

NCR CORP  
Form 10-Q  
October 30, 2008  
[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

**For the quarterly period ended September 30, 2008**

**Commission File Number 001-00395**

**NCR CORPORATION**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of

**31-0387920**  
(I.R.S. Employer

Edgar Filing: NCR CORP - Form 10-Q

incorporation or organization)

Identification No.)

1700 South Patterson Blvd.

Dayton, Ohio 45479

(Address of principal executive offices) (Zip Code)

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

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

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

Number of shares of common stock, \$0.01 par value per share, outstanding as of October 24, 2008, was approximately 157.8 million.

**Table of Contents****TABLE OF CONTENTS****PART I. Financial Information**

|         | <b>Description</b>                                                                           | <b>Page</b> |
|---------|----------------------------------------------------------------------------------------------|-------------|
| Item 1. | <u>Financial Statements</u>                                                                  |             |
|         | <u>Condensed Consolidated Statements of Operations (Unaudited)</u>                           |             |
|         | Three and Nine Months Ended September 30, 2008 and 2007                                      | 3           |
|         | <u>Condensed Consolidated Balance Sheets (Unaudited)</u>                                     |             |
|         | September 30, 2008 and December 31, 2007                                                     | 4           |
|         | <u>Condensed Consolidated Statements of Cash Flows (Unaudited)</u>                           |             |
|         | Nine Months Ended September 30, 2008 and 2007                                                | 5           |
|         | <u>Notes to Condensed Consolidated Financial Statements</u>                                  | 6           |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 25          |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 34          |
| Item 4. | <u>Controls and Procedures</u>                                                               | 35          |

**PART II. Other Information**

|          | <b>Description</b>                                                 | <b>Page</b> |
|----------|--------------------------------------------------------------------|-------------|
| Item 1.  | <u>Legal Proceedings</u>                                           | 36          |
| Item 1A. | <u>Risk Factors</u>                                                | 36          |
| Item 2.  | <u>Unregistered Sales of Equity Securities and Use of Proceeds</u> | 41          |
| Item 3.  | <u>Defaults Upon Senior Securities</u>                             | 42          |
| Item 4.  | <u>Submission of Matters to a Vote of Security Holders</u>         | 42          |
| Item 5.  | <u>Other Information</u>                                           | 42          |
| Item 6.  | <u>Exhibits</u>                                                    | 42          |
|          | <u>Signatures</u>                                                  | 44          |
|          | Exhibits                                                           |             |

**Table of Contents****Part I. Financial Information****Item 1. Financial Statements**  
**Condensed Consolidated Statements of Operations (Unaudited)**

In millions, except per share amounts

|                                                           | <b>Three Months Ended<br/>September 30</b> |              | <b>Nine Months Ended<br/>September 30</b> |               |
|-----------------------------------------------------------|--------------------------------------------|--------------|-------------------------------------------|---------------|
|                                                           | <b>2008</b>                                | <b>2007</b>  | <b>2008</b>                               | <b>2007</b>   |
| Product revenue                                           | \$ 757                                     | \$ 693       | \$ 2,064                                  | \$ 1,809      |
| Service revenue                                           | 622                                        | 585          | 1,830                                     | 1,640         |
| <b>Total revenue</b>                                      | <b>1,379</b>                               | <b>1,278</b> | <b>3,894</b>                              | <b>3,449</b>  |
| Cost of products                                          | 560                                        | 513          | 1,513                                     | 1,378         |
| Cost of services                                          | 509                                        | 503          | 1,525                                     | 1,383         |
| Selling, general and administrative expenses              | 175                                        | 187          | 518                                       | 492           |
| Research and development expenses                         | 35                                         | 37           | 111                                       | 96            |
| <b>Total operating expenses</b>                           | <b>1,279</b>                               | <b>1,240</b> | <b>3,667</b>                              | <b>3,349</b>  |
| <b>Income from operations</b>                             | <b>100</b>                                 | <b>38</b>    | <b>227</b>                                | <b>100</b>    |
| Interest expense                                          | 6                                          | 6            | 17                                        | 18            |
| Other income, net                                         | (5)                                        | (18)         | (17)                                      | (34)          |
| Income from continuing operations before income taxes     | 99                                         | 50           | 227                                       | 116           |
| Income tax expense                                        | 17                                         | 17           | 51                                        | 41            |
| Income from continuing operations                         | 82                                         | 33           | 176                                       | 75            |
| (Loss) income from discontinued operations, net of tax    | (2)                                        | 20           | (4)                                       | 110           |
| <b>Net income</b>                                         | <b>\$ 80</b>                               | <b>\$ 53</b> | <b>\$ 172</b>                             | <b>\$ 185</b> |
| <b>Income per common share from continuing operations</b> |                                            |              |                                           |               |
| Basic                                                     | \$ 0.50                                    | \$ 0.18      | \$ 1.05                                   | \$ 0.42       |
| Diluted                                                   | \$ 0.49                                    | \$ 0.18      | \$ 1.03                                   | \$ 0.41       |
| <b>Net income per common share</b>                        |                                            |              |                                           |               |
| Basic                                                     | \$ 0.49                                    | \$ 0.29      | \$ 1.03                                   | \$ 1.03       |
| Diluted                                                   | \$ 0.48                                    | \$ 0.29      | \$ 1.01                                   | \$ 1.01       |
| <b>Weighted average common shares outstanding</b>         |                                            |              |                                           |               |
| Basic                                                     | 163.2                                      | 180.6        | 167.6                                     | 180.0         |
| Diluted                                                   | 166.2                                      | 182.3        | 170.6                                     | 182.4         |

See Notes to Condensed Consolidated Financial Statements.



