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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2020

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to ____________

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) 445-1936

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

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 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 ☑ 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 o
Non-accelerated filer o	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 transition 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 ☐ No ☑

As of October 16, 2020, there were approximately 128.9 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 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Product revenue	**$ 521**	$ 712	**$ 1,476**	$ 1,915
Service revenue	**1,068**	1,071	**3,100**	3,114
Total revenue	**1,589**	1,783	**4,576**	5,029
Cost of products	**452**	555	**1,254**	1,547
Cost of services	**710**	721	**2,126**	2,093
Selling, general and administrative expenses	**254**	271	**743**	775
Research and development expenses	**55**	64	**169**	185
Total operating expenses	**1,471**	1,611	**4,292**	4,600
Income (loss) from operations	**118**	172	**284**	429
Loss on extinguishment of debt	**(20)**	—	**(20)**	—
Interest expense	**(60)**	(53)	**(167)**	(143)
Other expense, net	**(6)**	(11)	**(10)**	(28)
Income (loss) from continuing operations before income taxes	**32**	108	**87**	258
Income tax expense (benefit)	**—**	4	**(33)**	28
Income (loss) from continuing operations	**32**	104	**120**	230
Loss from discontinued operations, net of tax	**—**	(15)	**—**	(15)
Net income (loss)	**32**	89	**120**	215
Net income (loss) attributable to noncontrolling interests	**1**	(1)	**2**	—
Net income (loss) attributable to NCR	**$ 31**	$ 90	**$ 118**	$ 215
Amounts attributable to NCR common stockholders:				
Income (loss) from continuing operations	**$ 31**	$ 105	**$ 118**	$ 230
Dividends on convertible preferred stock	**(6)**	(79)	**(19)**	(104)
Income (loss) from continuing operations attributable to NCR common stockholders	**25**	26	**99**	126
Loss from discontinued operations, net of tax	**—**	(15)	**—**	(15)
Net income (loss) attributable to NCR common stockholders	**$ 25**	$ 11	**$ 99**	$ 111
Income (loss) per share attributable to NCR common stockholders:				
Income (loss) per common share from continuing operations				
Basic	**$ 0.19**	$ 0.21	**$ 0.77**	$ 1.05
Diluted	**$ 0.19**	$ 0.21	**$ 0.76**	$ 1.03
Net income (loss) per common share				
Basic	**$ 0.19**	$ 0.09	**$ 0.77**	$ 0.92
Diluted	**$ 0.19**	$ 0.09	**$ 0.76**	$ 0.90
Weighted average common shares outstanding				
Basic	**128.5**	121.4	**128.2**	120.3
Diluted	**129.7**	123.4	**129.8**	122.7

See Notes to Condensed Consolidated Financial Statements.

NCR Corporation
Condensed Consolidated Statements of Comprehensive Income (Unaudited)

In millions	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net income (loss)	$ 32	$ 89	$ 120	$ 215
Other comprehensive income (loss):				
Currency translation adjustments				
Currency translation gains (losses)	21	(22)	(23)	(11)
Derivatives				
Unrealized gains (losses) on derivatives	(5)	4	(5)	5
Losses (gains) on derivatives recognized during the period	3	(2)	2	(5)
Less income tax	1	(1)	1	—
Employee benefit plans				
Amortization of prior service benefit	—	(1)	(2)	(5)
Amortization of actuarial losses (gains)	—	—	(2)	(1)
Less income tax	(1)	1	1	1
Other comprehensive income (loss)	19	(21)	(28)	(16)
Total comprehensive income (loss)	51	68	92	199
Less comprehensive income attributable to noncontrolling interests:				
Net income (loss)	1	(1)	2	—
Currency translation losses	1	(1)	—	(1)
Amounts attributable to noncontrolling interests	2	(2)	2	(1)
Comprehensive income (loss) attributable to NCR	$ 49	$ 70	$ 90	$ 200

See Notes to Condensed Consolidated Financial Statements.

NCR Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	September 30, 2020	December 31, 2019
Assets		
Current assets		
Cash and cash equivalents	**$ 1,605**	$ 509
Accounts receivable, net of allowances of $55 and $44 as of September 30, 2020 and December 31, 2019, respectively	**1,248**	1,490
Inventories	**748**	784
Other current assets	**396**	361
Total current assets	**3,997**	3,144
Property, plant and equipment, net	**384**	413
Goodwill	**2,828**	2,832
Intangibles, net	**547**	607
Operating lease assets	**347**	391
Prepaid pension cost	**193**	178
Deferred income taxes	**871**	821
Other assets	**661**	601
Total assets	**$ 9,828**	$ 8,987
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	**$ 222**	$ 282
Accounts payable	**676**	840
Payroll and benefits liabilities	**289**	308
Contract liabilities	**512**	502
Other current liabilities	**579**	606
Total current liabilities	**2,278**	2,538
Long-term debt	**4,266**	3,277
Pension and indemnity plan liabilities	**875**	858
Postretirement and postemployment benefits liabilities	**119**	111
Income tax accruals	**94**	92
Operating lease liabilities	**336**	369
Other liabilities	**253**	240
Total liabilities	**8,221**	7,485
Commitments and Contingencies (Note 9)		
Series A convertible preferred stock: par value $0.01 per share, 3.0 shares authorized, 0.4 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively; redemption amount and liquidation preference of $411 and $399 as of September 30, 2020 and December 31, 2019, respectively	**408**	395
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, 2020 and December 31, 2019, respectively	**—**	—
Common stock: par value $0.01 per share, 500.0 shares authorized, 128.5 and 127.7 shares issued and outstanding as of September 30, 2020 and December 31, 2019, respectively	**1**	1
Paid-in capital	**332**	312
Retained earnings	**1,159**	1,060
Accumulated other comprehensive loss	**(297)**	(269)
Total NCR stockholders' equity	**1,195**	1,104
Noncontrolling interests in subsidiaries	**4**	3
Total stockholders' equity	**1,199**	1,107
Total liabilities and stockholders' equity	**$ 9,828**	$ 8,987

See Notes to Condensed Consolidated Financial Statements.

NCR Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Nine months ended September 30 2020	2019
Operating activities		
Net income (loss)	**$ 120**	$ 215
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss from discontinued operations	**—**	15
Loss on debt extinguishment	**20**	—
Depreciation and amortization	**269**	249
Stock-based compensation expense	**76**	76
Deferred income taxes	**(46)**	(35)
Impairment of other assets	**4**	—
Gain on sale of property, plant and equipment	**(2)**	(6)
Changes in assets and liabilities:		
Receivables	**266**	(154)
Inventories	**28**	(78)
Current payables and accrued expenses	**(194)**	(68)
Contract liabilities	**6**	37
Employee benefit plans	**9**	(13)
Other assets and liabilities	**(61)**	(12)
Net cash provided by operating activities	**495**	226
Investing activities		
Expenditures for property, plant and equipment	**(23)**	(53)
Proceeds from sale of property, plant and equipment	**7**	11
Additions to capitalized software	**(177)**	(167)
Business acquisitions, net	**(25)**	(86)
Purchases of investments	**(14)**	—
Proceeds from sales of investments	**20**	—
Other investing activities, net	**(3)**	5
Net cash used in investing activities	**(215)**	(290)
Financing activities		
Short term borrowings, net	**—**	4
Payments on term credit facilities	**(7)**	(759)
Payments on revolving credit facilities	**(716)**	(2,079)
Payments of senior unsecured notes	**(1,300)**	(500)
Borrowings on term credit facilities	**4**	350
Borrowings on revolving credit facilities	**1,460**	2,459
Proceeds from issuance of senior unsecured notes	**1,500**	1,000
Debt issuance costs	**(21)**	(28)
Call premium paid on debt extinguishment	**(15)**	—
Cash payments related to Series A Convertible Preferred Stock	**(6)**	(302)
Repurchases of Common Stock	**(41)**	(96)
Proceeds from employee stock plans	**12**	12
Tax withholding payments on behalf of employees	**(27)**	(29)
Net change in client funds obligations	**(6)**	(2)
Principal payments for finance lease obligations	**(9)**	—
Other financing activities	**(1)**	(1)
Net cash provided by (used in) financing activities	**$ 827**	$ 29
Cash flows from discontinued operations		
Net cash provided by (used in) operating activities	**4**	(27)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	**(16)**	(7)
Increase (decrease) in cash, cash equivalents, and restricted cash	**1,095**	(69)
Cash, cash equivalents and restricted cash at beginning of period	**563**	532
Cash, cash equivalents and restricted cash at end of period	**$ 1,658**	$ 463

See Notes to Condensed Consolidated Financial Statements.

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

	NCR Stockholders						
	Common Stock						
In millions	**Shares**	**Amount**	**Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Non-Redeemable Noncontrolling Interests in Subsidiaries**	**Total**
December 31, 2019	**127**	**$ 1**	**$ 312**	**$ 1,060**	**$ (269)**	**$ 3**	**$ 1,107**
Comprehensive income:							
Net income	—	—	—	23	—	1	24
Other comprehensive income (loss)	—	—	—	—	(60)	(1)	(61)
Total comprehensive income (loss)	—	—	—	23	(60)	—	(37)
Employee stock purchase and stock compensation plans	2	—	4	—	—	—	4
Series A convertible preferred stock dividends	—	—	—	(6)	—	—	(6)
Repurchase of Company common stock	(2)	—	(41)	—	—	—	(41)
March 31, 2020	127	1	275	1,077	(329)	3	1,027
Comprehensive income:							
Net income	—	—	—	64	—	—	64
Other comprehensive income	—	—	—	—	14	—	14
Total comprehensive income	—	—	—	64	14	—	78
Employee stock purchase and stock compensation plans	1	—	25	—	—	—	25
Series A convertible preferred stock dividends	—	—	—	(7)	—	—	(7)
June 30, 2020	128	$ 1	$ 300	$ 1,134	$ (315)	$ 3	$ 1,123
Comprehensive income:							
Net income	—	—	—	31	—	1	32
Other comprehensive income	—	—	—	—	18	1	19
Total comprehensive income	—	—	—	31	18	2	51
Employee stock purchase and stock compensation plans	1	—	32	—	—	—	32
Series A convertible preferred stock dividends	—	—	—	(6)	—	—	(6)
Dividends paid to minority shareholder	—	—	—	—	—	(1)	(1)
September 30, 2020	**129**	**$ 1**	**$ 332**	**$ 1,159**	**$ (297)**	**$ 4**	**$ 1,199**

See Notes to Condensed Consolidated Financial Statements.

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

	NCR Stockholders						
	Common Stock						
In millions	**Shares**	**Amount**	**Paid-in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive (Loss) Income**	**Non-Redeemable Noncontrolling Interests in Subsidiaries**	**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
Comprehensive income:							
Net income	—	—	—	88	—	—	88
Other comprehensive income	—	—	—	—	(11)	—	(11)
Total comprehensive income	—	—	—	88	(11)	—	77
Employee stock purchase and stock compensation plans	—	—	28	—	—	—	28
Series A convertible preferred stock dividends	—	—	—	(12)	—	—	(12)
June 30, 2019	120	$ 1	$ 76	$ 706	$ (241)	$ 5	$ 547
Comprehensive income:							
Net income	—	—	—	90	—	1	91
Other comprehensive income	—	—	—	—	(20)	—	(20)
Total comprehensive income	—	—	—	90	(20)	1	71
Employee stock purchase and stock compensation plans	1	—	17	—	—	—	17
Series A convertible preferred stock dividends	—	—	—	(12)	—	—	(12)
Redemption of Series A convertible preferred stock	9	—	272	(67)	—	—	205
Repurchase of Company common stock	(3)	—	(96)	—	—	—	(96)
Dividends paid to minority shareholder	—	—	—	—	—	(1)	(1)
September 30, 2019	**127**	**$ 1**	**$ 269**	**$ 717**	**$ (261)**	**$ 5**	**$ 731**

See Notes to Condensed Consolidated Financial Statements.

NCR Corporation

Notes to Condensed Consolidated Financial Statements (Unaudited)

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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 2019 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, 2019.

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.

Although our estimates contemplate current and expected future conditions, as applicable, it is reasonably possible that actual conditions could differ from our expectations, which could materially affect our results of operations and financial position. In particular, a number of estimates have been and will continue to be affected by the ongoing novel coronavirus (COVID-19) pandemic. The severity, magnitude and duration of the COVID-19 pandemic, and the resulting economic consequences, are uncertain, rapidly changing and difficult to predict. As a result, our accounting estimates and assumptions may change over time as a consequence of the effects of COVID-19.

Such changes could result in future impairments of goodwill, intangible assets, long-lived assets, incremental credit losses on accounts receivable and decreases in the carrying amount of our tax assets.

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 other than subsequent events disclosed within the notes to the Condensed Consolidated Financial Statements.

Cash, Cash Equivalents, and Restricted Cash All short-term, highly liquid investments having original maturities of three months or less, including time deposits, are considered to be cash equivalents. The Company has restricted cash on deposit with a bank as collateral for letters of credit, funds held for clients as well as cash included in settlement processing assets. Refer to Note 2, Revisions of Previously Issued Financial Statements, for disclosure related to the revision to include funds held for clients and cash included in settlement processing assets within cash, cash equivalents and restricted cash in the Condensed Consolidated Statement of Cash Flows.

The reconciliation of cash, cash equivalents and restricted cash in the Condensed Consolidated Statements of Cash Flows is as follows:

	September 30	
In millions	**2020**	**2019 As Revised**
Reconciliation of cash, cash equivalents and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows		
Cash and cash equivalents	**$ 1,605**	$ 388
Restricted cash included in other assets	**9**	21
Funds held for clients included in other current assets	**26**	45
Cash included in settlement processing assets included in other current assets	**18**	9
Total cash, cash equivalents and restricted cash	**$ 1,658**	$ 463

Contract Assets and Liabilities The following table presents the net contract asset and contract liability balances as of September 30, 2020 and December 31, 2019.

In millions	Location in the Condensed Consolidated Balance Sheet	September 30, 2020	December 31, 2019
Current portion of contract assets	Other current assets	$ 4	$ 9
Current portion of contract liabilities	Contract liabilities	$ 512	$ 502
Non-current portion of contract liabilities	Other liabilities	$ 80	$ 81

During the nine months ended September 30, 2020, the Company recognized $361 million in revenue that was included in contract liabilities as of December 31, 2019.

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 September 30, 2020, the aggregate amount of the transaction price allocated to remaining performance obligations was approximately $3.5 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 Software as a Service (SaaS) contracts where variable consideration is directly allocated based on usage or when the original expected length is one year or less.

Recent Accounting Pronouncements

Issued

In August 2020, the Financial Accounting Standards Board ("FASB") issued an accounting standards update with new guidance for convertible preferred stock, which eliminates considerations related to the beneficial conversion feature model. The standard also requires an average stock price when calculating the denominator for diluted earnings per share to be used for stock units where the settlement of the number of shares is based on the stock price. The new standard is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. Early adoption is permitted no earlier than fiscal years beginning after December 15, 2020 and interim periods within those fiscal years. The adoption of this accounting standards update is not expected to have a material effect on the Company's net income, cash flows, earnings per share or financial condition.

