

NCR CORP  
Form 10-Q  
May 09, 2013  
Table of Contents

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

---

FORM 10-Q

---

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

For the quarterly period ended March 31, 2013  
Commission File Number 001-00395

---

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

---

Maryland 31-0387920  
(State or other jurisdiction of (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 x No o

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

As of April 15, 2013, there were approximately 164.4 million shares of common stock issued and outstanding.

Table of Contents

## TABLE OF CONTENTS

## PART I. Financial Information

Description	Page
Item 1. <u>Financial Statements</u>	<u>3</u>
<u>Condensed Consolidated Statements of Operations (Unaudited)</u> <u>Three Months Ended March 31, 2013 and 2012</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income (Unaudited)</u> <u>Three Months Ended March 31, 2013 and 2012</u>	<u>4</u>
<u>Condensed Consolidated Balance Sheets (Unaudited)</u> <u>March 31, 2013 and December 31, 2012</u>	<u>5</u>
<u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u> <u>Three Months Ended March 31, 2013 and 2012</u>	<u>6</u>
<u>Notes to Condensed Consolidated Financial Statements (Unaudited)</u>	<u>7</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>41</u>
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	<u>49</u>
Item 4. <u>Controls and Procedures</u>	<u>51</u>

## PART II. Other Information

Description	Page
Item 1. <u>Legal Proceedings</u>	<u>52</u>
Item 1A. <u>Risk Factors</u>	<u>52</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>52</u>
Item 6. <u>Exhibits</u>	<u>53</u>
<u>Signatures</u>	<u>55</u>

Table of Contents

## Part I. Financial Information

## Item 1. FINANCIAL STATEMENTS

NCR Corporation  
Condensed Consolidated Statements of Operations (Unaudited)

In millions, except per share amounts	Three months ended March 31	
	2013	2012
Product revenue	\$667	\$570
Service revenue	743	674
Total revenue	1,410	1,244
Cost of products	503	445
Cost of services	538	484
Selling, general and administrative expenses	229	191
Research and development expenses	55	46
Total operating expenses	1,325	1,166
Income from operations	85	78
Interest expense	(21)	(9)
Other income (expense), net	2	(2)
Income from continuing operations before income taxes	66	67
Income tax expense	2	7
Income from continuing operations	64	60
Loss from discontinued operations, net of tax	(1)	(9)
Net income	63	51
Net income attributable to noncontrolling interests	2	1
Net income attributable to NCR	\$61	\$50
Amounts attributable to NCR common stockholders:		
Income from continuing operations	\$62	\$59
Loss from discontinued operations, net of tax	(1)	(9)
Net income	\$61	\$50
Income per share attributable to NCR common stockholders:		
Income per common share from continuing operations		
Basic	\$0.38	\$0.37
Diluted	\$0.37	\$0.36
Net income per common share		
Basic	\$0.37	\$0.32
Diluted	\$0.36	\$0.31
Weighted average common shares outstanding		
Basic	163.7	158.2
Diluted	167.5	162.3
See Notes to Condensed Consolidated Financial Statements.		

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

In millions	Three months ended March 31	
	2013	2012
Net income	\$63	\$51
Other comprehensive income (loss):		
Currency translation adjustments	(22 )	(1 )
Unrealized gain (loss) on derivatives	4	(5 )
Less income tax expense	(1 )	—
Unrealized gain on securities	3	1
Employee benefit plans		
Amortization of prior service benefit	(18 )	(5 )
Net gain arising during the year	48	—
Actuarial loss included in benefits expense	2	4
Less income tax (expense) benefit	(12 )	1
Total comprehensive income	67	46
Less comprehensive income attributable to noncontrolling interests:		
Net income	2	1
Currency translation adjustments	(1 )	(2 )
Amounts attributable to noncontrolling interests	1	(1 )
Comprehensive income attributable to NCR common stockholders	\$66	\$47