**Table of Contents****Condensed Consolidated Balance Sheets (Unaudited)**

In millions, except per share amounts

|                                                                                                                                                                            | September 30,<br>2008 | December 31,<br>2007 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
| <b>Assets</b>                                                                                                                                                              |                       |                      |
| Current assets                                                                                                                                                             |                       |                      |
| Cash and cash equivalents                                                                                                                                                  | \$ 733                | \$ 952               |
| Accounts receivable, net                                                                                                                                                   | 943                   | 1,167                |
| Inventories, net                                                                                                                                                           | 711                   | 717                  |
| Other current assets                                                                                                                                                       | 242                   | 252                  |
| <b>Total current assets</b>                                                                                                                                                | <b>2,629</b>          | <b>3,088</b>         |
| Property, plant and equipment, net                                                                                                                                         | 308                   | 313                  |
| Goodwill                                                                                                                                                                   | 84                    | 64                   |
| Prepaid pension cost                                                                                                                                                       | 799                   | 776                  |
| Deferred income taxes                                                                                                                                                      | 179                   | 210                  |
| Other assets                                                                                                                                                               | 407                   | 329                  |
| <b>Total assets</b>                                                                                                                                                        | <b>\$ 4,406</b>       | <b>\$ 4,780</b>      |
| <b>Liabilities and stockholders' equity</b>                                                                                                                                |                       |                      |
| Current liabilities                                                                                                                                                        |                       |                      |
| Short-term borrowings                                                                                                                                                      | \$ 301                | \$ 1                 |
| Accounts payable                                                                                                                                                           | 443                   | 516                  |
| Payroll and benefits liabilities                                                                                                                                           | 183                   | 231                  |
| Deferred service revenue and customer deposits                                                                                                                             | 364                   | 359                  |
| Other current liabilities                                                                                                                                                  | 427                   | 423                  |
| <b>Total current liabilities</b>                                                                                                                                           | <b>1,718</b>          | <b>1,530</b>         |
| Long-term debt                                                                                                                                                             | 7                     | 307                  |
| Pension and indemnity plan liabilities                                                                                                                                     | 421                   | 433                  |
| Postretirement and postemployment benefits liabilities                                                                                                                     | 382                   | 359                  |
| Deferred income taxes                                                                                                                                                      | 60                    | 45                   |
| Income tax accruals                                                                                                                                                        | 180                   | 165                  |
| Other liabilities                                                                                                                                                          | 114                   | 165                  |
| Minority interests                                                                                                                                                         | 21                    | 19                   |
| <b>Total liabilities</b>                                                                                                                                                   | <b>2,903</b>          | <b>3,023</b>         |
| <b>Commitments and contingencies (Note 8)</b>                                                                                                                              |                       |                      |
| <b>Stockholders' equity</b>                                                                                                                                                |                       |                      |
| Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at September 30, 2008 and December 31, 2007                         |                       |                      |
| Common stock: par value \$0.01 per share, 500.0 shares authorized, 161.4 and 178.2 shares issued and outstanding at September 30, 2008 and December 31, 2007, respectively | 2                     | 2                    |
| Paid-in capital                                                                                                                                                            | 295                   | 683                  |
| Retained earnings                                                                                                                                                          | 1,780                 | 1,608                |
| Accumulated other comprehensive loss                                                                                                                                       | (574)                 | (536)                |

# Edgar Filing: NCR CORP - Form 10-Q

|                                                   |          |          |
|---------------------------------------------------|----------|----------|
| <b>Total stockholders' equity</b>                 | 1,503    | 1,757    |
| <b>Total liabilities and stockholders' equity</b> | \$ 4,406 | \$ 4,780 |

See Notes to Condensed Consolidated Financial Statements.

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

In millions

|                                                                                   | <b>Nine Months Ended September 30</b> |              |
|-----------------------------------------------------------------------------------|---------------------------------------|--------------|
|                                                                                   | <b>2008</b>                           | <b>2007</b>  |
| <b>Operating activities</b>                                                       |                                       |              |
| Net Income                                                                        | \$ 172                                | \$ 185       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                       |              |
| Loss (income) from discontinued operations                                        | 4                                     | (110)        |
| Depreciation and amortization                                                     | 83                                    | 81           |
| Stock-based compensation expense                                                  | 30                                    | 28           |
| Excess tax benefit from stock-based compensation                                  | (2)                                   | (7)          |
| Deferred income taxes                                                             | 29                                    | 28           |
| Gains on sale of property, plant and equipment                                    | (28)                                  | (5)          |
| Changes in operating assets and liabilities:                                      |                                       |              |
| Receivables                                                                       | 224                                   | (2)          |
| Inventories                                                                       | 6                                     | (127)        |
| Current payables and accrued expenses                                             | (140)                                 | (37)         |
| Deferred service revenue and customer deposits                                    | 5                                     | 24           |
| Employee severance and pension                                                    | (21)                                  | 7            |
| Other assets and liabilities                                                      | (55)                                  | 27           |
| <b>Net cash provided by operating activities</b>                                  | <b>307</b>                            | <b>92</b>    |
| <b>Investing activities</b>                                                       |                                       |              |
| Expenditures for property, plant and equipment                                    | (58)                                  | (43)         |
| Proceeds from sales of property, plant and equipment                              | 54                                    | 15           |
| Additions to capitalized software                                                 | (47)                                  | (35)         |
| Other investing activities, business acquisitions and divestitures, net           | (54)                                  | (4)          |
| <b>Net cash used in investing activities</b>                                      | <b>(105)</b>                          | <b>(67)</b>  |
| <b>Financing activities</b>                                                       |                                       |              |
| Repurchases of Company common stock                                               | (424)                                 |              |
| Excess tax benefit from stock-based compensation                                  | 2                                     | 7            |
| Short-term borrowings, additions                                                  |                                       | (1)          |
| Proceeds from employee stock plans                                                | 15                                    | 43           |
| Distribution to discontinued operations                                           |                                       | (196)        |
| Other financing activities, net                                                   |                                       | 1            |
| <b>Net cash used in financing activities</b>                                      | <b>(407)</b>                          | <b>(146)</b> |
| <b>Cash flows from discontinued operations</b>                                    |                                       |              |
| Net cash (used in) provided by operating activities                               | (17)                                  | 261          |
| Net cash used in investing activities                                             |                                       | (74)         |
| Net cash provided by financing activities                                         |                                       | 5            |
| <b>Net cash (used in) provided by discontinued operations</b>                     | <b>(17)</b>                           | <b>192</b>   |
| Effect of exchange rate changes on cash and cash equivalents                      | 3                                     | 15           |
| (Decrease) increase in cash and cash equivalents                                  | (219)                                 | 86           |
| Cash and cash equivalents at beginning of period                                  | 952                                   | 947          |

|                                                   |    |     |    |       |
|---------------------------------------------------|----|-----|----|-------|
| <b>Cash and cash equivalents at end of period</b> | \$ | 733 | \$ | 1,033 |
|---------------------------------------------------|----|-----|----|-------|

See Notes to Condensed Consolidated Financial Statements.

## Table of Contents

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. BASIS OF PRESENTATION

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared by NCR Corporation (NCR, the Company, we or us) 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) 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. These financial statements should be read in conjunction with NCR's Form 10-K for the year ended December 31, 2007.

As a result of the spin-off of Teradata in 2007, the results of operations and cash flows of Teradata have been presented as a discontinued operation for all periods presented in this Form 10-Q. Unless otherwise noted, disclosures herein refer only to continuing operations.

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

**Out of Period Adjustments** In the second quarter of 2007, the Company recorded an adjustment to increase income tax expense by \$18 million relating to immaterial errors originating in prior periods. The adjustment was composed of an increase to income tax expense of \$26 million due to an understatement of income tax expense in the years 2001 through 2006 and the first quarter of 2007 relating to the accounting for income taxes on intercompany profit. This adjustment was offset, in part, by an adjustment to reduce income tax expense by \$8 million as a result of an overstatement of income tax expense (and the related liability) in 2006 due to an error in preparing that year's income tax provision. Because these errors, either individually or in the aggregate, were not material to any of the prior years' financial statements, and the impact of correcting these errors in the prior year was not material to the full year 2007 financial statements, we recorded the correction of these errors in the second quarter of 2007 financial statements. Of the total \$18 million adjustment, the amount recorded in the results from continuing operations was \$11 million and the remaining \$7 million was recorded in the results from discontinued operations.