Adopted

In June 2016, the FASB issued an accounting standards update with new guidance on accounting for credit losses on financial instruments. The new guidance includes an impairment model for estimating credit losses that is based on expected losses, rather than incurred losses. This accounting standards update is effective prospectively for fiscal years and interim periods beginning after December 15, 2019, with early adoption permitted. The adoption of this accounting standards update did not have a material effect on the Company's net income, cash flows or financial condition.

In August 2018, the FASB issued an accounting standards 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. This accounting standards update also requires disclosure about the uncertainty in measurement as of the reporting date. The new standard became effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 with early adoption permitted. The adoption of this accounting standards update did not have a material impact on our financial statement disclosures.

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 adoption of this accounting standards update did not have a material effect on the Company's net income, cash flows or financial condition.

In December 2019, the FASB issued an accounting standards update with new guidance that removes certain exceptions for recognizing deferred taxes for investments, performing intraperiod allocation and calculating income taxes in interim periods. This accounting standards update also adds guidance to reduce complexity in certain areas, including recognizing measures for the accounting for income taxes. This accounting standards update is effective for fiscal years and interim periods beginning after December 15, 2020, with early adoption permitted. The adoption of this accounting standards update did not have a material impact on the Company's net income, cash flows or financial condition.

In March 2020, the SEC adopted final rules, effective January 4, 2021, that, among other things, amend the financial disclosure requirements of Regulation S-X under the Securities Act for guaranteed securities registered with the SEC. As permitted by such rules, the Company is voluntarily complying with the rules in advance of the effective date. Accordingly, we are no longer required to provide, and are not providing, supplemental guarantor information for NCR International, Inc.'s SEC registered guarantee of the 5.00% and 6.375% senior unsecured notes given that NCR International, Inc.'s reporting obligations with respect to guarantees under Section 15(d) of the Exchange Act have been automatically suspended.

2. REVISIONS OF PREVIOUSLY ISSUED FINANCIAL STATEMENTS

During 2020, the Company determined there were errors in its previously issued Consolidated Statements of Cash Flows related to the business activities that commenced upon the acquisition of JetPay Corporation (JetPay) in December 2018. As a result of these errors, the Company's cash, cash equivalents and restricted cash within the Consolidated Statements of Cash Flows for the years ended December 31, 2019 and 2018 and within the Condensed Consolidated Statements of Cash Flows for the interim periods in fiscal 2019 and for the three months ended March 31, 2020, were understated. This also resulted in misclassifications of activities between net cash from operations, investing, and financing activities in each of the periods noted above.

More specifically, the Company determined: (i) the funds held for clients represent cash balances that, based upon the Company's intent, are restricted solely for the purposes of satisfying the obligations to remit funds relating to the Company's payroll and payroll tax filing services, which are classified as client fund obligations; and (ii) there are restricted cash balances included within settlement processing assets that are not yet due to the merchants. Such funds are held in a fiduciary duty, and are not available for the Company to use to fund its cash requirements. As a result, (i) the business acquisition purchase price upon the acquisition of JetPay should have been reflected net of these cash balances and (ii) the restricted cash in all periods should have been presented within cash, cash equivalents and restricted cash within the Consolidated Statement of Cash Flows.

Additionally, the Company determined the presentation of the cash inflow or outflow from client fund obligations should be reflected within financing activities rather than within operating activities beginning in the third quarter of 2019 and through December 31, 2019. However, in analyzing the impact of the change to include funds held for clients within cash, cash equivalents and restricted cash, it was determined the cash inflow or outflow from client funds obligations was incorrect.

The Company assessed the materiality of these errors on the prior period financial statements in accordance with SEC Staff Bulletin No. 99, *Materiality*, codified in ASC Topic 250, *Accounting Changes and Error Corrections*. Based on this assessment, the Company determined the impact from these errors was not material to its previously filed annual or interim financial statements. The corrections had no impact on the Company's Consolidated Statements of Income, Consolidated Statements of Comprehensive Income or Consolidated Balance Sheets in previously issued annual or interim financial statements.

However, the Company has determined that it will revise its previously issued annual and interim financial statements to correct these errors within the Consolidated Statements of Cash Flows. The revision for the Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2019 is reflected within the accompanying Condensed Consolidated Financial Statements. The Company will effect such revisions to its Consolidated Statements of Cash Flows for the year ended December 31, 2019 in connection with the future filing of its 2020 Annual Report on Form 10-K.

The changes reflected in our Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2019 and the year ended December 31, 2019 are reflected in the tables below:

In millions	For the nine months ended September 30, 2019 As Reported	Adjustment	As Revised
Net increase (decrease) in client funds	$ (2)	$ 2	$ —
Net cash provided by (used in) investing activities	$ (292)	$ 2	$ (290)
Net increase (decrease) in client obligations	$ 2	$ (4)	$ (2)
Net cash provided by (used in) financing activities	$ 33	$ (4)	$ 29
Increase (decrease) in Cash, cash equivalents and restricted cash	$ (67)	$ (2)	$ (69)
Cash, cash equivalents and restricted cash at the beginning of the period	$ 476	$ 56	$ 532
Cash, cash equivalents and restricted cash at the end of the period	$ 409	$ 54	$ 463

In millions	For the year ended December 31, 2019 As Reported	Adjustment	As Revised
Increase (decrease) in other assets and liabilities	$ 2	$ 6	$ 8
Net cash provided by (used in) operating activities	$ 628	$ 6	$ 634
Net increase (decrease) in client obligations	$ (15)	$ 15	$ —
Net cash provided by (used in) investing activities	$ (527)	$ 15	$ (512)
Net increase (decrease) in client obligations	$ 15	$ (30)	$ (15)
Net cash provided by (used in) financing activities	$ (31)	$ (30)	$ (61)
Increase (decrease) in Cash, cash equivalents and restricted cash	$ 40	$ (9)	$ 31
Cash, cash equivalents and restricted cash at the beginning of the period	$ 476	$ 56	$ 532
Cash, cash equivalents and restricted cash at the end of the period	$ 516	$ 47	$ 563

Consistent with the revision to the Consolidated Statement of Cash Flows described above, the Company has revised the reconciliation of cash, cash equivalents and restricted cash included in the Consolidated Statement of Cash Flows for all periods that include a revision. The appropriate changes are reflected in our Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2019, and the corrections, as reflected in the table below to include funds held for clients and cash included in settlement processing assets within cash, cash equivalents and restricted cash, will be revised in connection with the future filings.

In millions	December 31, 2019	September 30, 2019
Reconciliation of cash, cash equivalents and restricted cash as shown in the Condensed Consolidated Statements of Cash Flows		
Cash and cash equivalents	$ 509	$ 388
Restricted cash included in other assets	7	21
Funds held for clients included in other current assets	32	45
Cash included in settlement processing assets included in other current assets	15	9
Total cash, cash equivalents and restricted cash	$ 563	$ 463

3. BUSINESS COMBINATIONS

Acquisition of Origami

On June 6, 2019, our subsidiary, NCR Brasil Ltda. (NCR Brasil) entered into a definitive agreement with OKI Electric Industry Co., Ltd. and its Brazilian subsidiary, OKI Brasil Industria e Comércio de Produtos e Tecnologia em Automação S.A. (OKI Brasil), to purchase OKI Brasil's IT services and select software assets for use in the financial, retail and other industries. Neither OKI Brasil's manufacturing operations nor its printing business in Brazil were included in the acquisition. On April 9, 2020, NCR Brasil completed this acquisition through the purchase of 100% of the quotas of Origami Brasil Tecnologia e Serviços em Automação Ltda. (Origami), which became a wholly owned subsidiary of NCR Brasil. The purchase price was approximately $5 million, of which $2 million is payable in cash within two years of the acquisition date, subject to certain conditions, and the remaining $3 million is payable in cash within six years of the acquisition date, subject to purchase price adjustments.

The fair value of consideration transferred to acquire Origami was allocated to the identifiable assets and liabilities assumed based upon their estimated fair values as of the date of acquisition as set forth below. The acquisition is expected to result in a bargain purchase gain based on the purchase price being limited mostly to the net assets of the business excluding cash and investments.

In millions	Fair Value
Cash acquired	$ 1
Investments acquired	9
Tangible assets acquired	18
Deferred gain on business acquisition	(3)
Liabilities assumed	(20)
Total purchase consideration	**$ 5**

This allocation of the purchase price is provisional as of September 30, 2020 and the deferred gain recognized may be subject to future adjustments as the Company obtains additional information to finalize and reassess the accounting for the business combination. The estimated deferred gain on business acquisition of $3 million has been included within other current liabilities in the Condensed Consolidated Balance Sheet.

The operating results of Origami have been included within NCR's results as of the closing date of the acquisition. Supplemental pro forma information and actual revenue and earnings since the acquisition date have not been provided as this acquisition did not have a material impact on the Company's Condensed Consolidated Statements of Operations.

4. GOODWILL AND LONG-LIVED ASSETS

Hospitality Goodwill Assessment In addition to our annual goodwill impairment test performed in the fourth quarter, we perform interim impairment tests for long-lived and intangible assets, including goodwill, whenever events or changes in circumstances indicate that the carrying amount of the asset (group) may not be recoverable.

Late in the quarter ended March 31, 2020, there was significant market volatility driven by the COVID-19 pandemic that drove uncertainty around our full year revenue and operating income expectations. As a result, we withdrew our full year outlook for 2020 on March 31, 2020, which was previously provided during our fourth quarter 2019 earnings conference call on February 11, 2020. Given the rapidly changing environment, we considered if there was an indication that the carrying value of net assets were in excess of the fair value for each of our reporting units. This consideration included the expected impacts to the current year cash flows, and the potential impacts to future cash flows, as well as the excess of the fair value over the carrying value from the prior year annual assessment. As a result, we determined there was an indication that the carrying value of the net assets assigned to the Hospitality reporting unit may not be recoverable.

The fair value of the Hospitality reporting unit was estimated using a weighted methodology considering the output from both the income and market approaches. The income approach incorporates the use of discounted cash flow (DCF) analysis. A number of significant assumptions and estimates are involved in the application of the discounted cash flow model to forecast operating cash flows, including revenue growth, operating income margin and discount rate. The market approach is performed using the Guideline Public Companies (GPC) method, which is based on earnings multiple data of peer companies.

For the Hospitality reporting unit, the Company expects the COVID-19 pandemic to have a significant impact to our customers in the table service market, travel and entertainment market and small and medium business market in the near term. The Company expects the long term growth strategy to remain intact with previous growth expectations returning in 2021. Based on these assumptions, the Company determined the fair value of the Hospitality segment continues to be greater than the carrying value and therefore, no impairment existed as of March 31, 2020. Additionally, as of September 30, 2020, the Company determined there was no indication the carrying value of the net assets assigned to the Hospitality segment may not be recoverable. However, if the actual results or the anticipated timing of the recovery from the COVID-19 pandemic differ from our expectations for the Hospitality, or any, reporting unit, there is a possibility that our annual impairment test could lead to an impairment of goodwill or other assets.

Goodwill by Segment The carrying amounts of goodwill by segment as of September 30, 2020 and December 31, 2019 are included in the table below. Foreign currency fluctuations are included within other adjustments.

	December 31, 2019						September 30, 2020		
In millions	Goodwill	Accumulated Impairment Losses	Total	Additions	Impairment	Other	Goodwill	Accumulated Impairment Losses	Total
Banking	$ 1,774	$ (101)	$ 1,673	$ —	$ —	$ (4)	$ 1,770	$ (101)	$ 1,669
Retail	638	(34)	604	—	—	—	638	(34)	604
Hospitality	402	(23)	379	1	—	(1)	402	(23)	379
Other	187	(11)	176	—	—	—	187	(11)	176
Total goodwill	$ 3,001	$ (169)	$ 2,832	$ 1	$ —	$ (5)	$ 2,997	$ (169)	$ 2,828

Identifiable 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.

		September 30, 2020		December 31, 2019	
In millions	Amortization Period (in Years)	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Identifiable intangible assets					
Reseller & customer relationships	1 - 20	$ 739	$ (310)	$ 735	$ (270)
Intellectual property	2 - 8	528	(413)	529	(397)
Customer contracts	8	89	(89)	89	(89)
Tradenames	1 - 10	77	(74)	78	(68)
Total identifiable intangible assets		$ 1,433	$ (886)	$ 1,431	$ (824)

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

In millions	Three months ended September 30, 2020	Nine months ended September 30, 2020	Remainder of 2020 (estimated)
Amortization expense	$ 21	$ 62	$ 19

	For the years ended December 31 (estimated)				
In millions	2021	2022	2023	2024	2025
Amortization expense	$ 72	$ 68	$ 66	$ 59	$ 51

5. DEBT OBLIGATIONS

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

	September 30, 2020		December 31, 2019	
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)]	**$ 8**	**2.65%**	$ 8	4.30%
Trade Receivables Securitization Facility	**212**	**0.99%**	270	2.65%
Other [(1)]	**2**	**8.06%**	4	2.82%
Total short-term borrowings	**$ 222**		$ 282	
Long-Term Debt				
Senior Secured Credit Facility:				
Term loan facility [(1)]	**$ 735**	**2.65%**	$ 740	4.30%
Revolving credit facility [(1)]	**1,070**	**2.16%**	265	3.76%
Senior notes:				
5.00% Senior Notes due 2022	**—**		600	
6.375% Senior Notes due 2023	**—**		700	
8.125% Senior Notes due 2025	**400**		—	
5.750% Senior Notes due 2027	**500**		500	
5.000% Senior Notes due 2028	**650**		—	
6.125% Senior Notes due 2029	**500**		500	
5.250% Senior Notes due 2030	**450**		—	
Deferred financing fees	**(42)**		(32)	
Other [(1)]	**3**	**7.02%**	4	0.05%
Total long-term debt	**$ 4,266**		$ 3,277	

(1) Interest rates are weighted-average interest rates as of September 30, 2020 and December 31, 2019.

Senior Secured Credit Facility On August 28, 2019, the Company entered into an amended and restated senior secured credit facility with and among certain subsidiaries of NCR (the Foreign Borrowers), the lenders party thereto and JPMorgan Chase Bank, NA (JPMCB) as the administrative agent, refinancing its term loan facility and revolving credit facility thereunder (the Senior Secured Credit Facility). The Senior Secured Credit Facility consists of a term loan facility with an aggregate principal commitment of $750 million, of which $743 million was outstanding as of September 30, 2020. Additionally, the Senior Secured Credit Facility provides for a five-year revolving credit facility with an aggregate principal amount of $1.1 billion, of which $1.07 billion was outstanding as of September 30, 2020. The revolving credit facility also allows a portion of the availability to be used for letters of credit, and as of September 30, 2020, there were $28 million of letters of credit outstanding. On October 23, 2020, we repaid $470 million of our outstanding revolver balance.