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NCR Corporation Condensed Consolidated Balance Sheets (Unaudited)		
In millions, except per share amounts	March 31, 2013	December 31, 2012
Assets		
Current assets		
Cash and cash equivalents	\$483	\$ 1,069
Accounts receivable, net	1,193	1,086
Inventories, net	847	797
Other current assets	490	454
Total current assets	3,013	3,406
Property, plant and equipment, net	327	308
Goodwill	1,453	1,003
Intangibles, net	502	304
Prepaid pension cost	372	368
Deferred income taxes	538	534
Other assets	450	448
Total assets	\$6,655	\$ 6,371
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	\$77	\$ 72
Accounts payable	593	611
Payroll and benefits liabilities	193	197
Deferred service revenue and customer deposits	558	455
Other current liabilities	416	407
Total current liabilities	1,837	1,742
Long-term debt	2,014	1,891
Pension and indemnity plan liabilities	814	812
Postretirement and postemployment benefits liabilities	194	246
Income tax accruals	140	138
Environmental liabilities	146	171
Other liabilities	119	79
Total liabilities	5,264	5,079
Commitments and Contingencies (Note 10)		
Redeemable noncontrolling interest	17	15
Stockholders' equity		
NCR stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of March 31, 2013 and December 31, 2012	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 164.3 and 162.8 shares issued and outstanding as of March 31, 2013 and December 31, 2012, respectively	2	2
Paid-in capital	381	358
Retained earnings	1,145	1,084
Accumulated other comprehensive loss	(192)	(197)
Total NCR stockholders' equity	1,336	1,247
Noncontrolling interests in subsidiaries	38	30

Total stockholders' equity	1,374	1,277
Total liabilities and stockholders' equity	\$6,655	\$ 6,371

See Notes to Condensed Consolidated Financial Statements.

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

In millions	Three months ended March 31	
	2013	2012
Operating activities		
Net income	\$63	\$51
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	1	9
Depreciation and amortization	47	41
Stock-based compensation expense	10	11
Deferred income taxes	(9)	14
Gain on sale of property, plant and equipment and other assets	(4)	(1)
Impairment of long-lived and other assets	—	3
Changes in operating assets and liabilities (net of effects of acquisitions and divestitures):		
Receivables	9	(33)
Inventories	(47)	(34)
Current payables and accrued expenses	(36)	(17)
Deferred service revenue and customer deposits	73	85
Employee severance and pension	(34)	(13)
Other assets and liabilities	(52)	(27)
Net cash provided by operating activities	21	89
Investing activities		
Expenditures for property, plant and equipment	(24)	(13)
Additions to capitalized software	(21)	(18)
Business acquisitions, net	(681)	—
Other investing activities, net	5	(2)
Net cash used in investing activities	(721)	(33)
Financing activities		
Tax withholding payments on behalf of employees	(25)	(9)
Short term borrowings, net	1	—
Payments on term credit facility	(18)	—
Payments on revolving credit facility	(420)	(65)
Borrowings on revolving credit facility	565	40
Debt issuance costs	(2)	—
Proceeds from employee stock plans	18	7
Net cash provided by (used in) financing activities	119	(27)
Cash flows from discontinued operations		
Net cash provided by (used in) operating activities	1	(9)
Net cash used in investing activities	—	(1)
Net cash provided by (used in) discontinued operations	1	(10)
Effect of exchange rate changes on cash and cash equivalents	(6)	(3)
(Decrease) increase in cash and cash equivalents	(586)	16
Cash and cash equivalents at beginning of period	1,069	398
Cash and cash equivalents at end of period	\$483	\$414

See Notes to Condensed Consolidated Financial Statements.





