoption (“modified retrospective method”). We have determined a substantial majority of our new accounting policies related to the new standard and believe it will have the following impacts:

The new standard removes the current limitation on contingent revenue, and we expect that this may result in revenue being recognized earlier for certain contracts.

The new standard modifies the accounting for the costs to obtain a contract, such as the capitalization and deferral of commission expenses for certain recurring revenue streams, and we expect that this will be a change to our current policy to expense as incurred.

We plan to adopt the standard using the modified retrospective method when it becomes effective for the Company in the first quarter of fiscal 2018. We have identified, and are in the process of implementing, appropriate changes to our business processes, systems and controls to support revenue recognition and disclosure under the new standard. The Company is continuing to evaluate the effect that the standard will have on its consolidated financial statements and related disclosures. Overall, the Company believes that its implementation efforts are progressing as planned.

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. The standard is required to be adopted using the modified retrospective approach. The Company is evaluating the impact that adopting this guidance will have on its consolidated financial statements and internal controls over financial reporting.

In October 2016, the FASB issued an accounting standards update which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. This standard is effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted. The Company is evaluating the impact that adopting this guidance will have on its consolidated financial statements and internal controls over financial reporting.

In January 2017, the FASB issued an accounting standards update which clarifies the definition of a business which is used across several areas of accounting. The area expected to see the most change is the evaluation of whether a transaction should be accounted for as an acquisition (or disposal) of assets, or as a business combination. The new guidance clarifies that to be a business there must also be at least one substantive process, and narrows the definition of outputs by more closely aligning it with how outputs are described in the new revenue recognition standard. The accounting standard update is required to be adopted for annual periods beginning after December 15, 2017, including interim periods within that annual period. The amendment is to be applied prospectively with early adoption permitted. We do not expect the adoption of this standard to have a material effect on our financial condition, results

of operations or disclosures, as the standard applies only to businesses acquired after the adoption date.

In January 2017, the FASB issued an accounting standards update with new guidance intended to simplify the subsequent measurement of goodwill. The standards update eliminates the requirement for an entity to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an entity will perform its annual, or interim, goodwill impairment testing by comparing the fair value of a reporting unit with its carrying amount and recording an impairment charge for the amount by which the carrying amount exceeds the fair value. The standards update is effective prospectively for annual and interim goodwill impairment testing performed in fiscal years beginning after December 15, 2019. The adoption of this standards update is not expected to impact our consolidated financial statements.

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

In March 2017, the FASB issued an accounting standards update with new guidance on the employer's presentation of defined benefit retirement costs in the income statement. Employers will present the service cost component of net periodic benefit cost in the same income statement line item(s) as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line item(s) that includes the service cost and outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods therein, with early adoption permitted. The adoption of this accounting standard update is not expected to have a material effect on the Company's net income, cash flows or financial condition.

In May 2017, the FASB issued an accounting standards update which clarifies when to account for a change to the terms or conditions of a share-based payment award as a modification. This update requires modification only if the fair value, vesting conditions or the classification of the award changes as a result of the change in terms or conditions. This guidance is effective for fiscal years beginning after December 15, 2017, and interim periods therein, with early adoption permitted. The adoption of this accounting standard update is not expected to have a material effect on the Company's net income, cash flows or financial condition.

In August 2017, the FASB issued an accounting standards update which simplifies certain aspects of hedge accounting and improves disclosures of hedging arrangements through the elimination of the requirement to separately measure and report hedge ineffectiveness. This update generally requires the entire change in the fair value of a hedging instrument to be presented in the same income statement line as the hedged item in order to align financial reporting of hedge relationships with economic results. Entities must apply the amendments to cash flow and net investment hedge relationships that exist on the date of adoption using a modified retrospective approach. The presentation and disclosure requirements must be applied prospectively. This guidance is effective for fiscal years beginning after December 15, 2018, and interim periods therein, with early adoption permitted. The adoption of this accounting standard update is not expected to have a material effect on the Company's net income, cash flows or financial condition.