Up to $400 million of the revolving credit facility is available to the Foreign Borrowers, as long as there is availability under the revolving credit facility. 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 0.25% of the aggregate principal amount that began with the fiscal quarter ending December 31, 2019, with the balance being due at maturity on August 28, 2026. Borrowings under the revolving portion of the credit facility are due August 28, 2024. Revolving loans outstanding under the Senior Secured Credit Facility denominated in U.S. Dollars bear interest at the Company's option at (a) London Inter-bank Offered Rate ("LIBOR"), plus a margin ranging from 1.25% to 2.25% or (b) a base rate equal to the highest of (i) the federal funds rate plus 0.50%, (ii) the rate of interest last quoted by the Wall Street Journal as the “prime rate” and (iii) the one-month LIBOR rate plus 1.00% (the Base Rate), plus, a margin ranging from 0.25% to 1.25%, in each case, depending on the Company’s consolidated leverage ratio. Revolving loans denominated in Euro bear interest at the EURIBOR, plus a margin ranging from 1.25% to 2.25% 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. Term loans outstanding under the Senior Secured Credit Facility bear interest, at NCR's option, at LIBOR plus 2.50% per annum or the Base Rate plus a 1.50% margin per annum. In the event that LIBOR is no longer available or in certain other circumstances as described in the Senior Secured Credit Facility, the Senior Secured Credit Facility provides a mechanism for determining an alternative rate of interest. There is no assurance that any such alternative, successor or replacement reference rate will be similar to, or produce the same value or economic equivalence of, LIBOR.

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 a financial covenant that requires 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 March 31, 2021, (a) the sum of 4.50 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 March 31, 2021 and on or prior to March 31, 2023, (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; and (iii) in the case of any fiscal quarter ending after March 31, 2023, (a) the sum of 4.00 and an amount (not to exceed 0.50) to reflect debt used to reduce our unfunded pension liabilities to (b) 1.00.

The Company has the option to elect to increase the maximum permitted leverage ratio by 0.25 in connection with the consummation of any material acquisition (as defined in the Senior Secured Credit Facility) for four fiscal quarters, but in no event will the maximum permitted leverage ratio, inclusive of all increases, exceed 4.75 to 1.00. At September 30, 2020, the maximum consolidated leverage ratio under the Senior Secured Credit Facility was 4.75 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 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 3.00 to 1.00, and the proceeds of which can be used for working capital requirements and other general corporate purposes.

Senior Unsecured Notes On August 21, 2019, the Company issued $500 million aggregate principal amount of 5.750% senior unsecured notes due in 2027 (the 5.750% Notes) and $500 million aggregate principal amount of 6.125% senior unsecured notes due in 2029 (the 6.125% Notes). The 5.750% Notes were sold at 100% of the principal amount with a maturity date of September 1, 2027. The 6.125% Notes were sold at 100% of the principal amount with a maturity date of September 1, 2029. On April 13, 2020, the Company issued $400 million aggregate principal amount of 8.125% senior unsecured notes due in 2025 (the 8.125% Notes). The 8.125% Notes were sold at 100% of the principal amount with a maturity date of April 15, 2025. On August 20, 2020, the Company issued $650 million aggregate principal amount of 5.000% senior unsecured notes due in 2028 (the 5.000% Notes) and $450 million aggregate principal amount of 5.250% senior unsecured notes due in 2030 (the 5.250% Notes). Interest is payable on the 5.000% and 5.250% Notes semi-annually in arrears at interest rates of 5.000% and 5.250%, respectively, on April 1 and October 1 of each year beginning April 1, 2021. The 5.000% and 5.250% Notes were sold at 100% of the principal amount and with maturity dates of October 1, 2028 and October 1, 2030, respectively.

On September 19, 2020, the Company used the proceeds from the offering of the 5.000% and 5.250% Notes, together with other cash on hand, to redeem and satisfy and discharge all of its outstanding $600 million aggregate principal amount of 5.000% senior unsecured notes due in 2022 and $700 million aggregate principal amount of 6.375% senior unsecured notes due in 2023. These 5.00% notes were redeemed at 100% plus accrued and unpaid interest. These 6.375% notes were redeemed at a premium of 102.125% plus accrued and unpaid interest. As a part of our debt extinguishment, we recognized a loss of $20 million, which includes the write-off of deferred financing fees of $5 million and a cash redemption premium of $15 million.

The 5.000%, 5.250% and 8.125% Notes are unsecured senior obligations of the Company and are guaranteed by the Company's wholly-owned 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.

At any time and from time to time, prior to October 1, 2023, the Company may redeem up to a maximum of 40% of the original aggregate principal amount of either the 5.000% or 5.250% Notes with the proceeds of one or more equity offerings, at a redemption price equal to 105.000%, with respect to the 5.000% Notes, and 105.250%, with respect to the 5.250% Notes, of the principal amount thereof, plus accrued and unpaid interest thereon, if any, to, but not including, the redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date); provided that: (i) at least 55% of the original aggregate principal amount of the 5.000% or 5.250% Notes remains outstanding; and (ii) such redemption occurs within 180 days of the completion of such equity offering.

Prior to October 1, 2023, with respect to the 5.000% Notes, or October 1, 2025, with respect to the 5.250% Notes, the Company may redeem some or all of such series of Notes by paying a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus the Applicable Premium, as defined in the Indenture, as of, and accrued and unpaid interest to, but excluding, the redemption date (subject to the right of holders of record of the Notes on the relevant record date to receive interest due on the relevant interest payment date).

The Company has the option to redeem the 5.000% Notes, in whole or in part, at any time on or after October 1, 2023, at a redemption price of 102.500%, 101.250%, and 100% during the 12-month periods commencing on October 1, 2023, 2024 and 2025 and thereafter, respectively, plus accrued and unpaid interest to the redemption date.

The Company has the option to redeem the 5.250% Notes, in whole or in part, at any time on or after October 1, 2025, at a redemption price of 102.625%, 101.750%, 100.875%, and 100% during the 12-month periods commencing on October 1, 2025, 2026, 2027 and 2028 and thereafter, respectively, plus accrued and unpaid interest to the redemption date.

The Company has the option to redeem the 8.125% Notes, in whole or in part, at any time on or after April 15, 2022, at a redemption price of 104.063%, 102.031%, and 100% during the 12-month periods commencing on April 15, 2022, 2023 and 2024 and thereafter, respectively, plus accrued and unpaid interest to the redemption date. Prior to April 15, 2022, the Company may redeem some or all of the 8.125% Notes by paying a redemption price equal to 100% of the principal amount of the Notes to be redeemed plus the Applicable Premium, as defined in the Indenture, as of, and accrued and unpaid interest to, but excluding, the redemption date (subject to the right of holders of record of the Notes on the relevant record date to receive interest due on the relevant interest payment date).

For the issuance of the 8.125% Notes, the 5.000% Notes and the 5.250% Notes, the Company incurred debt issuance fees of $21 million that have been deferred and will be recognized in interest expense over the term of the indentures.

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 revolving trade receivables securitization facility (the A/R Facility) with PNC Bank, National Association (PNC) as the administrative agent, and various lenders. In November 2019, the Company amended the A/R Facility to increase the maximum commitment made available under the Facility and extended the maturity date to November 2021. The amendment also included other modifications including the scope of receivables subject to the facility and related eligibility requirements, the adoption of a new benchmark for determining overnight funding rates and the fees and interest payable to the agent and lenders party thereto. The A/R Facility now provides for up to $300 million in funding based on the availability of eligible receivables and other customary factors and conditions, of which $212 million was outstanding as of September 30, 2020.

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 $533 million and $603 million of outstanding accounts receivable as of September 30, 2020 and December 31, 2019, respectively, and these amounts are included in accounts receivable, net in the Company's Condensed Consolidated Balance Sheets.

The financing subsidiary will pay annual commitments and other customary fees to the lenders, and advances by a lender under the A/R Facility will 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 funding as a committed lender under the terms of the A/R Facility, or (ii) based on commercial paper interest rates if the lender is funding as 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, which 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 September 30, 2020 and December 31, 2019 was $4.59 billion and $3.70 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 zero for the three months ended September 30, 2020 compared to income tax expense of $4 million for the three months ended September 30, 2019. The change was primarily driven by lower income before taxes in the three months ended September 30, 2020, partially offset by a decrease in discrete tax benefits. In the three months ended September 30, 2019, the discrete tax benefits were primarily the release of a $25 million valuation allowance related to certain non-US deferred tax assets. In the three months ended September 30, 2020, the discrete benefits were primarily a decrease in the balance of the Company's gross unrecognized tax benefits as a result of lapses of statutes of limitations.

Income tax benefit was $33 million for the nine months ended September 30, 2020 compared to income tax expense of $28 million for the nine months ended September 30, 2019. The change was primarily driven by an increase in discrete tax benefits as well as lower income before taxes in the nine months ended September 30, 2020. In the nine months ended September 30, 2019, the discrete benefits were primarily a release of a $25 million valuation allowance related to certain non-US deferred tax assets. In the nine months ended September 30, 2020, the discrete tax benefits primarily resulted from a $48 million benefit recorded for the release of a valuation allowance against U.S. foreign tax credits and the re-establishment of expected foreign tax credit offsets to unrecognized tax benefits as well as a decrease in the balance of the Company's gross unrecognized tax benefits as a result of lapses in statutes of limitations.

Additionally, in connection with preparing the financial statements for the nine months ended September 30, 2020, the Company identified and recorded income tax benefits of $2 million related to an error in the calculation of the permanent differences on executive stock compensation and $3 million for the write-off of income tax payables incorrectly recorded in prior periods. The Company determined the impact of these errors was not material to the annual or interim financial statements of previous periods and the effect of correcting these errors was not material to the Condensed Consolidated Financial Statements for the nine months ended September 30, 2020 and is not expected to be material to the 2020 annual financial statements.

The Company engages in continuous 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 September 30, 2020, we estimate that it is reasonably possible that gross unrecognized tax benefits may decrease by $25 million to $32 million in the next 12 months.

7. STOCK COMPENSATION PLANS

As of September 30, 2020, 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:

	Three months ended September 30		Nine months ended September 30	
In millions	**2020**	**2019**	**2020**	**2019**
Restricted stock units	**$ 23**	$ 25	**$ 55**	$ 67
Stock options	**6**	2	**16**	6
Employee stock purchase plan	**2**	1	**5**	3
Stock-based compensation expense	**31**	28	**76**	76
Tax benefit	**(4)**	(5)	**(9)**	(12)
Stock-based compensation expense (net of tax)	**$ 27**	$ 23	**$ 67**	$ 64

Stock-based compensation expense is recognized in the financial statements based upon grant date fair value.

On July 1, 2020, the Company granted market-based restricted stock units with 50% of the award vesting on January 1, 2022 and 50% of the award vesting on January 1, 2023. The number of awards that vest are subject to the performance of the Company's stock price from the date of grant to January 1, 2022. The fair value was determined to be $21.74 based on using a Monte-Carlo simulation model and will be recognized over the requisite service period. The table below details the assumptions used in determining the fair value of the market-based restricted stock units.

	For the nine months ended September 30, 2020
Dividend yield	**— %**
Risk-free interest rate	**0.16 %**
Expected volatility	**53.64 %**

Expected volatility for the market-based restricted stock units is calculated as the historical volatility of the Company's stock over a period of three years, as management believes this is the best representation of prospective trends. The risk-free interest rate was determined based on a blend of the one and two years U.S. Treasury yield curves in effect at the time of the grant.

In the nine months ended September 30, 2020, stock options granted were premium-priced stock options with an exercise price equal to either 110% or 115% of the closing stock price on the date of the grant. The weighted average exercise price of the stock options granted in the nine months ended September 30, 2020 was $36.26. The weighted average fair value of the option grants was $7.64 for the nine months ended September 30, 2020 based on using a Monte-Carlo simulation model and will be recognized over the requisite service period. These option grants have a seven year contractual term that vest at the end of 36 months. For the nine months ended September 30, 2019, the weighted average fair value of option grants was $8.07 with a seven year contractual term that vest ratably over four years. The table below details the assumptions used in determining the fair value of the option grants.

	Nine months ended September 30	
	2020	**2019**
Dividend yield	**— %**	— %
Risk-free interest rate	**1.34 %**	2.50 %
Expected volatility	**34.63 %**	34.79 %
Expected holding period (years)	**3.7**	3.9

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. For options granted during the nine months ended September 30, 2020, the seven-year U.S. Treasury yield curve was used to determine the risk-free interest rate. For options granted during the nine months ended September 30, 2019, the risk-free interest rate was determined based on a blend of the three and five-year U.S. Treasury yield curves in effect at the time of the grant.

As of September 30, 2020, the total unrecognized compensation cost of $116 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 0.9 years. As of September 30, 2020, the total unrecognized compensation cost of $54 million related to unvested stock option grants is expected to be recognized over a weighted average period of approximately 1.1 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 September 30, 2020, employees purchased 0.3 million shares, at a discounted price of $14.43. For the three months ended September 30, 2019, employees purchased 0.2 million shares, at a discounted price of $26.44.

8. EMPLOYEE BENEFIT PLANS

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

	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
In millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Net service cost	**$ —**	$ —	**$ 1**	$ 1	**$ 1**	$ 1
Interest cost	**12**	16	**4**	5	**16**	21
Expected return on plan assets	**(9)**	(10)	**(7)**	(8)	**(16)**	(18)
Amortization of prior service cost	**—**	—	**1**	1	**1**	1
Net periodic benefit cost (income)	**$ 3**	$ 6	**$ (1)**	$ (1)	**$ 2**	$ 5

Components of net periodic benefit cost (income) of the pension plans for the nine months ended September 30 were as follows:

	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
In millions	**2020**	**2019**	**2020**	**2019**	**2020**	**2019**
Net service cost	**$ —**	$ —	**$ 4**	$ 4	**$ 4**	$ 4
Interest cost	**38**	49	**10**	15	**48**	64
Expected return on plan assets	**(27)**	(32)	**(20)**	(23)	**(47)**	(55)
Amortization of prior service cost	**—**	—	**1**	1	**1**	1
Net periodic benefit cost (income)	**$ 11**	$ 17	**$ (5)**	$ (3)	**$ 6**	$ 14

Components of the benefit from the postretirement plan for the following periods were:

In millions	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Interest cost	**$ —**	$ —	**$ —**	$ —
Amortization of:				
Prior service benefit	**(1)**	(2)	**(2)**	(4)
Actuarial loss	**1**	1	**1**	1
Net postretirement benefit	**$ —**	$ (1)	**$ (1)**	$ (3)

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

In millions	Three months ended September 30		Nine months ended September 30	
	2020	2019	2020	2019
Net service cost	**$ 21**	$ 5	**$ 34**	$ 24
Interest cost	**—**	—	**1**	2
Amortization of:				
Prior service benefit	**—**	—	**(1)**	(2)
Actuarial gain	**(1)**	(1)	**(3)**	(2)
Net benefit cost	**$ 20**	$ 4	**$ 31**	$ 22

Employer Contributions

Pension For the three and nine months ended September 30, 2020, NCR contributed $6 million and $15 million, respectively, to its international pension plans. NCR anticipates contributing an additional $6 million to its international pension plans for a total of $21 million in 2020.

Postretirement For the three and nine months ended September 30, 2020, NCR made zero and $1 million, respectively, of contributions 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 2020.
Postemployment For the three and nine months ended September 30, 2020, NCR contributed $4 million and $11 million, respectively, to its postemployment plan. NCR anticipates contributing an additional $19 million to its postemployment plan for a total of $30 million in 2020.

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.