Table of Contents

NCR Corporation

Notes to Condensed Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

On February 6, 2013, the Company, through its indirect wholly owned subsidiary, Moon S.P.V. (Subsidiary) Ltd., a private company formed under the laws of the State of Israel (Merger Sub), completed the acquisition of Retalix Ltd. (Retalix), pursuant to the previously announced Agreement and Plan of Merger, dated November 28, 2012, by and among the Company, Merger Sub, and Retalix. As a result of the acquisition, the results of Retalix are included for the period from February 6, 2013 to March 31, 2013. See Note 4, "Acquisitions," for additional information.

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

**Evaluation of Subsequent Events** The Company evaluated subsequent events through the date that our Condensed Consolidated Financial Statements were issued. Except as described in Note 18, "Subsequent Events," 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.

**Related Party Transactions** In 2011, concurrent with the sale of a noncontrolling interest in our subsidiary, NCR Brasil - Indústria de Equipamentos para Automação S.A., to Scopus Tecnologia Ltda. (Scopus), we entered into a Master Purchase Agreement (MPA) with Banco Bradesco SA (Bradesco), the parent of Scopus. Through the MPA, Bradesco agreed to purchase up to 30,000 ATMs from us over the 5-year term of the agreement. Pricing of the ATMs will adjust over the term of the MPA using certain formulas which are based on prevailing market pricing. We recognized revenue related to Bradesco totaling \$41 million during the three months ended March 31, 2013 as compared to \$27 million during the three months ended March 31, 2012. As of March 31, 2013 and December 31, 2012, we had \$17 million and \$9 million, respectively, in receivables outstanding from Bradesco.

Recent Accounting Pronouncements

Adopted

In February 2013, the Financial Accounting Standards Board (FASB) issued an accounting standards update requiring new disclosures about reclassifications from accumulated other comprehensive loss to net income. These disclosures may be presented on the face of the consolidated financial statements or in the notes thereto. The standards update is

effective for fiscal years beginning after December 15, 2012. We adopted this standards update and included the additional disclosure, as required, in the first quarter of 2013. See Note 16, "Accumulated Other Comprehensive Income (Loss)," for additional information.

#### Issued

In February 2013, the FASB issued changes to the accounting for obligations resulting from joint and several liability arrangements. These changes require an entity to measure these joint and several liability arrangements for which the total amount of the obligation is fixed at the reporting date. The total amount of the obligations is determined as the sum of (i) the amount the reporting entity agreed to pay on the basis of its arrangement with its co-obligors, and (ii) any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. Examples of obligations subject to these requirements include debt arrangements, settled litigation and judicial rulings. The amendments are effective for fiscal years, and interim periods within those years,

Table of Contents

NCR Corporation

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

beginning after December 15, 2013, with early adoption permitted. The implementation of the amended accounting guidance on January 1, 2014 is not expected to have a material impact on our consolidated financial statements.

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

## 2. PENSION BENEFIT PLAN ACCOUNTING METHODOLOGY CHANGES

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

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

These changes have been reported through retrospective application of the new policies to all periods presented. We recorded a cumulative reduction of retained earnings as of December 31, 2012 (the most recent measurement date prior to the change) of \$1,050 million related to these changes in accounting methodology. The impact of all adjustments made to the financial statements presented is summarized below (amounts in millions, except per share data):