**Revenue Recognition** NCR's revenue recognition policy is consistent with the requirements of Statement of Position 97-2 (SOP 97-2), *Software Revenue Recognition*, Staff Accounting Bulletin No. 104 (SAB 104), *Revenue Recognition*, Emerging Issues Task Force Issue No. 00-21 (Issue 00-21), *Revenue Arrangements with Multiple Deliverables*, and other applicable revenue recognition guidance and interpretations. The Company records revenue, net of taxes, when it is realized, or realizable, and earned. The Company considers these requirements met when persuasive evidence of an arrangement exists, the products or services have been provided to the customer, the sales price is fixed or determinable, and collectibility is reasonably assured. For product sales, revenue is recognized when the customer has assumed risk of loss of the goods sold and all performance requirements are complete. For service sales, revenue is recognized as the services are provided or ratably over the service period.

NCR frequently enters into multiple-element arrangements with its customers involving hardware, software, professional consulting and maintenance support services. For arrangements involving multiple deliverables, where deliverables include software and non-software products and services, NCR applies the provisions of Issue 00-21 to separate the deliverables and allocate the total arrangement consideration. Each unit of accounting is then accounted for under the applicable revenue recognition guidance.

A majority of NCR's solutions contain software that is more than incidental to the hardware and services. Revenue related to software and software-related elements is recognized in accordance with SOP 97-2. In situations where there is appropriate evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the arrangement's

**Table of Contents**

consideration. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue. Fair value of software and software-related elements is based on vendor-specific objective evidence (VSOE). VSOE of fair value is determined based on the price charged when each element is sold separately.

NCR's customers may request that certain transactions be on a bill and hold basis. For these transactions, the Company recognizes revenue in accordance with SAB 104. For the three and nine month periods ended September 30, 2008, the amount from bill and hold transactions was less than 1% of consolidated revenue.

**Warranty and Sales Returns** Provisions for product warranties and sales returns and allowances are recorded in the period in which the related revenue is recognized. The Company accrues warranty reserves and sales returns and allowances using percentages of revenue to reflect the Company's historical average warranty and sales return claims.

In addition to the standard product warranty, the Company periodically offers extended warranties to its customers in the form of product maintenance services. For contracts that are not separately priced but include product maintenance, the Company defers revenue at an amount equal to its objective and reliable fair value (VSOE for transactions subject to the provisions of SOP 97-2) of the product maintenance and recognizes the deferred revenue over the service term. For separately priced product maintenance contracts not subject to the provisions of SOP 97-2, NCR applies the provisions of FASB Technical Bulletin No. 90-1, *Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts* (FTB 90-1). In conformity with FTB 90-1, NCR defers the stated amount of the separately priced contract and recognizes the deferred revenue ratably over the service term.

**2. SUPPLEMENTAL FINANCIAL INFORMATION**

| In millions                                                                               | Three Months Ended<br>September 30 |               | Nine Months Ended<br>September 30 |               |
|-------------------------------------------------------------------------------------------|------------------------------------|---------------|-----------------------------------|---------------|
|                                                                                           | 2008                               | 2007          | 2008                              | 2007          |
| <b>Comprehensive Income</b>                                                               |                                    |               |                                   |               |
| Income from continuing operations                                                         | \$ 82                              | \$ 33         | \$ 176                            | \$ 75         |
| Other comprehensive (loss) income, net of tax:                                            |                                    |               |                                   |               |
| Unrealized loss on securities                                                             | (2)                                | (2)           | (4)                               | (3)           |
| Unrealized gain (loss) on derivatives accounted for as hedges                             | 4                                  | (1)           | 3                                 | (3)           |
| Amortization of costs associated with pension, postemployment and postretirement benefits | (14)                               | 56            | 16                                | 99            |
| Currency translation adjustments                                                          | (57)                               | 23            | (53)                              | 48            |
| Comprehensive income from continuing operations                                           | 13                                 | 109           | 138                               | 216           |
| Comprehensive (loss) income from discontinued operations                                  | (2)                                | 30            | (4)                               | 124           |
| <b>Total comprehensive income</b>                                                         | <b>\$ 11</b>                       | <b>\$ 139</b> | <b>\$ 134</b>                     | <b>\$ 340</b> |

Comprehensive income from discontinued operations for the three months ended September 30, 2007 includes \$20 million of income from discontinued operations, net of tax, as well as \$10 million of other comprehensive income related to the discontinued operation. Comprehensive income from discontinued operations for the nine months ended September 30, 2007 includes \$110 million of income from discontinued operations, net of tax, as well as \$14 million of other comprehensive income related to the discontinued operation.

**Table of Contents**

| In millions                       | September 30,<br>2008 | December 31,<br>2007 |
|-----------------------------------|-----------------------|----------------------|
| <b>Inventories, net</b>           |                       |                      |
| Work in process and raw materials | \$ 138                | \$ 138               |
| Finished goods                    | 179                   | 194                  |
| Service parts                     | 394                   | 385                  |
| <b>Total inventories, net</b>     | <b>\$ 711</b>         | <b>\$ 717</b>        |

**3. NEW ACCOUNTING PRONOUNCEMENTS**

**Statement of Financial Accounting Standards No. 157** In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 was effective for financial statements issued for fiscal years beginning after November 15, 2007. On February 12, 2008, the FASB issued FASB Staff Position No. FAS 157-2 (FSP 157-2), which delayed the effective date of SFAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). Where the measurement objective specifically requires the use of fair value, the Company adopted the provisions of SFAS 157 related to financial assets and liabilities as well as those nonfinancial assets and liabilities with recurring fair value measurements, on January 1, 2008. On October 10, 2008, the FASB issued FASB Staff Position No. FAS 157-3 (FSP 157-3), which was effective on issuance and clarified the application of SFAS 157 in determining the fair value of financial assets when the markets for those assets are inactive. See Note 12, Fair Value of Assets and Liabilities, for further discussion of the adoption and our application of SFAS 157. The Company is currently assessing the impact of SFAS 157 related to those nonfinancial assets and liabilities for which the effective date has been delayed until fiscal years beginning after November 15, 2008.

**Statement of Financial Accounting Standards No. 159** In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities*. This statement permits entities to choose to measure financial instruments and certain other items at fair value for recognition or disclosure purposes. SFAS 159 was effective for fiscal years beginning after November 15, 2007. The Company did not elect to measure financial instruments and other items at fair value and therefore, the adoption of SFAS 159 did not have an impact on the Condensed Consolidated Financial Statements.

**Statement of Financial Accounting Standards No. 141 (revised 2007)** In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), *Business Combinations*. SFAS 141R provides revised guidance on how acquirers recognize and measure the consideration transferred, intangible assets acquired, liabilities assumed, noncontrolling interests, and goodwill acquired in a business combination. SFAS 141R also expands required disclosures surrounding the nature and financial effects of business combinations. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The impact of the adoption of SFAS 141R will depend on the nature and significance of business combinations the Company enters into subsequent to adoption.