Nashville Tornado On March 3, 2020, one of our Global Fulfillment Centers, operated with a third-party logistics partner in Mount Juliet, Tennessee, was severely impacted by tornadoes in the greater Nashville area. We maintain substantial property damage insurance coverage for this Global Fulfillment Center and have worked, and continue to work, closely with our insurance carrier and claims adjusters to ascertain the property damage, which mainly consisted of raw materials and finished goods inventory. The Company determined approximately $103 million of the inventory to be a total loss as of September 30, 2020 and as such, was written-off with an offsetting insurance receivable recorded, which was included within other current assets in the Condensed Consolidated Balance Sheet with no net impact on cost of sales. The insurance receivable was based on the amount probable of recovery based on the terms of the insurance policy. The remaining $45 million of inventory requires further assessment to determine recoverability, which remains ongoing as of September 30, 2020. As of September 30, 2020, we received a total of $102 million as an advance from the insurance carrier. Additionally, our insurance policy also provides for business interruption coverage, including lost profits, and reimbursement for other expenses and costs that have been incurred relating to the damages and losses suffered. As of September 30, 2020, the Company has incurred $11 million of other expenses, mainly related to expedite freight, professional services and contractor charges. The Company has received an $8 million insurance payment related to these expenses. The Company has recorded an insurance receivable for the remainder based on the amount probable of recovery based on the terms of the insurance policy.

Boston Consulting Group On November 6, 2019, Boston Consulting Group, Inc., a former consultant for the Company, commenced a lawsuit against the Company in the United States District Court for the District of New York. The Complaint in the matter alleges the Company breached two consulting agreements and seeks in excess of $80 million and other compensatory damages and equitable relief. While the Company at this time is unable to make any predictions about the outcome of this case or estimate any possible liability, the Company believes the allegations of money owed are grossly overstated, and the Company intends to vigorously defend this lawsuit. The parties are currently engaged in discovery in this matter.

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, the Kalamazoo River matter and the Ebina 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 September 30, 2020 and December 31, 2019, the receivable under the Funding Agreement was approximately $53 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 2021 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.

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 has now resolved 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 has now been completed; (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. The hearing on this matter was completed in June 2019, and the parties submitted post-trial briefs in August 2019. The amounts claimed by the contractor range from approximately $46 million to approximately $53 million; the Company disputed the claims and contested them vigorously during the hearing. In November 2019, having rejected substantial portions of the claims, the arbitration panel awarded the contractor $10 million. The Company's indemnitors and co-obligors, described below, were responsible for the majority of the award, with the Company's share being approximately 25% of the 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 site costs, including the costs associated with decommissioning the site, 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 to the extent additional litigation is required with respect to claims brought by the general contractor; 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 effect on NCR's capital expenditures, earnings, financial condition, cash flows, or competitive position. As of September 30, 2020, the gross reserve for the Fox River matter was approximately $4 million, compared to $5 million as of December 31, 2019. As of September 30, 2020, the net reserve for the Fox River matter was approximately $26 million, compared to $16 million as of December 31, 2019. NCR contributes to the LLC to fund remediation activities and generally, by contract, has funded certain amounts of remediation expenses in advance. As of September 30, 2020 and December 31, 2019, 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 total costs for which generally remain undetermined; 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.

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 and remains stayed as of October 2020.

During the pendency of the Sixth Circuit stay, the Company negotiated a settlement of the Kalamazoo River matter with the USEPA and other government agencies having oversight over the river. On December 5, 2019, the Company entered into a Consent Decree, filed with the District Court on December 11, 2019, which will resolve all litigation associated with the river clean-up, including the Sixth Circuit appeal when approved. Upon approval, the Consent Decree will require the Company to pay GP its 40% share of past costs, to pay the USEPA and state agencies their past and future administrative costs, to dismiss its Sixth Circuit appeal, and to take responsibility for the remediation of a portion, but not all, of the Kalamazoo River. The Consent Decree further provides the Company protection from other PRPs, including GP, seeking contribution for their costs associated with the clean-up anywhere on the river, thereby resolving the allocation of future costs left unresolved by the June 19, 2019 judgment.

The Consent Decree was subject to a public comment period, which ended February 18, 2020, and the Company is still awaiting approval of the Consent Decree. In May 2020, the US and state agencies filed motions supporting entry of the Consent Decree, and in June 2020, the court permitted GP and the other two Kalamazoo defendants to intervene to file motions in opposition to the Consent Decree. All briefing related to the Consent Decree was completed in August 2020. A decision on approval of the Consent Decree is not expected until at least later this year.

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.

As of September 30, 2020 and December 31, 2019, the total reserve for Kalamazoo was $78 million and $81 million, respectively. That figure is reported on a basis that is net of expected contributions from the Company's co-obligors and indemnitors, subject to when the applicable threshold is reached. 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 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, notwithstanding the settlement of this matter and related Consent Decree noted above, 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 take place through the 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.

Ebina The Company is engaged in cooperative regulatory compliance activities with the government of Japan in connection with certain environmental contaminants generated in its past operations in that country. The Company has quantities of PCB and other wastes primarily from its former plant at Oiso, Japan, including capsulated undiluted solutions manufactured in the past, capacitors, light ballasts and PCB-affected soil from the Oiso plant that was excavated and placed in steel drums. These wastes are stored in a facility at Ebina, Japan in accordance with Japanese regulations governing such materials. Over the past several years Japan has enacted and amended legislation governing such wastes, and has set a current deadline for treating and disposing of (at government-constructed disposal facilities) the highest-concentration wastes by 2027. Lower-concentration wastes can be and have been disposed of via private contractors, and as of the period ended September 30, 2020, NCR had disposed of more than a third of its lower-concentration wastes.

The Company and its consultants have met and communicated regularly with the Japanese agency charged with administration of the law, and are working with that agency on a program to manage disposal of the high-concentration wastes, including tests of technologies to make the disposal more efficient. Based on communications with the agency, the earliest that high-concentration wastes can be disposed of will be in early 2021, with final deadlines for various of the government-constructed disposal sites currently set for 2022, 2023 and later. Low-concentration wastes are required to be contracted for disposal by 2027, a timetable that the Company expects to meet. In September 2019, the Company’s environmental consultants, following a series of communications and meetings with the Japanese agency, at the Company’s request prepared an estimate of remaining disposal costs over the coming several years. While the estimate is subject to a range of assumptions and uncertainties, including prospects of cost reduction in coordination with the agency as certain field testing to separate high-concentration and low-concentration waste progresses over the coming years, the Company has adjusted its existing reserve for the matter to take into account this cost estimate, and that reserve as of September 30, 2020 is $20 million compared to $19 million at December 31, 2019. The Japan environmental waste issue is treated as a compliance matter and not as litigation or enforcement, and the Company has received no threats of litigation or enforcement.

Environmental-Related Insurance Recoveries In connection with the Fox River and other environmental sites, through September 30, 2020, 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 River 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 September 30, 2020 and December 31, 2019, 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 nine months ended September 30 as follows:

In millions	2020	2019
Warranty reserve liability		
Beginning balance as of January 1	**$ 21**	$ 26
Accruals for warranties issued	**22**	26
Settlements (in cash or in kind)	**(25)**	(31)
Ending balance as of September 30	**$ 18**	$ 21

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.

Purchase Commitments The Company has purchase commitments for materials, supplies, services, and property, plant and equipment as part of the normal course of business. This includes a long-term service agreement with Accenture, under which many of NCR's key transaction processing activities and functions are performed.

10. LEASING

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 indices, non-lease components and payments above a contractual minimum fixed payment.

The following table presents our lease balances as of September 30, 2020 and December 31, 2019:

In millions	Location in the Condensed Consolidated Balance Sheet	September 30, 2020	December 31, 2019
Assets			
Operating lease assets	Operating lease assets	$ 347	$ 391
Finance lease assets	Property, plant and equipment, net	55	38
Accumulated amortization of finance lease assets	Property, plant and equipment, net	(15)	(5)
Total leased assets		$ 387	$ 424
Liabilities			
Current			
Operating lease liabilities	Other current liabilities	$ 82	$ 91
Finance lease liabilities	Other current liabilities	15	10
Noncurrent			
Operating lease liabilities	Operating lease liabilities	336	369
Finance lease liabilities	Other liabilities	27	25
Total lease liabilities		$ 460	$ 495

The following tables present our lease costs for operating and finance leases:

In millions	Three months ended September 30, 2020	Nine months ended September 30, 2020
Operating lease cost	**$ 31**	**$ 93**
Finance lease cost		
Amortization of leased assets	**4**	**10**
Interest on lease liabilities	**—**	**1**
Short-Term lease cost	**2**	**4**
Variable lease cost	**4**	**20**
Total lease cost	**$ 41**	**$ 128**

In millions	Three months ended September 30, 2019	Nine months ended September 30, 2019
Operating lease cost	$ 32	$ 101
Finance lease cost		
Amortization of leased assets	2	3
Interest on lease liabilities	—	—
Short-Term lease cost	1	4
Variable lease cost	7	23
Total lease cost	$ 42	$ 131

The following tables present the supplemental cash flow information:

In millions	Three months ended September 30, 2020		Nine months ended September 30, 2020	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$	32	$	93
Operating cash flows from finance leases	$	—	$	1
Financing cash flows from finance leases	$	3	$	9
Lease Assets Obtained in Exchange for Lease Obligations				
Operating Leases	$	12	$	14
Finance Leases	$	1	$	16

In millions	Three months ended September 30, 2019		Nine months ended September 30, 2019	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from operating leases	$	34	$	104
Operating cash flows from finance leases	$	—	$	—
Financing cash flows from finance leases	$	—	$	—
Lease Assets Obtained in Exchange for Lease Obligations				
Operating Leases	$	9	$	29
Finance Leases	$	14	$	23

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 September 30, 2020:

In millions	Operating Leases		Finance Leases	
Remainder of 2020	$	32	$	4
2021		95		16
2022		73		15
2023		50		9
2024		43		1
2025		35		—
Thereafter		239		—
Total lease payments		567		45
Less: Amount representing interest		(149)		(3)
Present value of lease liabilities	$	418	$	42

As of September 30, 2020, we have additional operating leases of $72 million, primarily for a real estate lease in Europe, that have not yet commenced. 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 rates:

	September 30, 2020	December 31, 2019
Weighted average lease term:		
Operating leases	**8.9 years**	8.9 years
Finance leases	**2.9 years**	3.4 years
Weighted average interest rates:		
Operating leases	**6.45 %**	6.42 %
Finance leases	**4.36 %**	3.72 %

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.

11. 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. 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.

Under the Investment Agreement, Blackstone agreed not to sell or otherwise transfer its shares of Series A Convertible Preferred Stock (or any shares of common stock issued upon conversion thereof) without the Company’s consent until June 4, 2017. In March 2017, we provided Blackstone with an early release from this lock-up, allowing Blackstone to sell approximately 49% of its shares of Series A Convertible Preferred Stock, and in return, Blackstone agreed to amend the Investment Agreement to extend the lock-up on the remaining 51% of its shares of Series A Convertible Preferred Stock for six months until December 1, 2017.

In connection with the early release of the lock-up, Blackstone offered for sale 342,000 shares of Series A Convertible Preferred Stock in an underwritten public offering. In addition, Blackstone converted 90,000 shares of Series A Convertible Preferred Stock into shares of our common stock and we repurchased those shares of common stock for $48.47 per share. The underwritten offering and the stock repurchase were consummated on March 17, 2017.

On September 18, 2019, NCR entered into an agreement to repurchase and convert the outstanding 512,221 shares of Series A Convertible Preferred Stock owned by Blackstone. NCR repurchased 237,673 shares of Series A Convertible Preferred Stock for total cash consideration of $302 million. The remaining shares of Blackstone's Series A Convertible Preferred Stock, including accrued dividends, were converted to approximately 9.16 million shares of common stock at a conversion price of $30.00 per share.

For the repurchase of Series A Convertible Preferred Stock, the excess of the fair value of consideration transferred over the carrying value was approximately $67 million, and has been included as a deemed dividend in adjusting the income from common stockholders in calculating earnings per share. In this analysis, we determined the fair value of the consideration transferred was not in excess of the fair value of the redeemed Series A Convertible Preferred Stock. As a result, there was no inducement provided to Blackstone for the conversion of the remaining preferred shares into common stock.

Beginning in the first quarter of 2020, dividends are payable in cash or in-kind at the option of the Company. During the three months ended September 30, 2020 and 2019, the Company paid dividends-in-kind of $6 million and $13 million, respectively. During the nine months ended September 30, 2020, the Company paid total dividends of $19 million, of which $13 million were dividends-in-kind and $6 million were paid in cash. During the nine months ended September 30, 2019, the Company paid dividends-in-kind of $37 million. As of September 30, 2020 and December 31, 2019, the Company had accrued dividends of $1 million, respectively, associated with the Series A Convertible Preferred Stock.

As of September 30, 2020 and December 31, 2019, 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 13.7 million and 13.3 million shares, respectively.

On October 6, 2020, NCR entered into a definitive agreement to repurchase 67,000 shares of Series A Convertible Preferred Stock from two affiliated shareholders for a total cash consideration of $72 million. The transaction closed on October 7, 2020. On October 12, 2020, NCR entered into a definitive agreement to repurchase 65,365 shares of Series A Convertible Preferred Stock owned by two affiliated shareholders for a total cash consideration of $72 million. The transaction closed on October 13, 2020. These transactions will reduce the maximum number of common shares that could be required to be issued upon conversion by approximately 4.4 million as well as reduce the annual dividend requirement by approximately $7 million.

12. 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.

The components of basic earnings per share are as follows:

	Three months ended September 30		Nine months ended September 30	
In millions, except per share amounts	**2020**	**2019**	**2020**	**2019**
Numerator:				
Income from continuing operations	**$ 31**	$ 105	**$ 118**	$ 230
Dividends on Series A Convertible Preferred Stock	**(6)**	(12)	**(19)**	(37)
Deemed dividend on Series A Convertible Preferred Stock redemption	**—**	(67)	**—**	(67)
Income from continuing operations attributable to NCR common stockholders	**25**	26	**99**	126
Loss from discontinued operations, net of tax	**—**	(15)	**—**	(15)
Net income attributable to NCR common stockholders	**$ 25**	$ 11	**$ 99**	$ 111
Denominator:				
Basic weighted average number of shares outstanding	**128.5**	121.4	**128.2**	120.3
Basic earnings per share:				
From continuing operations	**$ 0.19**	$ 0.21	**$ 0.77**	$ 1.05
From discontinued operations	**—**	(0.12)	**—**	(0.13)
Total basic earnings per share	**$ 0.19**	$ 0.09	**$ 0.77**	$ 0.92

The components of diluted earnings per share are as follows:

	Three months ended September 30		Nine months ended September 30	
In millions, except per share amounts	**2020**	**2019**	**2020**	**2019**
Numerator:				
Income from continuing operations	**$ 31**	$ 105	**$ 118**	$ 230
Dividends on Series A Convertible Preferred Stock	**(6)**	(12)	**(19)**	(37)
Deemed dividend on Series A Convertible Preferred Stock redemption	**—**	(67)	**—**	(67)
Income from continuing operations attributable to NCR common stockholders	**25**	26	**99**	126
Loss from discontinued operations, net of tax	**—**	(15)	**—**	(15)
Net income attributable to NCR common stockholders	**$ 25**	$ 11	**$ 99**	$ 111
Denominator:				
Basic weighted average number of shares outstanding	**128.5**	121.4	**128.2**	120.3
Dilutive effect of as-if converted Series A Convertible Preferred Stock	**—**	—	**—**	—
Dilutive effect of restricted stock units and stock options	**1.2**	2.0	**1.6**	2.4
Weighted average diluted shares	**129.7**	123.4	**129.8**	122.7
Diluted earnings per share:				
From continuing operations	**$ 0.19**	$ 0.21	**$ 0.76**	$ 1.03
From discontinued operations	**—**	(0.12)	**—**	(0.12)
Total diluted earnings per share	**$ 0.19**	$ 0.09	**$ 0.76**	$ 0.90

For the three months ended September 30, 2020, shares related to the as-if converted Series A Convertible Preferred Stock of 13.6 million were excluded from the diluted share count because their effect would have been anti-dilutive. For the three months ended September 30, 2020, weighted average restricted stock units and stock options of 14.1 million were excluded from the diluted share count because their effect would have been anti-dilutive.