Table of Contents

NCR Corporation

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

In millions, except per share amounts	Three months ended March 31, 2013		Three months ended March 31, 2012		
	Previous Accounting Method	As Reported	Previously Reported	Adjusted	
<b>Condensed Consolidated Statements of Operations</b> (Unaudited):					
Cost of products	\$505	\$503	\$446	\$445	
Cost of services	562	538	500	484	
Selling, general and administrative expenses	241	229	199	191	
Research and development expenses	59	55	50	46	
Total operating expenses	1,367	1,325	1,195	1,166	
Income from operations	43	85	49	78	
Income from continuing operations before income taxes	24	66	38	67	
Income tax expense (benefit)	(10	) 2	(1	) 7	
Income from continuing operations	34	64	39	60	
Net income	33	63	30	51	
Net income attributable to NCR	\$31	\$61	\$29	\$50	
Amounts attributable to NCR common stockholders:					
Income from continuing operations	32	62	38	59	
Income per share attributable to NCR common stockholders:					
Income per common share from continuing operations					
Basic	\$0.20	\$0.38	\$0.24	\$0.37	
Diluted	\$0.19	\$0.37	\$0.23	\$0.36	
Net income per common share					
Basic	\$0.19	\$0.37	\$0.18	\$0.32	
Diluted	\$0.19	\$0.36	\$0.18	\$0.31	
<b>Condensed Consolidated Statements of Comprehensive</b> <b>Income (Unaudited):</b>					
Net income	\$33	\$63	\$30	\$51	
Employee benefit plans					
Net gain arising during the year	58	48	—	—	
Actuarial loss included in benefits expense	31	2	31	4	
Less income tax effect	(22	) (12	) (6	) 1	
Total comprehensive income	66	67	45	46	
Comprehensive income attributable to NCR common stockholders	\$65	\$66	\$46	\$47	
<b>Condensed Consolidated Statements of Cash Flows</b> (Unaudited):					
Net income	\$33	\$63	\$30	\$51	
Deferred income taxes	(21	) (9	) 6	14	
Employee severance and pension	8	(34	) 16	(13	)

Table of Contents

NCR Corporation

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

Condensed Consolidated Balance Sheets (Unaudited):	March 31, 2013	
	Previous Accounting Method	As Reported
Prepaid pension cost	371	372
Deferred income tax assets	540	538
Total assets	6,656	6,655
Other current liabilities	419	416
Total current liabilities	1,840	1,837
Total liabilities	5,267	5,264
Retained earnings	1,975	1,145
Accumulated other comprehensive loss	(1,024	) (192
Total NCR stockholders' equity	1,334	1,336
Total stockholders' equity	1,372	1,374
Total liabilities and stockholders' equity	6,656	6,655

Condensed Consolidated Balance Sheets (Unaudited):	December 31, 2012	
	Previously Reported	Adjusted
Retained earnings	2,134	1,084
Accumulated other comprehensive loss	(1,247	) (197

## 3. SUPPLEMENTAL FINANCIAL INFORMATION

The components of accounts receivable are summarized as follows:

In millions	March 31, 2013	December 31, 2012
Accounts receivable		
Trade	\$1,170	\$1,056
Other	43	46
Accounts receivable, gross	1,213	1,102
Less: allowance for doubtful accounts	(20)	(16)
Total accounts receivable, net	\$1,193	\$1,086

The components of inventory are summarized as follows:

In millions	March 31, 2013	December 31, 2012
Inventories, net		
Work in process and raw materials	\$180	\$187
Finished goods	211	167
Service parts	456	443
Total inventories, net	\$847	\$797

Table of Contents

NCR Corporation

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

4. ACQUISITIONS

2013 Acquisitions

Acquisition of Retalix Ltd. On February 6, 2013, NCR, through its indirect wholly owned subsidiary, Moon S.P.V. (Subsidiary) Ltd., a private company formed under the laws of the State of Israel (Merger Sub), completed its acquisition of Retalix, pursuant to the previously announced Agreement and Plan of Merger, dated November 28, 2012, by and among NCR, Merger Sub, and Retalix. In the acquisition, NCR paid an aggregate cash purchase price of \$791 million which includes \$3 million to be recognized as compensation expense within selling, general and administrative expenses over a period of approximately three years from the acquisition date. The purchase price was paid from the net proceeds from the December 2012 offer and sale of NCR's 4.625% senior unsecured notes and borrowing under NCR's senior secured credit facility. As a result of the acquisition, Retalix is now an indirect wholly owned subsidiary of NCR.

Retalix is a leading global provider of innovative retail software and services that transact billions of dollars in annual retail sales across its platform. The acquisition i