**Statement of Financial Accounting Standards No. 160** In December 2007, the FASB issued SFAS No. 160 (SFAS 160), *Noncontrolling Interests in Consolidated Financial Statements, an Amendment to ARB No. 51*. SFAS 160 applies to all entities that have an outstanding noncontrolling interest in one or more subsidiaries or that deconsolidate a subsidiary. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

**Statement of Financial Accounting Standards No. 161** In March 2008, the FASB issued SFAS No. 161 (SFAS 161), *Disclosures about Derivative Instruments and Hedging Activities*. The new standard is intended to help investors better understand how derivative instruments and hedging activities affect an entity's financial position, financial performance and cash flows through enhanced disclosure requirements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after

## **Table of Contents**

November 15, 2008. The adoption of SFAS 161 will not have an impact on the Company's financial position, results of operations or liquidity; however, our disclosures after adoption will be enhanced to comply with the new standard.

**FASB Staff Position No. FAS 142-3** In April 2008, the FASB issued FASB Staff Position No. FAS 142-3 (FSP 142-3), *Determination of the Useful Life of Intangible Assets*. FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of FSP 142-3 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

**Statement of Financial Accounting Standards No. 162** In May 2008, the FASB issued SFAS No. 162 (SFAS 162), *Hierarchy of Generally Accepted Accounting Principles*. SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements. SFAS 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles*. The adoption of SFAS 162 will not have an impact on our consolidated financial position, results of operations or liquidity, as this new standard codifies existing GAAP, rather than changing GAAP.

## **4. REALIGNMENT ACTIVITIES AND REAL ESTATE TRANSACTIONS**

In the second quarter of 2008, NCR commenced a global realignment initiative to reduce redundancies and process inefficiencies to become more customer-focused and market-driven. This initiative is addressing legacy process inefficiencies and unbalanced resource allocation by focusing on organizational design, process re-engineering and business process outsourcing. The initiative is resulting in reductions in employment and productivity improvements, while freeing up funds to invest in growth programs. As a result of this initiative, in the second quarter of 2008, the Company recorded \$32 million for employee severance and other termination benefits, of which \$2 million was recorded as cost of products, \$18 million was recorded as cost of services, \$8 million was recorded as selling, general and administrative expense and the remaining \$4 million was recorded as research and development expense. Of the \$32 million total expense recognized in the second quarter of 2008, \$28 million was recorded as a discrete cost in accordance with Statement of Financial Accounting Standards No. 112 (SFAS 112), *Employers' Accounting for Postemployment Benefits*, when the severance liabilities were determined to be probable and reasonably estimable. The remaining \$4 million was recorded in accordance with Statement of Financial Accounting Standards No. 146 (SFAS 146), *Accounting for Costs Associated with Exit or Disposal Activities*.

In the third quarter of 2008, as additional reductions in employment were identified under the global realignment initiative, the Company recorded an additional \$12 million of employee severance and other termination benefits, net of immaterial refinements to the costs recognized in the second quarter of 2008. Of the \$12 million total expense recognized in the third quarter of 2008, \$11 million was recorded as cost of services and \$1 million was recorded as selling, general and administrative expense. Of this \$12 million, \$7 million was recorded as a discrete cost in accordance with SFAS 112, when the severance liabilities were determined to be probable and reasonably estimable, and the remaining \$5 million was recorded in accordance with SFAS 146. The realignment activities and the associated costs recognized during the second and the third quarter of 2008 for approximately 750 employee terminations relate to each of our reportable segments of Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific and Japan (APJ). Related to this initiative, the Company made \$8 million in payments during the three months ended September 30, 2008 and \$11 million in payments during the nine months ended September 30, 2008. The remaining accrued liability balance of \$33 million as of September 30, 2008 is recorded in the Condensed Consolidated Balance Sheet in other current liabilities as the Company expects that payment of the remaining obligation will occur through early 2009. The Company continues to expect to identify additional opportunities focusing on organizational design, process re-engineering and business process outsourcing and therefore, expects additional realignment activities through 2009 as a result of this initiative. The costs related to these activities are not reasonably estimable at this time as we are in the process of defining the scope of the activities and quantifying the impact thereof.

**Table of Contents**

In the first quarter of 2007, the Company initiated a manufacturing realignment primarily related to its ATM products, which included outsourcing certain manufacturing activities in the Americas region and shifting other manufacturing activities from high cost to low cost geographies in the EMEA region as well as the APJ region. This realignment resulted in approximately 1,100 employee terminations and, as expected, improved productivity and freed capital to invest in revenue-generating programs such as sales, engineering and market development. As a result of this realignment, in the first six months of 2007, the Company recorded \$35 million for employee severance and other termination benefits in cost of products. Of the \$35 million recorded for this realignment, \$29 million was recorded as a discrete cost in accordance with SFAS 112, and the remainder was recorded in accordance with SFAS 146. In the three months ended September 30, 2007, the Company recorded \$4 million of additional expense in cost of products due to updates in the estimated costs that were primarily attributed to changes in the expected mix of severance payments. In addition, the Company incurred costs of \$3 million associated with training, travel and professional services for the three and the nine month periods ended September 30, 2007, which were directly related to this realignment initiative and were expensed as incurred. As a result of payments made during 2007 as of December 31, 2007, \$11 million of the reserve remained for this initiative, of which, approximately \$10 million was utilized through the first nine months of 2008. The reserve balance of approximately \$1 million as of September 30, 2008 is expected to be paid over the balance of 2008.

In the third quarter of 2007, NCR commenced a realignment program in Japan, which was primarily focused on its customer services. The realignment program, which resulted in approximately 130 employee terminations, included actions to improve operating efficiency and strengthen the Company's competitive position in Japan. As a result of this realignment program, in the third quarter of 2007, the Company recorded \$27 million as a discrete cost for employee severance in accordance with SFAS 112 (\$19 million in cost of services and \$8 million in selling, general and administrative expense). As a result of the payments made as of December 31, 2007, \$7 million of the initial reserve for this initiative remained, which was fully utilized in the nine months ended September 30, 2008.

The results by segment, as disclosed in Note 11, Segment Information, exclude the impact of these realignment costs, which is consistent with the manner by which management assesses the performance and evaluates the results of each segment.

The following table summarizes the total liabilities for these realignment activities as of December 31, 2007 and as of September 30, 2008, which are included on the Condensed Consolidated Balance Sheets in other current liabilities.

| <b>In millions</b>                                               | <b>Employee<br/>Severance and<br/>Other Benefits</b> |
|------------------------------------------------------------------|------------------------------------------------------|
| <b>Restructuring reserves</b>                                    |                                                      |
| Balance as of December 31, 2007                                  | \$ 18                                                |
| Costs recognized during the nine months ended September 30, 2008 | 44                                                   |
| Payments during the nine months ended September 30, 2008         | (28)                                                 |
| <b>Ending balance as of September 30, 2008</b>                   | <b>\$ 34</b>                                         |

In the nine months ended September 30, 2008, the Company recognized \$28 million in gains from the sale of property, plant, and equipment in the Condensed Consolidated Statement of Operations. Of this amount, \$16 million related to the sale of a manufacturing facility in Canada during the first quarter and \$7 million related to the sale of a separate Canadian property in the second quarter of 2008. Both amounts were recorded as a reduction to selling, general, and administrative expenses in the Condensed Consolidated Statement of Operations.