For the three months ended September 30, 2019, shares related to the as-if converted Series A Convertible Preferred Stock of 28.0 million were excluded from the diluted share count because their effect would have been anti-dilutive. The number of shares of Series A Convertible Preferred Stock that were excluded is inclusive of both existing and redeemed shares. For the three months ended September 30, 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.

For the nine months ended September 30, 2020, shares related to the as-if converted Series A Convertible Preferred Stock of 13.4 million were excluded from the diluted share count because their effect would have been anti-dilutive. For the nine months ended September 30, 2020, weighted average restricted stock units and stock options of 10.5 million were excluded from the diluted share count because their effect would have been anti-dilutive.

For the nine months ended September 30, 2019, shares related to the as-if converted Series A Convertible Preferred Stock of 29.0 million were excluded from the diluted share count because their effect would have been anti-dilutive. The number of shares of Series A Convertible Preferred stock that were excluded is inclusive of both existing and redeemed shares. For the nine months ended September 30, 2019, weighted average restricted stock units and stock options of 4.4 million were excluded from the diluted share count because their effect would have been anti-dilutive.

13. 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 September 30, 2020, the balance in AOCI related to foreign exchange derivative transactions was a loss of $1 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.

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					
	September 30, 2020					
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	**$ 12**	**$ 1**	Other current liabilities	**$ 77**	**$ 3**
Total derivatives designated as hedging instruments			**$ 1**			**$ 3**
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	**$ 173**	**$ —**	Other current liabilities	**$ 320**	**$ 1**
Total derivatives not designated as hedging instruments			**$ —**			**$ 1**
Total derivatives			**$ 1**			**$ 4**

	Fair Values of Derivative Instruments					
	December 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	$ 55	$ 1	Other current liabilities	$ —	$ —
Total derivatives designated as hedging instruments			$ 1			$ —
Derivatives not designated as hedging instruments						
Foreign exchange contracts	Other current assets	$ 71	$ 1	Other current liabilities	$ 264	$ 1
Total derivatives not designated as hedging instruments			$ 1			$ 1
Total derivatives			$ 2			$ 1

The effects of derivative instruments on the Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2020 and 2019 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 September 30, 2020	For the three months ended September 30, 2019	Location of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations	For the three months ended September 30, 2020	For the three months ended September 30, 2019
Foreign exchange contracts	**$ (5)**	$ 4	Cost of products	**$ 3**	$ (2)

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 nine months ended September 30, 2020	For the nine months ended September 30, 2019	Location of (Gain) Loss Reclassified from AOCI into the Condensed Consolidated Statement of Operations	For the nine months ended September 30, 2020	For the nine months ended September 30, 2019
Foreign exchange contracts	**$ (5)**	$ 5	Cost of products	**$ 2**	$ (5)

In millions		Amount of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations			
		Three months ended September 30		Nine months ended September 30	
Derivatives not Designated as Hedging Instruments	Location of Gain (Loss) Recognized in the Condensed Consolidated Statement of Operations	2020	2019	2020	2019
Foreign exchange contracts	Other (expense), net	**$ 4**	$ (2)	**$ 15**	$ (11)

Refer to Note 14. 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 expected losses are adequate. As of September 30, 2020, we did not have any significant concentration of credit risk related to financial instruments.

14. 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 September 30, 2020 and December 31, 2019 are set forth as follows:

In millions	September 30, 2020 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]	$	1,382	$	1,382	$	—	$ —
Foreign investments[2]		2		—		2	—
Foreign exchange contracts [2]		1		—		1	—
Total	$	1,385	$	1,382	$	3	$ —
Liabilities:							
Foreign exchange contracts [3]	$	4	$	—	$	4	$ —
Total	$	4	$	—	$	4	$ —

In millions	December 31, 2019 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]	$	15	$	15	$	—	$ —
Foreign exchange contracts [2]		2		—		2	—
Total	$	17	$	15	$	2	$ —
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 Investments As a result of our acquisition of Origami, as noted within Note 3, Business Combinations, we acquired investments held in Brazil. The investments include an investment fund similar to a mutual fund as well as certificates of deposit. The investments are valued using observable, either directly or indirectly, inputs for substantially the full term of the assets and are classified within Level 2 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 recorded during the three and nine months ended September 30, 2020 and 2019.

15. 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, 2019	**$ (260)**	**$ (10)**	**$ 1**	**$ (269)**
Other comprehensive income (loss) before reclassifications	(23)	—	(4)	(27)
Amounts reclassified from AOCI	—	(3)	2	(1)
Net current period other comprehensive (loss) income	(23)	(3)	(2)	(28)
Balance as of September 30, 2020	**$ (283)**	**$ (13)**	**$ (1)**	**$ (297)**

Reclassifications Out of AOCI

	For the three months ended September 30, 2020			
	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	$ —	$ —	$ 3	$ 3
Selling, general and administrative expenses	—	(1)	—	(1)
Research and development expenses	—	1	— 0	1
Total before tax	$ —	$ —	$ 3	$ 3
Tax expense				(1)
Total reclassifications, net of tax				$ 2

	For the three months ended September 30, 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	$ —	$ —	$ (2)	$ (2)
Cost of services	—	(1)	—	(1)
Total before tax	$ —	$ (1)	$ (2)	$ (3)
Tax expense				1
Total reclassifications, net of tax				$ (2)

In millions	For the nine months ended September 30, 2020			
	Employee Benefit Plans			
	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	$ —	$ —	$ 2	$ 2
Cost of services	(1)	(2)	—	(3)
Selling, general and administrative expenses	(1)	(1)	—	(2)
Research and development expenses	—	1	—	1
Total before tax	$ (2)	$ (2)	$ 2	$ (2)
Tax expense				1
Total reclassifications, net of tax				$ (1)

In millions	For the nine months ended September 30, 2019			
	Employee Benefit Plans			
	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	$ —	$ —	$ (5)	$ (5)
Cost of services	(1)	(3)	—	(4)
Selling, general and administrative expenses	—	(2)	—	(2)
Total before tax	$ (1)	$ (5)	$ (5)	$ (11)
Tax expense				2
Total reclassifications, net of tax				$ (9)

16. SEGMENT INFORMATION AND CONCENTRATIONS

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. The solutions offered serve the following customer markets in the retail industry: food, drug and mass merchandisers; department and specialty retailers; convenience and fuel retailers, and small and medium retailers. 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 solutions to customers in the hospitality industry, serving businesses in the following markets: quick service restaurants, table service restaurants, small and medium restaurants and travel 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. 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.

The following table presents revenue and operating income by segment:

	Three months ended September 30		Nine months ended September 30	
In millions	**2020**	**2019**	**2020**	**2019**
Revenue by segment				
Banking	**$ 777**	$ 942	**$ 2,303**	$ 2,568
Retail	**556**	539	**1,511**	1,608
Hospitality	**173**	216	**502**	611
Other	**83**	86	**260**	242
Consolidated revenue	**$ 1,589**	$ 1,783	**$ 4,576**	$ 5,029
Operating income by segment				
Banking	**$ 99**	$ 146	**$ 294**	$ 370
Retail	**45**	36	**67**	102
Hospitality	**7**	10	**(2)**	39
Other	**7**	10	**19**	30
Subtotal - segment operating income	**158**	202	**378**	541
Other adjustments [(1)]	**40**	30	**94**	112
Income from operations	**$ 118**	$ 172	**$ 284**	$ 429

[(1)] The following table presents the other adjustments for NCR:

	Three months ended September 30		Nine months ended September 30	
In millions	**2020**	**2019**	**2020**	**2019**
Transformation and restructuring costs	**$ 19**	7	**$ 32**	47
Acquisition-related amortization of intangible assets	**21**	22	**62**	64
Acquisition-related costs	**—**	1	**—**	1
Total other adjustments	**$ 40**	$ 30	**$ 94**	$ 112

The following table presents revenue by geography for NCR:

	Three months ended September 30		Nine months ended September 30	
In millions	**2020**	**2019**	**2020**	**2019**
Americas	**$ 962**	$ 1,104	**$ 2,740**	$ 3,053
Europe, Middle East and Africa (EMEA)	**424**	458	**1,234**	1,329
Asia Pacific (APJ)	**203**	221	**602**	647
Total revenue	**$ 1,589**	$ 1,783	**$ 4,576**	$ 5,029

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

In millions	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Recurring revenue [1]	**$ 848**	$ 806	**$ 2,464**	$ 2,357
All other products and services	**741**	977	**2,112**	2,672
Total revenue	**$ 1,589**	$ 1,783	**$ 4,576**	$ 5,029

[1] Recurring revenue includes all revenue streams from contracts where there is a predictable revenue pattern that will occur at regular intervals with a relatively high degree of certainty. This includes hardware and software maintenance revenue, cloud revenue, payment processing revenue, certain professional services arrangements as well as term-based software license arrangements that include customer termination rights.

In millions	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Software	**$ 468**	$ 512	**$ 1,402**	$ 1,475
Services	**655**	640	**1,896**	1,847
Hardware	**466**	631	**1,278**	1,707
Total revenue	**$ 1,589**	$ 1,783	**$ 4,576**	$ 5,029

17. SUPPLEMENTAL FINANCIAL INFORMATION

The components of accounts receivable are summarized as follows:

In millions	September 30, 2020	December 31, 2019
Accounts receivable		
Trade	**$ 1,260**	$ 1,482
Other	**43**	52
Accounts receivable, gross	**1,303**	1,534
Less: allowance for credit losses	**(55)**	(44)
Total accounts receivable, net	**$ 1,248**	$ 1,490

Accounts receivable, net includes amounts billed and currently due from customers, as well as amounts unbilled that typically result from sales under contracts where revenue recognized exceeds the amount billed to the customer and where the Company has an unconditional right to consideration. The amounts due are stated at their net estimated realizable value.

Allowances for credit losses on accounts receivable are recognized when reasonable and supportable forecasts affect the expected collectability. This requires us to make our best estimate of the current expected losses inherent in our accounts receivable at each balance sheet date. These estimates require consideration of historical loss experience, adjusted for current conditions, forward looking indicators, trends in customer payment frequency and judgments about the probable effects of relevant observable data, including present and future economic conditions and the financial health of specific customers and market sectors. This policy is applied consistently among all of our operating segments.

Our allowance for credit losses as of September 30, 2020 and December 31, 2019 was $55 million and $44 million, respectively. Our allowance for credit losses charged to expense for the three and nine months ended September 30, 2020 was $7 million and $26 million, respectively. We increased our allowance for credit losses for the three and nine months ended September 30, 2020 by $3 million and $9 million, respectively, based upon current forecasts that reflect increased economic uncertainty resulting from the COVID-19 pandemic. The Company recorded write-offs against the reserve for the three and nine months ended September 30, 2020 of $5 million and $11 million, respectively.

The components of inventory are summarized as follows:

In millions	September 30, 2020	December 31, 2019
Inventories		
Work in process and raw materials	**$ 179**	$ 204
Finished goods	**175**	184
Service parts	**394**	396
Total inventories	**$ 748**	$ 784

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

Third Quarter Overview

The following were the significant events for the third quarter of 2020, each of which is discussed more fully in later sections of this MD&A:

- Revenue decreased approximately 11% from the prior year period;
- Segment results continue to be negatively impacted by the COVID-19 pandemic;
- Cash and cash equivalents as of September 30, 2020 of $1.61 billion, improved liquidity and capital structure to help manage through the COVID-19 pandemic; and
- Task force continues to pro-actively manage the global impact of the COVID-19 pandemic on our employees, customers and business.

Strategic Overview

Today's consumers expect, including as the world navigates in a COVID-19 pandemic environment, businesses to provide a rich, integrated and personalized experience across all commerce channels, including online, mobile and, as consumers are able to return to a more normal operating environment, in-store. NCR is at the forefront of this shift, assisting businesses of every size in their digital transformation journeys including a shift to contactless commerce. Our mission is to be the leading software- and services-led enterprise provider in the financial, retail and hospitality industries. We have developed a long-term growth strategy built on taking care of our customers, improving execution of new product introductions, accelerating software and services revenue growth and executing spend optimization programs. This long-term mission and our strategy to execute it are designed to position NCR to continue to drive -- in the long-term -- growth, sustainable revenue, profit and cash flow, and to improve value for all of our stakeholders. As we manage our business through the COVID-19 pandemic with a focus on prioritizing the health and safety of our employees and customers, and being positioned to capitalize on market opportunities when we return to a more normal operating environment, we have also remained focused on our long-term mission and executed at a high level to advance our strategy.

To deliver on our short-term and long-term mission and strategy, we are focused on the following main initiatives in 2020:

- *Customer Care* - Support our customers to continue operations in a safe manner and enable them to transform their operations rapidly to meet consumer needs and emerging industry or government programs in the COVID-19 environment; improve the customer experience and execution of new product introductions;

- *Business Continuity Plans* - Manage our business through the COVID-19 pandemic by focusing on business continuity plans, reducing our planned capital expenditures, improving our liquidity and increasing our financial flexibility to position our business, in the long-term, to 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 targeted acquisitions to gain solutions that drive the highest growth and return on investment and accelerate our NCR-as-a-Service vision;

- *Talent and Employee Care* - Implement actions to protect the health and safety of our employees and protect as many jobs as possible to enable us to retain talent, and, in the long term, to continue to develop, reward and retain talent with competitive recruiting, training and effective incentive-based compensation programs; and

- *Sales Enablement* - Provide our sales force with flexibility in services and operations to meet customer needs through the COVID-19 pandemic; and provide top-performing and secure products packaged to target our desired revenue mix and drive customer delight, 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 impact of the COVID-19 pandemic on our workforce, operations and financial results, including the impact on our customer’s businesses and their ability to pay; manufacturing disruptions, including those caused by or related to outsourced manufacturing or disruptions in our supply chain due to the COVID-19 pandemic; 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 services and retail industries, new tax legislation across multiple jurisdictions, modified or new global or regional trade agreements, execution of the United Kingdom's exit from the European Union, uncertainty over further potential changes in Eurozone participation and fluctuations in oil and commodity prices; the transformation of our business and shift to increased software and services revenue, as well as recurring revenue; our ability to improve execution in our sales and services organizations; our ability to successfully introduce new solutions and compete in the technology industry; cybersecurity risks and compliance with data privacy and protection requirements; the possibility of disruptions in or problems with our data center hosting facilities; the impact of the March 2020 tornadoes in the greater Nashville area on an NCR Global Fulfillment Center in Mt. Juliet, Tennessee operated by a third party, including the sufficiency and effectiveness of our or our third-party logistics partner’s business continuity plans, the adequacy of our property damage and business interruption insurance coverage and our ability to recover under the applicable policies; defects or errors in our products; the impact of our indebtedness and its terms on our financial and operating activities; the historical seasonality of our sales; tax rates and tax legislation; foreign currency fluctuations; the success of our restructuring plans and cost reduction savings initiatives; the availability and success of acquisitions, divestitures and alliances; our pension strategy and underfunded pension obligations; reliance on third party suppliers; the impact of the terms of our Series A Convertible Preferred Stock; our multinational operations, including in new and emerging markets; collectability difficulties in subcontracting relationships in certain geographical markets; development and protection of intellectual property; the impact of intellectual property litigation and claims; 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.