Adopted

In March 2016, the FASB issued an accounting standards update that amended the accounting standard related to employee share-based payments. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The adoption approach varies based on the amendment topic. As a result of the adoption, we recorded an adjustment of approximately \$39 million to the January 1, 2017 retained earnings balance to recognize federal tax credit carryforwards attributable to excess tax benefits on stock compensation that had not been previously recognized to additional paid in capital. The Company also expects the new standard to have an on-going impact on the recording of excess tax benefits and deficiencies in our consolidated balance sheets and consolidated statements of income and comprehensive income. However, the magnitude of such impact is dependent upon our future grants of stock awards, our future stock price in relation to the fair value of awards on the grant date and the exercise behavior of stock option holders.

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

2. GOODWILL AND PURCHASED INTANGIBLE ASSETS

Goodwill

The carrying amounts of goodwill by segment as of September 30, 2017 and December 31, 2016 are included in the table below. Foreign currency fluctuations are included within other adjustments.

In millions	December 31, 2016			September 30, 2017					
	Accumulated			Accumulated					
	Goodwill	Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Impairment Losses	Total
Software	\$1,930	\$ (7)	\$1,923	\$ —	—	\$ 14	\$1,944	\$ (7)	\$1,937
Services	658	—	658	—	—	—	658	—	658
Hardware	162	(16)	146	—	—	—	162	(16)	146
Total goodwill	\$2,750	\$ (23)	\$2,727	\$ —	—	\$ 14	\$2,764	\$ (23)	\$2,741

Purchased Intangible Assets

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

In millions	Amortization Period (in Years)	September 30, 2017		December 31, 2016	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
		Identifiable intangible assets			
Reseller & customer relationships	1 - 20	\$659	\$ (159)	\$656	\$ (128)
Intellectual property	2 - 8	394	(339)	392	(302)
Customer contracts	8	89	(77)	89	(66)
Tradenames	2 - 10	73	(49)	73	(42)
Total identifiable intangible assets		\$1,215	\$ (624)	\$1,210	\$ (538)

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

In millions	Three months ended	Nine months ended	Remainder of 2017 (estimated)
	September 30, 2017	September 30, 2017	
	Amortization expense	\$ 29	\$ 86

In millions	For the years ended				
	December 31 (estimated)				
	2018	2019	2020	2021	2022

Amortization expense \$85 \$75 \$57 \$49 \$45

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NCR Corporation

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

3. DEBT OBLIGATIONS

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

In millions, except percentages	September 30, 2017		December 31, 2016	
	Amount	Weighted-Average Interest Rate	Amount	Weighted-Average Interest Rate
Short-Term Borrowings				
Current portion of Senior Secured Credit Facility ⁽¹⁾	\$56	2.99%	\$45	2.88%
Trade Receivables Securitization Facility ⁽¹⁾	200	2.09%	—	
Other ⁽²⁾	13	13.08%	5	7.41%
Total short-term borrowings	\$269		\$50	
Long-Term Debt				
Senior Secured Credit Facility:				
Term loan facility ⁽¹⁾	\$776	2.99%	\$821	2.88%
Revolving credit facility ⁽¹⁾	25	2.99%	—	
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	(25)		(29)	
Other ⁽²⁾	8	6.51%	9	6.64%
Total long-term debt	\$2,984		\$3,001	

⁽¹⁾ Interest rates are weighted-average interest rates as of September 30, 2017 and December 31, 2016.

⁽²⁾ Interest rates are weighted-average interest rates as of September 30, 2017 and December 31, 2016 primarily related to various international credit facilities and a note payable in the U.S.

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 September 30, 2017, the Senior Secured Credit Facility consisted of a term loan facility with an aggregate principal amount outstanding of \$832 million and a revolving credit facility with an aggregate principal amount of \$1.1 billion, of which \$25 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 September 30, 2017, 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 \$11 million beginning June 30, 2016, \$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.

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NCR Corporation

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

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 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 on or prior to December 31, 2017, (a) the sum of 4.25 and an amount (not to exceed 0.50) to reflect debt used to reduce NCR's unfunded pension liabilities to (b) 1.00, (ii) in the case of any fiscal quarter ending after December 31, 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 (iii) 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 September 30, 2017, the maximum consolidated leverage ratio under the Senior Secured Credit Facility was 4.35 to 1.00.

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

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

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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.

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. 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 C