**5. GOODWILL AND IDENTIFIABLE INTANGIBLE ASSETS**

Goodwill was \$84 million as of September 30, 2008 compared to \$64 million as of December 31, 2007. The increase in goodwill is primarily attributed to the transactions detailed in Note 13, Business Combinations and Investments that occurred during the first nine months of 2008.

**Table of Contents**

NCR's identifiable intangible assets, reported in Other Assets in the Condensed Consolidated Balance Sheets, were specifically identified when acquired, and are deemed to have finite lives. These intangible assets are being amortized over original periods ranging from two to five years. The gross carrying amount and accumulated amortization for NCR's identifiable intangible assets were as follows:

|                                      |   | Original        | September 30, 2008 |              | December 31, 2007 |              |
|--------------------------------------|---|-----------------|--------------------|--------------|-------------------|--------------|
| In millions                          |   | Amortization    | Gross Carrying     | Accumulated  | Gross Carrying    | Accumulated  |
|                                      |   | Life (in Years) | Amount             | Amortization | Amount            | Amortization |
| Identifiable intangible assets       |   |                 |                    |              |                   |              |
| Non-compete arrangements             | 3 | 5               | \$ 6               | \$ (4)       | \$ 5              | \$ (3)       |
| Intellectual property                | 2 | 5               | 48                 | (33)         | 45                | (27)         |
| Total identifiable intangible assets |   |                 | \$ 54              | \$ (37)      | \$ 50             | \$ (30)      |

The increase in the carrying amount of identifiable intangible assets since December 31, 2007 is primarily due to our business combinations and investments completed in 2008 as described in Note 13, Business Combinations and Investments.

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

| In millions          | Nine months ended<br>September 30, |      | For the year ended (estimated) |      |      |           |
|----------------------|------------------------------------|------|--------------------------------|------|------|-----------|
|                      | 2008                               | 2007 | 2008                           | 2009 | 2010 | 2011 2012 |
| Amortization expense | \$ 7                               | \$ 9 | \$ 9                           | \$ 4 | \$ 1 | \$ 1      |

**6. STOCK COMPENSATION PLANS**

As of September 30, 2008, the Company's primary types of share-based compensation were stock options and restricted stock. The Company recorded stock-based compensation expense under the provisions of Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment*, for the periods ended September 30 as follows:

| In millions                                 | Three Months Ended<br>September 30 |       | Nine Months Ended<br>September 30 |       |
|---------------------------------------------|------------------------------------|-------|-----------------------------------|-------|
|                                             | 2008                               | 2007  | 2008                              | 2007  |
| Stock options                               | \$ 4                               | \$ 11 | \$ 12                             | \$ 16 |
| Restricted stock                            | 6                                  | 8     | 18                                | 12    |
| Total stock-based compensation (pre-tax)    | 10                                 | 19    | 30                                | 28    |
| Tax benefit                                 | (3)                                | (6)   | (9)                               | (10)  |
| Total stock-based compensation (net of tax) | \$ 7                               | \$ 13 | \$ 21                             | \$ 18 |

Stock-based compensation expense is recognized in the financial statements based upon fair value. Stock-based compensation expense was higher for the three months ended September 30, 2007 as compared to the three months ended September 30, 2008, due to the modifications of stock awards for NCR employees in connection with the spin-off of Teradata on September 30, 2007. As these modifications resulted in an increase in the fair value of the awards, the Company recorded incremental stock-based compensation expense for the three months ended September 30, 2007 of \$13 million. After considering the impact of this incremental expense in the third quarter of 2007, stock-based compensation expense increased for the three and nine months ended September 30, 2008. This was primarily due to expected performance against targets, higher grant activity and the additional stock-based compensation expense incurred through the remaining vesting periods (which end in 2009) related to the modifications from the Teradata spin-off.



**Table of Contents**

The weighted average fair value of option grants was estimated based on the below weighted average assumptions and was \$9.35 for the three months ended September 30, 2008 and \$7.52 for the nine months ended September 30, 2008.

|                                 | Three Months Ended<br>September 30 |       | Nine Months Ended<br>September 30 |       |
|---------------------------------|------------------------------------|-------|-----------------------------------|-------|
|                                 | 2008                               | 2007  | 2008                              | 2007  |
| Dividend yield                  |                                    |       |                                   |       |
| Risk-free interest rate         | <b>3.20%</b>                       | 4.61% | <b>2.63%</b>                      | 4.51% |
| Expected volatility             | <b>33.3%</b>                       | 29.7% | <b>32.0%</b>                      | 32.5% |
| Expected holding period (years) | <b>5.1</b>                         | 5.0   | <b>5.1</b>                        | 5.0   |

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

As of September 30, 2008, the total unrecognized compensation cost of \$28 million related to unvested stock option grants is expected to be recognized over a weighted average period of approximately 2.6 years. As of September 30, 2008, the total unrecognized compensation cost of \$32 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 1.6 years.

**7. EMPLOYEE BENEFIT PLANS**

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

| In millions                    | U.S. Pension Benefits |         | International Pension Benefits |       | Total Pension Benefits |       |
|--------------------------------|-----------------------|---------|--------------------------------|-------|------------------------|-------|
|                                | 2008                  | 2007    | 2008                           | 2007  | 2008                   | 2007  |
| Net service cost               | \$                    | \$      | \$                             | \$    | \$                     | \$    |
| Interest cost                  | <b>50</b>             | 46      | <b>27</b>                      | 25    | <b>77</b>              | 71    |
| Expected return on plan assets | <b>(62)</b>           | (60)    | <b>(31)</b>                    | (33)  | <b>(93)</b>            | (93)  |
| Settlement charge              |                       |         |                                | 2     |                        | 2     |
| Amortization of:               |                       |         |                                |       |                        |       |
| Prior service cost             |                       |         | <b>1</b>                       | 3     | <b>1</b>               | 3     |
| Actuarial loss                 |                       |         | <b>14</b>                      | 22    | <b>14</b>              | 22    |
| Net benefit (income) cost      | <b>\$ (12)</b>        | \$ (14) | <b>\$ 17</b>                   | \$ 28 | <b>\$ 5</b>            | \$ 14 |

**Table of Contents**

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

| In millions                    | U.S. Pension Benefits |         | International Pension Benefits |       | Total Pension Benefits |       |
|--------------------------------|-----------------------|---------|--------------------------------|-------|------------------------|-------|
|                                | 2008                  | 2007    | 2008                           | 2007  | 2008                   | 2007  |
| Net service cost               | \$                    | \$      | \$ 22                          | \$ 30 | \$ 22                  | \$ 30 |
| Interest cost                  | 147                   | 138     | 81                             | 70    | 228                    | 208   |
| Expected return on plan assets | (186)                 | (183)   | (98)                           | (96)  | (284)                  | (279) |
| Settlement cost                |                       |         |                                | 2     |                        | 2     |
| Amortization of:               |                       |         |                                |       |                        |       |
| Prior service cost             |                       |         | 5                              | 9     | 5                      | 9     |
| Actuarial loss                 |                       | 2       | 47                             | 63    | 47                     | 65    |
| Net benefit (income) cost      | \$ (39)               | \$ (43) | \$ 57                          | \$ 78 | \$ 18                  | \$ 35 |

Of the total net benefit cost presented above, the cost related to discontinued operations was \$2 million and \$6 million for the three and nine months ended September 30, 2007, respectively.