Impacts from the COVID-19 pandemic

The impact of COVID-19 has grown throughout the world, including in the United States. Governmental authorities have implemented numerous measures attempting to contain and mitigate the effects of COVID-19, including travel bans and restrictions, quarantines, shelter in place orders and shutdowns.

We continue to actively monitor the global outbreak and spread of COVID-19 and take steps to mitigate the potential risks to us posed by its spread and related circumstances and impacts. We continue to assess and update our business continuity plan in the context of this pandemic. We have taken precautions to help keep our workforce healthy and safe, including establishing a coronavirus task force in January 2020, thermal screening procedures at our manufacturing plants and call centers and remote working arrangements for the vast majority of our back-office employees. We expect the pandemic to create headwinds to our customers and our business until COVID-19 is contained, consumer confidence improves and the economic conditions rebound. Although it is difficult to project how deep and how long the COVID-19 pandemic will last, we do expect it will negatively impact our business for the remainder of 2020 and into 2021.

With respect to our Banking segment, we are working with local governments to make sure that these businesses are designated as essential critical infrastructure businesses. Although we experienced installation delays, we have not experienced any significant impact to our recurring services revenue stream. We believe our ATM break-fix services, which represented the largest percentage of Banking segment revenue, has remained strong, although there can be no assurance that such operations will not be impacted in the future with higher costs or labor availability.

With respect to our Retail segment, the food, drug and mass merchandising market, which includes grocery stores, drug stores and big box retailers, and which represented the majority of our Retail segment revenue, is currently designated as an essential critical infrastructure business in many jurisdictions. We have realigned our resources to support our customers as they respond to changing consumer demand, particularly with regard to self-checkout and contactless checkout. However, customers in our department and specialty retail market and in our small and medium business market, which is approximately 20% of our Retail segment revenue, have encountered significant adverse impacts in connection with COVID-19 as a result of temporary closures of physical stores and reduced consumer spending.

With respect to our Hospitality segment, the quick service restaurants, which are large chains and represent the majority of the Hospitality segment revenue, have remained busy with respect to drive-through and pick up services being in demand as many in-restaurant dining options are limited by social distancing and governmental orders. However, we do expect this market to be negatively impacted from lower new stores and less remodeling activity. For table service restaurants, which are sit-down restaurants with more than 50 locations, we expect negative impacts as a result of governmental and public actions. Although many of these businesses have experienced an increase in online and takeout ordering, we expect this market to be negatively impacted until consumer confidence improves once COVID-19 is contained. Customers in our small and medium business market have experienced significant working capital and adverse cash flow impacts as a result of the COVID-19 pandemic, which, similar to table service restaurants, is expected to continue until COVID-19 is contained and the economy begins to rebound.

In order to build a stronger liquidity position, we took steps to improve working capital and addressed certain business impacts with spending cuts. We took several steps to build our cash reserve to improve our financial liquidity and flexibility and provide a cushion to help weather the impacts of the pandemic. These steps included suspending our share repurchase programs, limiting our mergers and acquisition activity, reducing salary for members of our leadership team and certain salaried employees, reducing our planned capital expenditures, eliminating most contractors, curtailing travel, freezing merit increases and hiring. Additionally, earlier this year, we drew the remaining available funds of $630 million on our five-year, $1.1 billion revolving credit facility and issued $400 million senior unsecured notes.

During the third quarter of 2020, we redeployed a portion of our excess cash and reduced our leverage by $200 million through the issuance of $1.1 billion of senior unsecured notes and the redemption of $1.3 billion of senior unsecured notes. Early in the fourth quarter of 2020, we evaluated our near-term liquidity needs and based on year to date cash flow generation, we completed several transactions to further reduce excess cash. We repurchased approximately 132,000 of Series A convertible preferred shares for $144 million, which represented approximately 32% of the outstanding preferred shares, as well as repaid $470 million of our outstanding revolver balance.

However, the degree to which COVID-19 affects our financial results and operations will depend on future developments, which are highly uncertain and cannot be predicted with certainty, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

Results from Operations

For the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019

The following table shows our results for the three and nine months ended September 30:

	Three months ended September 30		Nine months ended September 30	
In millions	**2020**	**2019**	**2020**	**2019**
Revenue	**$ 1,589**	$ 1,783	**$ 4,576**	$ 5,029
Gross margin	**427**	507	**1,196**	1,389
Gross margin as a percentage of revenue	**26.9 %**	28.4 %	**26.1 %**	27.6 %
Operating expenses				
Selling, general and administrative expenses	**$ 254**	$ 271	**$ 743**	$ 775
Research and development expenses	**55**	64	**169**	185
Income from operations	**$ 118**	$ 172	**$ 284**	$ 429

The following table shows our revenue by geography for the three months ended September 30:

In millions	**2020**	**% of Total**	**2019**	**% of Total**	**% Increase (Decrease)**	**% Increase (Decrease) Constant Currency [(1)]**
Americas	**$ 962**	**60%**	$ 1,104	62%	(13)%	(12)%
Europe, Middle East and Africa (EMEA)	**424**	**27%**	458	26%	(7)%	(10)%
Asia Pacific (APJ)	**203**	**13%**	221	12%	(8)%	(9)%
Consolidated revenue	**$ 1,589**	**100%**	$ 1,783	100%	(11)%	(11)%

The following table shows our revenue by geography for the nine months ended September 30:

In millions		2020	% of Total		2019	% of Total	% Increase (Decrease)	% Increase (Decrease) Constant Currency [1]
Americas	**$**	**2,740**	**60%**	$	3,053	61%	(10)%	(9)%
Europe, Middle East and Africa (EMEA)		**1,234**	**27%**		1,329	26%	(7)%	(7)%
Asia Pacific (APJ)		**602**	**13%**		647	13%	(7)%	(6)%
Consolidated revenue	**$**	**4,576**	**100%**	$	5,029	100%	(9)%	(8)%

The following table shows our revenue by segment for the three months ended September 30:

In millions		2020	% of Total		2019	% of Total	% Increase (Decrease)	% Increase (Decrease) Constant Currency [1]
Banking	**$**	**777**	**49%**	$	942	53%	(18)%	(17)%
Retail		**556**	**35%**		539	30%	3%	2%
Hospitality		**173**	**11%**		216	12%	(20)%	(20)%
Other		**83**	**5%**		86	5%	(3)%	(5)%
Consolidated revenue	**$**	**1,589**	**100%**	$	1,783	100%	(11)%	(11)%

The following table shows our revenue by segment for the nine months ended September 30:

In millions		2020	% of Total		2019	% of Total	% Increase (Decrease)	% Increase (Decrease) Constant Currency [1]
Banking	**$**	**2,303**	**50%**	$	2,568	51%	(10)%	(9)%
Retail		**1,511**	**33%**		1,608	32%	(6)%	(6)%
Hospitality		**502**	**11%**		611	12%	(18)%	(17)%
Other		**260**	**6%**		242	5%	7%	8%
Consolidated revenue	**$**	**4,576**	**100%**	$	5,029	100%	(9)%	(8)%

[1] The tables above for the three and nine months ended September 30 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 September 30, 2020:

	Revenue % Growth (GAAP)	Favorable (unfavorable) FX impact	Revenue % Growth Constant Currency (non-GAAP)
Americas	(13)%	(1)%	(12)%
EMEA	(7)%	3%	(10)%
APJ	(8)%	1%	(9)%
Consolidated revenue	(11)%	—%	(11)%

The following table provides a reconciliation of geographic revenue percentage growth (GAAP) to revenue percentage growth constant currency (non-GAAP) for the nine months ended September 30, 2020:

	Revenue % Growth (GAAP)	Favorable (unfavorable) FX impact	Revenue % Growth Constant Currency (non-GAAP)
Americas	(10)%	(1)%	(9)%
EMEA	(7)%	—%	(7)%
APJ	(7)%	(1)%	(6)%
Consolidated revenue	(9)%	(1)%	(8)%

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 September 30, 2020:

	Revenue % Growth (GAAP)	Favorable (unfavorable) FX impact	Revenue % Growth Constant Currency (non-GAAP)
Banking	(18)%	(1)%	(17)%
Retail	3%	1%	2%
Hospitality	(20)%	—%	(20)%
Other	(3)%	2%	(5)%
Consolidated revenue	(11)%	—%	(11)%

The following table provides a reconciliation of segment revenue percentage growth (GAAP) to revenue percentage growth constant currency (non-GAAP) for the nine months ended September 30, 2020:

	Revenue % Growth (GAAP)	Favorable (unfavorable) FX impact	Revenue % Growth Constant Currency (non-GAAP)
Banking	(10)%	(1)%	(9)%
Retail	(6)%	—%	(6)%
Hospitality	(18)%	(1)%	(17)%
Other	7%	(1)%	8%
Consolidated revenue	(9)%	(1)%	(8)%

Revenue

For the three months ended September 30, 2020 compared to the three months ended September 30, 2019, revenue decreased 11% year-over-year. The COVID-19 pandemic had a significant impact to revenue while the shift from selling perpetual software licenses to recurring revenue lowered revenue by $27 million. Foreign currency fluctuations had no impact on the revenue comparison.

Banking revenue decreased 18% due to the continued impact of the COVID-19 pandemic driven by a 40% decline in ATM hardware revenue. An accelerated shift from selling perpetual software licenses to recurring revenue also impacted the year-over-year revenue comparison. Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison. Retail revenue increased 3% driven by an increase in self-checkout and services revenue partially offset by lower point-of-sale revenue. Foreign currency fluctuations had a favorable 1% impact on the revenue comparison. Hospitality revenue decreased 20% driven primarily by a decline in hardware revenue. Foreign currency fluctuations had no impact on the revenue comparison.

For the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, revenue decreased 9% due to a combination of the impact of the COVID-19 pandemic and the accelerated shift from perpetual software licenses to recurring revenue. Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison.

Banking revenue decreased 10% due to the impact of the COVID-19 pandemic, driven by a 27% decline in ATM hardware revenue. The decline in revenue was also driven by the shift from selling perpetual software licenses to recurring revenue.

Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison. Retail revenue decreased 6% driven by the impact from the COVID-19 pandemic partially offset by an increase in services revenue. Foreign currency fluctuations had no impact on the revenue comparison. Hospitality revenue decreased 18% mainly driven by the impact from the COVID-19 pandemic. Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison.

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 September 30, 2020 was 26.9% compared to 28.4% in the three months ended September 30, 2019. Gross margin in the three months ended September 30, 2020 included $14 million of costs related to transformation initiatives and $5 million of acquisition-related amortization of intangibles. Gross margin in the three months ended September 30, 2019 included $1 million of costs related to restructuring and transformation initiatives and $5 million related to acquisition-related amortization of intangibles. Excluding these items, gross margin as a percentage of revenue decreased from 28.8% to 28.1% due to the overall decline in revenue as well as from the shift to recurring revenue with lower software license revenue.

Gross margin as a percentage of revenue in the nine months ended September 30, 2020 was 26.1% compared to 27.6% in the nine months ended September 30, 2019. Gross margin in the nine months ended September 30, 2020 included $19 million of costs related to transformation initiatives and $16 million of acquisition-related amortization of intangibles. Gross margin in the nine months ended September 30, 2019 included $19 million of costs related to restructuring and transformation initiatives and $17 million related to acquisition-related amortization of intangibles. Excluding these items, gross margin as a percentage of revenue decreased from 28.3% to 26.9% due to the overall decline in revenue as well as from the shift to recurring revenue with lower software license revenue.

Operating Expenses

Selling, general and administrative expenses were $254 million, or 16.0% as a percentage of revenue, as compared to $271 million, or 15.2% as a percentage of revenue, in the three months ended September 30, 2020 and 2019, respectively. Selling, general and administrative expenses in the three months ended September 30, 2020 included $16 million of acquisition-related amortization of intangibles and $2 million of costs related to transformation initiatives. Selling, general, and administrative expenses in the three months ended September 30, 2019 included $17 million of acquisition-related amortization of intangibles, $6 million of costs related to restructuring and transformation initiatives and $1 million of acquisition-related costs. Excluding these items, selling, general and administrative expenses increased from 13.9% as a percentage of revenue in the three months ended September 30, 2019 to 14.9% as a percentage of revenue in the three months ended September 30, 2020. The decrease in selling, general and administrative expenses was primarily due to the initiatives implemented earlier in the year to address the business impacts from the COVID-19 pandemic, including among others, salary reductions, elimination of certain contractors and curtailing travel as well as productivity improvement initiatives executed late in the third quarter, partially offset by an increase in account receivable reserves.

Selling, general and administrative expenses were $743 million, or 16.2% as a percentage of revenue, as compared to $775 million, or 15.4% as a percentage of revenue, in the nine months ended September 30, 2020 and 2019, respectively. Selling, general and administrative expenses in the nine months ended September 30, 2020 included $46 million of acquisition-related amortization of intangibles and $10 million of costs related to transformation initiatives. Selling, general, and administrative expenses in the nine months ended September 30, 2019 included $47 million of acquisition-related amortization of intangibles, $25 million of costs related to restructuring and transformation initiatives and $1 million of acquisition-related costs. Excluding these items, selling, general and administrative expenses increased from 14.0% as a percentage of revenue in the nine months ended September 30, 2019 to 15.0% as a percentage of revenue in the nine months ended September 30, 2020. The decrease in selling, general and administrative expenses was primarily due to the initiatives implemented earlier in the year to address the business impacts from the COVID-19 pandemic, including among others, salary reductions, elimination of certain contractors and curtailing travel as well as productivity improvement initiatives executed late in the third quarter, partially offset by an increase in account receivable reserves.

Research and development expenses were $55 million, or 3.5% as a percentage of revenue, in the three months ended September 30, 2020 as compared to $64 million, or 3.6% as a percentage of revenue, in the three months ended September 30, 2019. Research and development expenses in the three months ended September 30, 2020 included $3 million of costs related to transformation initiatives. Excluding this item, research and development expenses decreased from 3.6% as a percentage of revenue in the three months ended September 30, 2019 to 3.3% as a percentage of revenue in the three months ended September 30, 2020. The decrease in research and development expenses was due to the initiatives implemented earlier in the year to address the business impacts from the COVID-19 pandemic, including among others, salary reductions, elimination of certain contractors and curtailing travel as well as increased investment in our strategic growth platforms.