The net periodic benefit (income) cost of the postretirement plan for the three months and nine months ended September 30 were:

| In millions           | Three Months Ended<br>September 30 |        | Nine Months Ended<br>September 30 |        |
|-----------------------|------------------------------------|--------|-----------------------------------|--------|
|                       | 2008                               | 2007   | 2008                              | 2007   |
| Interest cost         | \$ 1                               | \$ 2   | \$ 5                              | \$ 6   |
| Amortization of:      |                                    |        |                                   |        |
| Prior service benefit | (3)                                | (3)    | (10)                              | (10)   |
| Actuarial loss        | 1                                  |        | 3                                 | 3      |
| Net benefit income    | \$ (1)                             | \$ (1) | \$ (2)                            | \$ (1) |

The net periodic benefit cost of the postemployment plan for the three months and nine months ended September 30 were:

| In millions                  | Three Months Ended<br>September 30 |       | Nine Months Ended<br>September 30 |        |
|------------------------------|------------------------------------|-------|-----------------------------------|--------|
|                              | 2008                               | 2007  | 2008                              | 2007   |
| Net service cost             | \$ 5                               | \$ 7  | \$ 17                             | \$ 23  |
| Interest cost                | 2                                  | 5     | 10                                | 11     |
| Amortization of:             |                                    |       |                                   |        |
| Actuarial loss               | 7                                  | 5     | 13                                | 18     |
| Net benefit cost             | \$ 14                              | \$ 17 | \$ 40                             | \$ 52  |
| Restructuring severance cost | 7                                  | 30    | 35                                | 59     |
| Total postemployment cost    | \$ 21                              | \$ 47 | \$ 75                             | \$ 111 |

Of the total postemployment cost presented above, the cost related to discontinued operations was \$4 million and \$12 million for the three and nine months ended September 30, 2007, respectively.



## **Table of Contents**

### **Employer Contributions**

**Pension** For the three months ended September 30, 2008, NCR contributed approximately \$15 million to its international pension plans and \$3 million to its executive pension plan. For the nine months ended September 30, 2008, NCR contributed approximately \$48 million to its international pension plans and \$7 million to its executive pension plan. NCR anticipates contributing an additional \$33 million to its international pension plans for a total of \$81 million and \$2 million to its executive pension plan for a total of \$9 million in 2008. NCR does not anticipate making cash contributions to its U.S. qualified pension plan in 2008.

**Postretirement** For the three months ended September 30, 2008, the Company made \$5 million in contributions to its U.S. postretirement plan. For the nine months ended September 30, 2008, the Company made \$13 million in contributions to its U.S. postretirement plan. NCR anticipates contributing an additional \$5 million to its U.S. postretirement plan for a total of \$18 million in 2008.

**Postemployment** For the three months ended September 30, 2008, NCR contributed approximately \$15 million to its postemployment plans, including \$6 million related to the organizational realignment initiative which started in the second quarter of 2008. For the nine months ended September 30, 2008, the Company made \$44 million in contributions to its postemployment plans, including \$15 million related to the manufacturing and Japan realignment initiatives and \$8 million related to the organizational realignment initiative. NCR anticipates contributing an additional \$29 million to its postemployment plans in 2008 for a total of \$73 million. This total includes approximately \$37 million in contributions related to all realignment initiatives.

### **8. COMMITMENTS AND CONTINGENCIES**

In the normal course of business, NCR is subject to various regulations, proceedings, lawsuits, claims and other matters, including actions under laws and regulations related to the environment and health and safety, among others. NCR believes the amounts provided in its Condensed Consolidated Financial Statements, as prescribed by GAAP, are adequate in light of the probable and estimable liabilities. The Company does not currently expect to incur material capital expenditures related to compliance with such laws and regulations. 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 the Fox River environmental matter and other matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's Condensed Consolidated Financial Statements or will not have a material adverse effect on its consolidated results of operations, capital expenditures, competitive position, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of September 30, 2008 cannot currently be reasonably determined.

The United States Department of Justice is conducting an investigation regarding the propriety of the Company's former Teradata Data Warehousing business's arrangements and understandings with others in connection with certain federal contracts. In connection with the spin-off of Teradata on September 30, 2007, the responsibility for this matter, together with the related reserve, was distributed to Teradata Corporation. While the Company may be subject to ostensible exposure inasmuch as it was the contracting party in the matter at issue, Teradata Corporation is generally obligated to indemnify the Company for any losses arising out of this matter.

A separate portion of the government's investigation relates to the adequacy of pricing disclosures made to the government in connection with negotiation of the Company's General Services Administration Federal Supply Schedule and to whether certain subsequent price reductions were properly passed on to the government. Both Teradata Corporation and the Company are participating in this aspect of the investigation, with respect to certain products and services of each, and each will assume financial responsibility for its own exposures, if any, without indemnification from the other. At this time, the Company is unable to determine whether it has probable liability with respect to this aspect of the investigation.

**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.

## **Table of Contents**

NCR is one of eight entities that have been 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. 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. Some parties contend that NCR is also responsible for PCB discharges from paper mills owned by other companies because carbonless paper manufactured by NCR was allegedly purchased by those mills as a raw material for their paper making processes. NCR sold the facilities in 1978 to Appleton Papers Inc. (API), which has also been identified as a PRP. The other Fox River PRPs that received notices are P.H. Glatfelter Company, Georgia-Pacific Consumer Products LP (G-P, successor to Fort James Operating Company), WTM I Co. (formerly Wisconsin Tissue Mills, now owned by Chesapeake Corporation), CBC Corporation (formerly Riverside Paper Corporation), U.S. Paper Mills Corp. (owned by Sonoco Products Company), and Menasha Corporation.

As of September 30, 2008, the reserve for the Fox River matter was approximately \$67 million compared to \$85 million as of December 31, 2007 and \$79 million as of June 30, 2008. The change in the reserve was due primarily to clean-up activities and legal fees during the first nine months of 2008. In order to comply with the schedule contemplated by the clean-up order discussed below, NCR and other PRPs have begun certain construction activities and ordered certain equipment necessary for the clean-up. The cost of these activities is included within our determination of our portion of the total clean-up costs, as described below. These activities account for a significant part of the increased rate of reserve utilization during the three and nine months ended September 30, 2008. NCR regularly re-evaluates the assumptions used in determining the appropriate reserve for the Fox River matter as additional information becomes available and, when warranted, makes appropriate adjustments.

In July 2003, the United States Environmental Protection Agency (USEPA) and Wisconsin Department of Natural Resources (WDNR) issued their final clean-up plan (known as a Record of Decision, or ROD) for the largest portion of the Fox River. The ROD addressed the lower part of the Fox River and portions of Green Bay, where USEPA and WDNR (the Governments) estimate the bulk of the sediments that need to be remediated are located. In two portions of the lower part of the Fox River covered by the ROD Operable Units (OUs) 3 and 4 the Governments selected large-scale dredging as the clean-up approach. In the ROD, the Governments estimated that approximately 6.5 million cubic yards of sediment would be removed from these portions at an estimated cost of approximately \$284 million. The Governments also identified capping the river bed with appropriate materials as a contingent remedy to be evaluated during the remedial design process. For Green Bay, or OU 5, the Governments selected monitored natural attenuation as the clean-up approach at an estimated cost of approximately \$40 million. Earlier, in January 2003, the Governments had issued their ROD for the upper portions of the Fox River projecting the cost of that work to be approximately \$65 million for OU 1 and \$10 million for OU 2. Combining the cost estimates from both RODs issued in 2003, the Governments expected the selected remedies for all five OUs to cost approximately \$400 million, exclusive of contingencies.

By letter dated September 30, 2003, the Governments notified NCR and the seven other PRPs of their potential liability for remediation of the lower portions of the Fox River and requested that one or more of the PRPs enter into an agreement with the Governments to perform the engineering design work for the clean-up of OUs 2 through 5. In response, in 2004, NCR and G-P entered into an Administrative Order on Consent (AOC) with the Governments to perform this design work, which is expected to be substantially completed in late 2008. In November 2006, the Governments issued for public comment a proposal to amend the RODs for the lower river. The proposal called for a combination of dredging and capping to remediate the PCB-containing sediments, as opposed to using dredging throughout the lower river.

In April 2006, NCR and U.S. Paper Mills entered into a consent decree with the Governments to undertake a remedial action involving an area of elevated PCBs downriver of the De Pere Dam (Phase 1 work). The consent decree was approved in November 2006 by the federal court in Wisconsin, and most of the work was performed during 2007. The remaining work will be combined with

## **Table of Contents**

the rest of the OU 2 through 5 remedial action discussed below, although the consent decree will be kept open formally until all work in the Phase 1 area is complete. The estimated costs of this project are included in the estimates discussed below.

In June 2007, the Governments issued their amendment to the 2003 RODs (Amended ROD), adopting the proposal to use a combination of dredging and capping to remediate the sediments in OUs 2 through 5 (the Amended ROD did not address OU 1). The Amended ROD stated that the cost of this work will be \$390 million.

By letter received February 14, 2007, the Governments again notified NCR and the seven other PRPs of their potential liability for remediation and requested that the parties enter into negotiations with the Governments over a consent decree for implementing the remedy for the lower river. In October 2007, certain of the PRPs issued a request for proposals (RFP), seeking bids from contractors for the type of contractual arrangement for the lower river clean-up work consistent with the then ongoing settlement discussions. Initial responses to the RFP were received in mid-December, and subsequent modified responses, reflecting alternative contracting approaches, were received in the first quarter of 2008. Further negotiations with one of the contractors are ongoing and may culminate in the execution of a contract in the fourth quarter of 2008 or later. In tandem with the negotiations, certain PRPs and the Governments have identified various potential value engineering projects intended to reduce the costs of the remediation (the cost savings of the value engineering projects are likely to be shared with the contractor in a percentage yet to be defined, so as to provide incentives for the contractor to pursue the initiatives), though these efforts remain in their early stages. In light of the cost information obtained through the RFP responses, the subsequent proposal refinement, and the ongoing negotiations, both with the contractor and with other PRPs concerning approaches to managing the remediation, there can be no assurance that the estimated total clean-up costs for the site, and thus the Company's reserve, will not be significantly higher, but the contractor negotiations must be completed and the referenced value engineering analysis must progress further, before NCR is in a position to determine potential impacts to the reserve, if any.

On November 13, 2007, the Governments issued a unilateral administrative order (Order) under Section 106 of CERCLA to all eight of the PRPs. The Order requires the PRPs to implement the remedial work in the lower river in accordance with the requirements of the Amended ROD. Under the Order, full-scale remediation is to begin in 2009. NCR, API and the other PRPs are working with the Governments to implement certain provisions of the Order.

On January 7, 2008, NCR and API filed a lawsuit in federal court, which is currently pending in Green Bay, Wisconsin, seeking a judicial ruling determining each PRP's allocable responsibility for the cost of performing the remedial work at the Fox River. The suit was initially filed against the George A. Whiting Paper Company, and several defendants were added to the suit in the following months, including all of the original recipients of the November 13, 2007 Order. As of September 30, 2008, there were 24 defendants in the case, and a number of counterclaims seeking contribution under CERCLA have been filed and are pending against NCR and API. On September 23, 2008, the court issued a Case Management Decision and Scheduling Order setting a Phase I trial for December 1, 2009, limited to the questions of (i) when each party knew or should have known that recycling NCR-brand carbonless copy paper would result in the discharge of PCBs to a waterbody, thereby risking environmental damage; and (ii) what, if any, actions each party took upon acquiring such knowledge to avoid the risk of further PCB contamination. The court's order also limits initial discovery proceedings to the same questions. Upon completion of this Phase I of the case, the court will enter a new Case Management and Scheduling Order that will govern further proceedings in the case.

The extent of NCR's potential liability remains subject to many uncertainties. NCR's eventual liability which is expected to be paid out over a period extending through at least approximately 2019 will depend on a number of factors. In general, the most significant factors include: (1) the total of the clean-up costs for each of the segments of the river; (2) the total natural resource damages for the site; (3) the shares NCR and API will jointly bear of future clean-up costs and natural resource damages as former and current owners of paper manufacturing facilities located along the Fox River; (4) the share NCR will bear of the joint NCR/API payments for such clean-up costs and natural resource damages; and (5) NCR's transaction and litigation costs to defend itself in this matter, including participation in allocation litigation. In establishing the reserve, NCR attempts to estimate a range of reasonably possible outcomes for

## **Table of Contents**

each of these factors, although each range is itself highly 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. These factors are discussed below:

For the first factor described above, the total of the clean-up costs for each of the segments of the river, NCR uses a best estimate of \$613 million. This \$613 million estimate uses the \$390 million cost for the lower river work set forth in the Amended ROD and increases it to \$403 million to account for the cost of certain work NCR believes is required by the Amended ROD but that was not included in the Amended ROD's official cost estimate. The total cost also includes estimates for the OU 1 work, the Phase 1 work and the remedial design work. Finally, it adds to these estimates a 20% contingency for possible cost overruns and future Government oversight costs, and an amount for Government past costs. The range of reasonably possible outcomes was formerly estimated to be between \$537 million (assuming no cost-overrun contingency) and \$664 million (assuming a 30% contingency). This range is subject to much uncertainty, and in view of bid responses that continue to be negotiated and the Company's ongoing assessment of clean-up needs as the project progresses, the Company now considers the high end of this range could extend to approximately \$800 million based on potential cost figures available to the Company and there can be no assurances that this amount will not be significantly higher. Accordingly, the cost information obtained through the RFP responses, and the subsequent proposal refinement and continuing negotiations, suggest that the best estimate that the Company currently uses of clean-up costs may increase, but the contractor negotiations must be completed and the referenced value engineering analysis must also be completed, before NCR is in a position to evaluate whether a new best estimate can be determined.