Research and development expenses were $169 million, or 3.7% as a percentage of revenue, in the nine months ended September 30, 2020 as compared to $185 million, or 3.7% as a percentage of revenue, in the nine months ended September 30, 2019. Research and development expenses in the nine months ended September 30, 2020 included $3 million of costs related to our restructuring and transformation initiatives. Excluding this item, research and development expenses as a percentage of revenue was 3.6% in the nine months ended September 30, 2019 compared to 3.6% in the nine months ended September 30, 2020 due to the initiatives implemented earlier in the year to address the business impacts from the COVID-19 pandemic, including among others, salary reductions, elimination of certain contractors and curtailing travel as well as increased investment in our strategic growth platforms.

Loss on Extinguishment of Debt

Loss on extinguishment of debt was $20 million in the three and nine months ended September 30, 2020 compared to zero in the three and nine months ended September 30, 2019. The loss on extinguishment of debt was related to the early extinguishment of the $600 million aggregate principal amount of 5.00% senior unsecured notes due in 2022 and the $700 million aggregate principal amount of 6.375% senior unsecured notes due in 2023. The loss included the write-off of deferred financing fees of $5 million and a cash redemption premium of $15 million.

Interest Expense

Interest expense was $60 million in the three months ended September 30, 2020 compared to $53 million in the three months ended September 30, 2019. The increase was due to higher average outstanding principal debt balances as well as higher average interest rates on the Company's senior unsecured notes.

Interest expense was $167 million in the nine months ended September 30, 2020 compared to $143 million in the nine months ended September 30, 2019. The increase was due to higher average outstanding principal debt balances as well as higher average interest rates on the Company's senior unsecured notes.

Other Expense, net

Other expense, net of $6 million in the three months ended September 30, 2020 compared to $11 million in the three months ended September 30, 2019. Other expense, net of $10 million in the nine months ended September 30, 2020 compared to $28 million in the nine months ended September 30, 2019. The components of which are reflected in the table below:

	Three months ended September 30		Nine months ended September 30	
In millions	**2020**	**2019**	**2020**	**2019**
Interest income	**$ 2**	$ 1	**$ 4**	$ 3
Foreign currency fluctuations and foreign exchange contracts	**(7)**	(9)	**(12)**	(21)
Bank-related fees	**(1)**	(2)	**(4)**	(6)
Employee benefit plans	**—**	(2)	**2**	(6)
Other, net	**—**	1	**—**	2
Other expense, net	**$ (6)**	$ (11)	**$ (10)**	$ (28)

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 zero for the three months ended September 30, 2020 compared to income tax expense of $4 million for the three months ended September 30, 2019. The change was primarily driven by lower income before taxes in the three months ended September 30, 2020, partially offset by a decrease in discrete tax benefits. In the three months ended September 30, 2019, the discrete tax benefits were primarily the release of a $25 million valuation allowance related to certain non-US deferred tax assets. In the three months ended September 30, 2020, the discrete benefits were primarily a decrease in the balance of the Company's gross unrecognized tax benefits as a result of lapses of statutes of limitations.

Income tax benefit was $33 million for the nine months ended September 30, 2020 compared to income tax expense of $28 million for the nine months ended September 30, 2019. The change was primarily driven by an increase in discrete tax benefits as well as lower income before taxes in the nine months ended September 30, 2020. In the nine months ended September 30, 2019, the discrete benefits were primarily a release of a $25 million valuation allowance related to certain non-US deferred tax assets. In the nine months ended September 30, 2020, the discrete tax benefits primarily resulted from a $48 million benefit recorded for the release of a valuation allowance against U.S. foreign tax credits and the re-establishment of expected foreign tax credit offsets to unrecognized tax benefits as well as a decrease in the balance of the Company's gross unrecognized tax benefits as a result of lapses of statutes of limitations.

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 2020 or future periods.

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 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. The solutions offered serve the following customer markets in the retail industry: Food, Drug and Mass Merchandisers; Department and Specialty Retailers; Convenience and Fuel Retailers, and Small and Medium Retailers. 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 solutions to customers in the hospitality industry, serving businesses in the following markets: Quick Service Restaurants, Table Service Restaurants, Small and Medium Restaurants and Travel 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 16, Segment Information and Concentrations of the Notes to the 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 and nine months ended September 30:

In millions	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Revenue	**$ 777**	$ 942	**$ 2,303**	$ 2,568
Operating income	**$ 99**	$ 146	**$ 294**	$ 370
Operating income as a percentage of revenue	**12.7 %**	15.5 %	**12.8 %**	14.4 %

In the three months ended September 30, 2020 compared to the three months ended September 30, 2019, revenue decreased 18% due to the continued impact of the COVID-19 pandemic driven by a 40% decline in ATM hardware revenue. An accelerated shift from selling perpetual software licenses to recurring revenue also impacted the revenue comparison. Additionally, the revenue decrease was mainly driven by declines in the Americas and Europe. Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison.

In the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, revenue decreased 10% due to the impact of the COVID-19 pandemic driven by a 27% decline in ATM hardware revenue. An accelerated shift from selling perpetual software licenses to recurring revenue also impacted the revenue comparison. Additionally, the revenue decrease was mainly driven by declines in the Americas and Europe. Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison.

Operating income decreased in the three and nine months ended September 30, 2020 compared to the three and nine months ended September 30, 2019. The decrease in operating income was primarily due to a decline in revenue partially offset by a reduction in operating expenses from the initiatives put in place earlier in the year to address business impacts expected from the COVID-19 pandemic.

Retail

The following table shows the Retail revenue and operating income for the three and nine months ended September 30:

In millions	Three months ended September 30 2020	Three months ended September 30 2019	Nine months ended September 30 2020	Nine months ended September 30 2019
Revenue	**$ 556**	$ 539	**$ 1,511**	$ 1,608
Operating income	**$ 45**	$ 36	**$ 67**	$ 102
Operating income as a percentage of revenue	**8.1 %**	6.7 %	**4.4 %**	6.3 %

In the three months ended September 30, 2020 compared to the three months ended September 30, 2019, revenue increased 3% due to an increase in self-checkout revenue and services revenue, partially offset by lower point-of-sale revenue. Additionally, the revenue increase was mainly driven by growth in Europe. Foreign currency fluctuations had a favorable impact of 1% on the revenue comparison.

In the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, revenue decreased 6% due to a decline in hardware revenue driven by a large customer roll-out in the prior year as well as the impact from the COVID-19 pandemic, partially offset by an increase in services revenue. Additionally, the revenue decrease was mainly driven by declines in the Americas. Foreign currency fluctuations had no impact on the revenue comparison.

Operating income increased in the three months ended September 30, 2020 compared to the three months ended September 30, 2019 primarily due to higher revenue as well as lower operating expenses from the initiatives put in place earlier in the year to address business impacts expected from the COVID-19 pandemic.

Operating income decreased in the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 primarily due to the decline in hardware volume partially offset by lower operating expenses from the initiatives put in place earlier in the year to address business impacts expected from the COVID-19 pandemic.

Hospitality

The following table shows the Hospitality revenue and operating loss for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2020	**2019**	**2020**	**2019**
Revenue	**$ 173**	$ 216	**$ 502**	$ 611
Operating income (loss)	**$ 7**	$ 10	**$ (2)**	$ 39
Operating income as a percentage of revenue	**4.0 %**	4.6 %	**(0.4)%**	6.4 %

In the three months ended September 30, 2020 compared to the three months ended September 30, 2019, revenue decreased 20% mainly due to a decline in hardware revenue. The revenue decrease was mainly driven by North America. Foreign currency fluctuations had no impact on the revenue comparison.

In the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019, revenue decreased 18% mainly due to decline in hardware and software revenue driven by the impact from the COVID-19 pandemic. The revenue decrease 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 September 30, 2020 compared to the three months ended September 30, 2019 driven by the reduction in revenue and higher accounts receivable reserves due to increased risk from COVID-19 uncertainties partially offset by lower operating expenses from the initiatives put in place earlier in the year to address business impacts expected from the COVID-19 pandemic.

Operating income decreased in the nine months ended September 30, 2020 compared to the nine months ended September 30, 2019 driven by the reduction in revenue, higher planned expenses from strategic acquisitions completed in 2019 as well as higher accounts receivable reserves due to increased risk from COVID-19 uncertainties.

Other

The following table shows the Other revenue and operating income for the three and nine months ended September 30:

In millions	Three months ended September 30		Nine months ended September 30	
	2020	**2019**	**2020**	**2019**
Revenue	**$ 83**	$ 86	**$ 260**	$ 242
Operating income	**$ 7**	$ 10	**$ 19**	$ 30
Operating income as a percentage of revenue	**8.4 %**	11.6 %	**7.3 %**	12.4 %

In the three months ended September 30, 2020 compared to September 30, 2019, revenue decreased 3% due to declines in Europe partially offset by growth in North America. Foreign currency fluctuations had an favorable impact of 2% on the revenue comparison.

In the nine months ended September 30, 2020 compared to September 30, 2019, revenue increased 7% due to growth in the Americas partially offset by declines in Europe. Foreign currency fluctuations had an unfavorable impact of 1% on the revenue comparison.

Operating income decreased in the three and nine months ended September 30, 2020 compared to September 30, 2019 driven by the mix of revenue.

Continuing Impacts of COVID-19

While it is difficult to project how disruptive and protracted the pandemic will be, we do expect it will negatively impact our business for the remainder of 2020 and into 2021. We expect all of our segments results to be negatively impacted by the COVID-19 pandemic. We expect our hardware revenues to be most impacted while our recurring revenue stream is expected to be more resilient. We are in the process of evaluating the long-term impact that COVID-19 may have on our business model, which may result in charges in the fourth quarter of 2020. These charges may include both cash and non-cash items.

Financial Condition, Liquidity, and Capital Resources

Cash provided by operating activities was $495 million in the nine months ended September 30, 2020 compared to cash provided by operating activities of $226 million in the nine months ended September 30, 2019. The increase in cash provided by 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 nine months ended September 30:

	Nine months ended September 30	
In millions	**2020**	**2019**
Net cash provided by operating activities	**$ 495**	$ 226
Expenditures for property, plant and equipment	**(23)**	(53)
Additions to capitalized software	**(177)**	(167)
Net cash used in discontinued operations	**4**	(27)
Free cash flow (use) (non-GAAP)	**$ 299**	$ (21)

The decrease in expenditures for property, plant and equipment is primarily due to the strategic focus to reduce spending in order to increase investment in our capitalized software for the investment in our strategic growth platforms. Additionally, cash provided by operating activities included $110 million of insurance proceeds as an advance for the Nashville Global Fulfillment Center outage. There was no impact to the nine months ended September 30, 2019 cash provided by operating activities and free cash flow from the revision discussed in Note 2, Revisions of Previously Issued Financial Statements of the Notes to the Condensed Consolidated Financial Statements.

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. During the nine months ended September 30, 2020, the payments for business combinations was $25 million, mainly for the remaining consideration paid related to the acquisition of Zynstra Ltd. completed in 2019.

Our financing activities include borrowings and repayments of credit facilities and notes. During the nine months ended September 30, 2020, we issued new senior unsecured notes for an aggregate principal amount of $1.5 billion and we paid $21 million of deferred financing fees related to these transactions. In the nine months ended September 30, 2020, we redeemed the $600 million aggregate principal amount of 5.00% senior unsecured notes due in 2022 and $700 million aggregate principal amount of 6.375% Notes due in 2023 of senior unsecured notes. As a part of our debt extinguishment, we recognized a loss of

$20 million, which includes the write-off of deferred financing fees of $5 million and a cash redemption premium of $15 million.

Financing activities during the nine months ended September 30, 2020 also included the repurchase of our common stock for $41 million, dividends paid on the Series A preferred stock of $6 million, proceeds from stock employee plans of $12 million as well as tax withholding payments on behalf of employees for stock based awards that vested of $27 million. Financing activities during the nine months ended September 30, 2019 included the redemption of the outstanding Series A Convertible Preferred Stock owned by Blackstone for $302 million, the repurchase of our common stock for a total of $96 million, proceeds from stock employee plans of $12 million and tax withholding payments on behalf of employees for stock based awards that vested of $29 million.

Long Term Borrowings On August 28, 2019, we amended and restated our senior secured credit facility and refinanced the term loan facility and revolving credit facility thereunder. The senior secured credit facility consists of a term loan facility in an aggregate principal amount of $750 million, of which $743 million was outstanding as of September 30, 2020. Additionally, the senior secured credit facility provides for a revolving credit facility with an aggregate principal amount of $1.1 billion, of which $1.07 billion was outstanding as of September 30, 2020, subject to certain covenant limitations. Additionally, the revolving credit facility has up to $400 million available to certain foreign subsidiaries, as long as there is availability under the revolving credit facility. 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 letters of credit, and as of September 30, 2020, there were $28 million letters of credit outstanding. As of December 31, 2019, the outstanding principal balance of the term loan facility was $748 million and the outstanding balance on the revolving facility was $265 million.

On April 13, 2020, the Company issued $400 million aggregate principal amount of 8.125% senior unsecured notes due in 2025 (the 8.125% Notes). The 8.125% Notes were sold at 100% of the principal amount, which resulted in total gross proceeds of $400 million.

On August 20, 2020, the Company issued $650 million aggregate principal amount of 5.000% senior unsecured notes due in 2028 (the 5.000% Notes) and $450 million aggregate principal amount of 5.250% senior unsecured notes due in 2029 (the 5.250% Notes). Interest is payable on the 5.000% and 5.250% Notes semi-annually in arrears at interest rates of 5.000% and 5.250%, respectively, on April 1 and October 1 of each year beginning April 1, 2021. The 5.000% and 5.250% Notes were sold at 100% of the principal amount and will mature on October 1, 2028 and October 1, 2030, respectively.

The Company used the proceeds from the offering of the 5.000% and 5.250% Notes, together with other cash on hand, to redeem and satisfy and discharge all of its outstanding $600 million aggregate principal amount of 5.00% Notes due in 2022 and $700 million aggregate principal amount of 6.375% Notes due in 2023. The 5.00% were redeemed at 100.000% plus accrued and unpaid interest. The 6.375% were redeemed at a premium of 102.125% plus accrued and unpaid interest.

As of September 30, 2020, we had outstanding $400 million in aggregate principal balance of 8.125% senior unsecured notes due in 2025, $500 million in aggregate principal balance of 5.750% senior unsecured notes due in 2027, $650 million aggregate principal balance of 5.000% senior unsecured notes due in 2028, $450 million in aggregate principal balance of 5.250% senior unsecured notes due in 2029 and $500 million in aggregate principal balance of 6.125% senior unsecured notes due in 2030.

Our revolving trade receivables securitization facility provides the Company with up to $300 million in funding based on the availability of eligible receivables and other customary factors and conditions. As of September 30, 2020 and December 31, 2019, the Company had $212 million and $270 million, respectively, outstanding under the facility.

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.

Under the Investment Agreement, Blackstone agreed not to sell or otherwise transfer its shares of Series A Convertible Preferred Stock (or any shares of common stock issued upon conversion thereof) without the Company’s consent until June 4, 2017. In March 2017, we provided Blackstone with an early release from this lock-up, allowing Blackstone to sell approximately 49% of its shares of Series A Convertible Preferred Stock, and in return, Blackstone agreed to amend the Investment Agreement to extend the lock-up on the remaining 51% of its shares of Series A Convertible Preferred Stock for six months until December 1, 2017.

In connection with the early release of the lock-up, Blackstone offered for sale 342,000 shares of Series A Convertible Preferred Stock in an underwritten public offering. In addition, Blackstone converted 90,000 shares of Series A Convertible Preferred Stock into shares of our common stock and we repurchased those shares of common stock for $48.47 per share. The underwritten offering and the stock repurchase were consummated on March 17, 2017.

On September 18, 2019, NCR entered into an agreement to repurchase and convert the outstanding Series A Convertible Preferred Stock owned by Blackstone, which was 512,221 shares as of the date of the transaction. NCR repurchased 237,673 shares of Series A Convertible Preferred Stock for total cash consideration of $302 million. The remaining shares of Blackstone's Series A Convertible Preferred Stock, including accrued dividends, were converted to approximately 9.16 million shares of common stock at a conversion price of $30.00 per share. This transaction retired all of the Series A Convertible Preferred Stock owned by Blackstone.

Beginning in the first quarter of 2020, dividends are payable in cash or in-kind at the option of the Company. During the three months ended September 30, 2020 and 2019, the Company paid dividends-in-kind of $6 million and $13 million, respectively. During the nine months ended September 30, 2020, the Company paid total dividends of $19 million of which $13 million were dividends-in-kind and $6 million were paid in cash. During the nine months ended September 30, 2019, the Company paid dividends-in-kind of $37 million. As of September 30, 2020 and December 31, 2019, the Company had accrued dividends of $1 million, respectively, associated with the Series A Convertible Preferred Stock.

The remaining 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 September 30, 2020 and December 31, 2019, 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 13.7 million and 13.3 million, respectively.

On October 6, 2020, NCR entered into a definitive agreement to repurchase 67,000 shares of Series A Convertible Preferred Stock from two affiliated shareholders for a total cash consideration of $72 million. The transaction closed on October 7, 2020. On October 12, 2020, NCR entered into a definitive agreement to repurchase 65,365 shares of Series A Convertible Preferred Stock owned by two affiliated shareholders for a total cash consideration of $72 million. The transaction closed on October 13, 2020. These transactions reduce the maximum number of common shares that could be required to be issued upon conversion by approximately 4.4 million as well as reduce the annual dividend requirement by approximately $7 million.

Employee Benefit Plans In 2020, we expect to make contributions of $21 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.

Cash and Cash Equivalents Held by Foreign Subsidiaries Cash and cash equivalents held by the Company's foreign subsidiaries at September 30, 2020 and December 31, 2019 were $235 million and $475 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 September 30, 2020, our cash and cash equivalents totaled $1.61 billion and our total debt was $4.53 billion.

In order to build a stronger liquidity position, we took steps to improve working capital and addressed certain business impacts with spending cuts. We took several steps to build our cash reserve to improve our financial liquidity and flexibility and provide a cushion to help weather the impacts of the pandemic. These steps included suspending our share repurchase programs, limiting our mergers and acquisition activity, reducing salary for members of our leadership team and certain salaried employees, reducing our planned capital expenditures, eliminating most contractors, curtailing travel, freezing merit increases and hiring. Additionally, earlier this year, we drew the remaining available funds of $630 million on our five-year, $1.1 billion revolving credit facility and issued $400 million senior unsecured notes.

During the third quarter of 2020, we redeployed a portion of our excess cash and reduced our leverage by $200 million through the issuance of $1.1 billion of senior unsecured notes and the redemption of $1.3 billion of senior unsecured notes. Early in the fourth quarter of 2020, we evaluated our near-term liquidity needs and based on year to date cash flow generation, we completed several transactions to further reduce excess cash. We repurchased approximately 132,000 of Series A convertible preferred shares for $144 million, which represented approximately 32% of the outstanding preferred shares, as well as repaid $470 million of our outstanding revolver balance.

The COVID-19 pandemic remains complex and rapidly evolving, and the ultimate impact on our overall financial condition and operating results will depend on the currently unknowable duration and severity of the pandemic as well as any additional governmental and public actions taken in response. There can be no assurance that the measures we have taken will completely offset the negative impact of COVID-19.

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 environmental matters, debt servicing obligations, and our operating requirements for the next twelve months.

Contractual and Other Commercial Commitments

There have been no significant changes in our contractual and other commercial obligations as described in our Form 10-K for the year ended December 31, 2019 except as noted below.

In the third quarter of 2020, we issued $650 million aggregate principal amount of 5.000% senior unsecured notes due in 2028 and $450 million aggregate principal amount of 5.250% senior unsecured notes due in 2029. Additionally, we redeemed $600 million aggregate principal amount of 5.00% senior unsecured notes due in 2022 and $700 million aggregate principal amount of 6.375% senior unsecured notes due in 2023. Additionally, earlier this year, we drew the remaining available funds of $630 million on our five-year, $1.1 billion revolving credit facility and issued $400 million senior unsecured notes.

These transactions significantly altered the contractual and other commercial commitments related to debt obligations and interest on debt obligations previously described in our Annual Report on Form 10-K for the year ended December 31, 2019. The following table outlines our future debt obligations and future interest on debt obligations as of September 30, 2020 with projected cash payments in the years shown:

In millions	Total Amounts	October 1, 2020 through December 31, 2020	2021-2022	2023-2024	2025 & Thereafter
Debt obligations	$ 4,530	$ 2	$ 233	$ 1,085	$ 3210
Interest on debt obligations	1,300	30	394	374	502
Total debt obligations	$ 5,830	$ 32	$ 627	$ 1,459	$ 3,712

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 2019 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 nine months ended September 30, 2020.

New Accounting Pronouncements

See discussion in Note 1, Basis of Presentation and Summary of Significant Accounting Policies of the Notes to the 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 Section 27A of the Securities Act of 1933, as amended and Section 21E of the Securities Exchange Act of 1934, as amended, pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (the “Act”), including statements containing the words “expect,” “anticipate,” “outlook,” “intend,” “plan,” “believe,” “will,” “should,” “would,” “could,” “designed,” and words of similar meaning, as well as other words or expressions referencing future events, conditions or circumstances. We intend these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Act. 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 impact of the novel strain of the coronavirus identified in late 2019 (“COVID-19”) pandemic on our workforce, operations and financial results, including the impact on our customer’s businesses and their ability to pay; manufacturing disruptions, including those caused by or related to outsourced manufacturing or disruptions in our supply chain due to the COVID-19 pandemic; 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 services and retail industries, new tax legislation across multiple jurisdictions, modified or new global or regional trade agreements, execution of the United Kingdom's exit from the European Union, uncertainty over further potential changes in Eurozone participation and fluctuations in oil and commodity prices; the transformation of our business and shift to increased software and services revenue, as well as recurring revenue; our ability to improve execution in our sales and services organizations; our ability to successfully introduce new solutions and compete in the technology industry; cybersecurity risks and compliance with data privacy and protection requirements; the possibility of disruptions in or problems with our data center hosting facilities; the impact of the March 2020 tornadoes in the greater Nashville area on an NCR Global Fulfillment Center in Mt. Juliet, Tennessee operated by a third party, including the sufficiency and effectiveness of our or our third-party logistics partner’s business continuity plans, the adequacy of our property damage and business interruption insurance coverage and our ability to recover under the applicable policies; defects or errors in our products; the impact of our indebtedness and its terms on our financial and operating activities; the historical seasonality of our sales; tax rates and tax legislation; foreign currency fluctuations; the success of our restructuring plans and cost reduction savings initiatives; the availability and success of acquisitions, divestitures and alliances; our pension strategy and underfunded pension obligations; reliance on third party suppliers; the impact of the terms of our Series A Convertible Preferred Stock; our multinational operations, including in new and emerging markets; collectability difficulties in subcontracting relationships in certain geographical markets; development and protection of intellectual property; the impact of intellectual property litigation and claims; 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, except as required by law.

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.

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 $15 million as of September 30, 2020 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 slightly stronger in the third quarter of 2020 compared to the third quarter of 2019 based on comparable weighted averages for our functional currencies. This had no impact on third quarter 2020 revenue versus third quarter 2019 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 55% of our borrowings were on a fixed rate basis as of September 30, 2020. The increase in pre-tax interest expense for the nine months ended September 30, 2020 from a hypothetical 100 basis point increase in variable interest rates would be approximately $5 million.

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 September 30, 2020, we did not have any significant concentration of credit risk related to financial instruments.

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 third quarter of 2020, 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

There have been no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II. Other Information

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

Part I, Item 1A ("Risk Factors") of the Company’s 2019 Annual Report on Form 10-K (the 2019 Annual Report) includes a discussion of the risks and uncertainties related to our business. The information presented below updates, and should be read in conjunction with, the risk factors and information disclosed in the 2019 Annual Report. Except as presented below, there have been no material changes from the risk factors described in the 2019 Annual Report.

The recent novel coronavirus (COVID-19) outbreak could materially adversely affect our business, financial condition and results of operations.

The impact of COVID-19 has grown throughout the world, including in the United States. Governmental authorities have implemented numerous measures attempting to contain and mitigate the effects of the virus, including travel bans and restrictions, quarantines, shelter in place orders and shutdowns. While we have implemented programs to mitigate the impact of these measures on our results of operations, there can be no assurance that these programs will be successful. There is significant uncertainty regarding such measures and potential future measures.

Our manufacturing and distribution facilities are located in areas that have been affected by the pandemic and have taken measures to try to contain it. Restrictions on our access to our manufacturing facilities or on our support operations or workforce, or similar limitations for our distributors and suppliers, could limit customer demand and/or our capacity to meet customer demand and have a material adverse effect on our business, financial condition and results of operations.

The continued spread of COVID-19 could cause delay, or limit the ability of, customers to continue to operate and perform, including in making timely payments to us, or cause a decrease in customer demand or a slowdown in customer expansion. Local governmental restrictions and public perceptions of the risks associated with the COVID-19 pandemic have caused, and may continue to cause, consumers to avoid or limit gatherings in public places or social interactions, which could adversely impact the businesses of our customers. For example, customers in our small and medium business market have experienced significant near-term working capital and adverse cash flow impacts as a result of the COVID-19 pandemic. Similarly, customers in our department and specialty retail market have encountered significant adverse impacts as a result of temporary closures of physical stores in connection with COVID-19. Furthermore, negative economic conditions related to the COVID-19 pandemic may impact the willingness of our customers to make capital expenditures or pay accounts receivable, the ability of our customers to obtain financing for the purchase of our products, or the amount of disposable income available to consumers, which may adversely impact the businesses of our customers. Any of these effects could have a material adverse effect on our business, financial condition and results of operations.

In addition, the spread of COVID-19 has caused us to modify our business practices, such as employee work locations, and we may take further actions as may be required by government authorities or that we determine is in the best interests of our employees, customers, distributors, suppliers and contractors. There is no certainty that such measures will be sufficient to mitigate the risks posed by the virus, and our ability to perform critical functions could be harmed. These measures, and similar measures at our customers, have resulted in and may result in further installation delays.

COVID-19 or any other adverse public health development could inhibit our ability to execute our strategic initiatives including, without limitation, expanding our customer base by increasing our use of indirect sales channels and by developing, marketing and selling solutions aimed at the small and medium business market, improving the experience of our customers, investing in growing identified strategic growth platforms and shifting the mix of revenue in our business to software and services revenue as well as recurring revenue.

The degree to which COVID-19 affects our financial results and operations will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to, the duration and spread of the outbreak, its severity, the actions to contain the virus or treat its impact, and how quickly and to what extent normal economic and operating conditions can resume.

To the extent the COVID-19 pandemic materially adversely affects our business and financial results, it may also have the effect of significantly heightening many of the other risks associated with our business and substantial indebtedness, including those described in our most recent Annual Report on Form 10-K for the year ended December 31, 2019.

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.

As of September 30, 2020, $521 million was available for repurchases under the March 2017 program, and approximately $153 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 September 30, 2020, 0.1 million shares were purchased at an average price of $18.95 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.

Item 6. EXHIBITS

4.1	Indenture, dated as of August 20, 2020, among NCR Corporation, NCR International, Inc. and Wells Fargo Bank, National Association (Exhibit 4.1 to Current Report on Form 8-K of NCR Corporation dated August 20, 2020 (the “August 20, 2020 Form 8-K”)).
4.2	Indenture, dated as of August 20, 2020, among NCR Corporation, NCR International, Inc. and Wells Fargo Bank, National Association (Exhibit 4.3 to the August 20, 2020 Form 8-K).
10.1	Separation Agreement, dated July 8, 2020, between Andre J. Fernandez and NCR Corporation (Exhibit 10.1 to the Current Report on Form 8-K of NCR Corporation dated July 15, 2020). *
31.1	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934.
32	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from NCR Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2020, formatted in iXBRL (Inline Extensible Business Reporting Language): (i) our condensed consolidated statements of operations for the three and nine months ended September 30, 2020 and 2019; (ii) our condensed consolidated statements of comprehensive income for the three and nine months ended September 30, 2020 and 2019; (iii) our condensed consolidated balance sheets as of September 30, 2020 and December 31, 2019; (iv) our condensed consolidated statements of cash flows for the nine months ended September 30, 2020 and 2019; (v) our condensed consolidated statements of changes in stockholder's equity for the nine months ended September 30, 2020 and 2019; and (vi) the notes to our condensed consolidated financial statements.
104	Cover Page Interactive Data File, formatted in Inline XBRL and contained in Exhibit 101.

* Management contracts or compensatory plans/arrangements.

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.

NCR CORPORATION

Date: October 30, 2020	By: /s/ Timothy C. Oliver
	Timothy C. Oliver
	Executive Vice President and Chief Financial Officer

Exhibit 31.1

CERTIFICATION

I, Michael D. Hayford, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NCR Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 30, 2020

/s/ Michael D. Hayford

Michael D. Hayford
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Timothy C. Oliver, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of NCR Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: October 30, 2020

/s/ Timothy C. Oliver

Timothy C. Oliver
Executive Vice President and Chief Financial Officer

Exhibit 32

CERTIFICATION PURSUANT TO

18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of NCR Corporation (the “Company”) for the period ending September 30, 2020 as filed with the U.S. Securities and Exchange Commission on the date hereof (the “Report”), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002), that:

(1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

The foregoing certification (i) is given to such officers’ knowledge, based upon such officers’ investigation as such officers reasonably deem appropriate; and (ii) is being furnished solely pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002) and is not being filed as part of the Report or as a separate disclosure document.

Dated: October 30, 2020

/s/ Michael D. Hayford

Michael D. Hayford
President and Chief Executive Officer

Dated: October 30, 2020

/s/ Timothy C. Oliver

Timothy C. Oliver
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signatures that appear in typed form within the electronic version of this written statement required by Section 906, has been provided to NCR Corporation and will be retained by NCR Corporation and furnished to the United States Securities and Exchange Commission or its staff upon request.