Second, for total natural resource damages (NRD), NCR uses a best estimate of \$76 million. Previously, NCR used a best estimate of \$131 million. This reduction was based on information NCR obtained in 2007. NCR believes the range of reasonably possible outcomes for NRD, if it were to be litigated, is between zero and \$176 million.

Third, for the NCR/API shares of future clean-up costs, NCR determined that there are ranges of equally possible outcomes for the different segments of the river, and that no estimates within these ranges are better than the other estimates. Accordingly, NCR uses the low ends of the ranges, which are based primarily on the proximity of the areas to be remediated to the locations at which PCBs from the NCR/API plants were discharged to the river. The extensive data collected over several years, along with various analyses of this data, allowed NCR to move away from its prior discharge analysis and to use this proximity approach beginning in 2007. There are other estimates that are significantly higher; however, NCR believes there is such uncertainty surrounding these estimates that it cannot quantify the high end of the range, although NCR does not believe the joint NCR/API percentage of direct discharges is near 100%. As for the NCR/API share of NRD, which is discussed above, NCR uses a best estimate.

Fourth, for the NCR share of the joint NCR/API payments, NCR uses 45 percent for the first \$75 million in total costs attributable to the joint NCR/API share, and uses 40 percent for costs in excess of \$75 million. Total costs reached \$75 million in the second quarter of 2008. These percentages are set by an agreement between NCR and API and an arbitration award. NCR's analysis of this factor assumes that API is able to pay its share of the NCR/API joint share.

Finally, NCR estimated the transaction costs it is likely to incur to defend this matter through 2019, the time period NCR's engineering consultants believe it will take to complete the design work and implement the remedy for the river. This estimate is based on an analysis of NCR's costs since this matter first arose in 1995 and estimates of what NCR's defense and transaction costs will be in the future. NCR expects that the bulk of these transaction costs will be incurred in the earlier years of this time period, when the design work is completed, the initial clean-up activities begin, equipment purchases occur, and as the allocation litigation discussed above progresses.

## **Table of Contents**

In light of the ongoing remedial design work being conducted by NCR and G-P, the ongoing settlement discussions (including the prospects not only of group settlements but also of individual settlements for certain corporate or municipal entities), the efforts to implement the Government Order for clean-up of the lower river, the pendency of the allocation litigation referenced above, efforts by NCR and API to identify other parties with potential responsibility for the clean-up (some of which have had little or no involvement with the site activities and Government discussions of recent years), and ongoing negotiations with contractors about the cost of implementing the work required under the Order, the subsequent value engineering efforts designed to render the clean-up more efficient and less costly, calculation of the Company's Fox River reserve has become subject to added layers of complexities, and it is possible there could be additional changes to some elements of the reserve over the upcoming periods, although we are unable to predict or estimate such changes at this time. However, there can be no assurance that the clean-up and related expenditures will not have a material effect on NCR's capital expenditures, earnings, financial condition, cash flows, or competitive position.

AT&T and Alcatel-Lucent are jointly responsible for indemnifying NCR for a portion of the amounts incurred by NCR for the Fox River matter over a certain threshold. NCR's estimate of what AT&T and Alcatel-Lucent will pay under the indemnity is recorded as a long-term receivable of approximately \$30 million as of September 30, 2008, and is deducted in determining the net reserve discussed above.

In addition, NCR previously reached settlement agreements with certain of its principal insurance carriers in a combined total of approximately \$29 million. Of this amount, \$9 million is subject to competing claims by another party, and NCR and the other party have agreed that these funds will be used for Fox River costs and will be shared on an agreed upon basis (subject to reallocation at a later date). NCR's agreed upon share of the \$9 million is estimated to be \$4 million.

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. Provisions for estimated losses from environmental restoration and remediation are, depending on the site, based primarily on internal and third-party environmental studies (except for the Fox River site, where the estimated clean-up costs and natural resource damages are estimated as described above), estimates as to the number and participation level of any other PRPs, the extent of the contamination, 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 insurance or third-party indemnity claims, except as qualified in the following sentences. Except for the sharing agreement with API described above with respect to the Fox River site, in those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectibility of such amounts is probable, the amounts are reflected as receivables in the Condensed Consolidated Financial Statements. For the Fox River site, a receivable relating to the AT&T and Alcatel-Lucent indemnity is recorded as of September 30, 2008, because payment is considered probable and is supported by contractual agreements.

**Guarantees and Product Warranties** Guarantees associated with NCR's business activities are reviewed for appropriateness and impact to the Company's financial statements.

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 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.

**Table of Contents**

The Company recorded the activity related to the warranty reserve for the nine months ended September 30 as follows:

| In millions                       | 2008  | 2007  |
|-----------------------------------|-------|-------|
| <b>Warranty reserve liability</b> |       |       |
| Beginning balance as of January 1 | \$ 13 | \$ 13 |
| Accruals for warranties issued    | 47    | 28    |
| Settlements (in cash or in kind)  | (40)  | (30)  |
| Ending balance as of September 30 | \$ 20 | \$ 11 |

The accruals for warranties issued increased for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 due to higher product revenue and an increase in the standard warranty period for some products in certain geographies. NCR also periodically offers extended warranties in the form of product maintenance services to its customers. Refer to "Warranty and Sales Returns" under Note 1, "Basis of Presentation," for further description of the Company's accounting policy for extended warranties. Amounts associated with these extended warranties are not included in the table above.

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 the customer for its use of the Company's products. 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. Historically, payments made by the Company under these types of agreements have not had a material effect on the Company's condensed consolidated financial condition, results of operations or cash flows.

**9. INCOME TAXES**

The effective tax rate for the three months ended September 30, 2008 and 2007 was 17% and 34%, respectively. The effective tax rate was lower for the three months ended September 30, 2008 primarily due to a \$16 million income tax benefit recognized in the period resulting from the favorable Internal Revenue Service (IRS) audit settlement for the years 2000 through 2006. Related to this settlement, we expect to make a \$26 million payment to the IRS in the fourth quarter of 2008. In addition, in 2007, the tax rate was higher because the Company could not recognize the full benefit of the realignment costs in Japan. These favorable items were partially offset in the quarter due to an unfavorable mix of taxable profits and losses by country. For the nine months ended September 30, 2008 and 2007, the effective tax rate was 22% and 35%, respectively. In addition to the items noted above, the effective tax rate for the nine month period ended September 30, 2007 included the \$11 million net adjustment to increase income tax expense as described in "Out of Period Adjustments" under Note 1, "Basis of Presentation."

**10. EARNINGS PER SHARE AND SHARE REPURCHASES**

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic earnings per share, except that the weighted average number of shares outstanding includes the dilution from potential shares added from stock options and unvested restricted stock awards.

**Table of Contents**

The components of basic and diluted earnings per share are as follows:

| In millions, except per share amounts                          | Three Months Ended<br>September 30 |         | Nine Months Ended<br>September 30 |         |
|----------------------------------------------------------------|------------------------------------|---------|-----------------------------------|---------|
|                                                                | 2008                               | 2007    | 2008                              | 2007    |
| Income from continuing operations                              | \$ 82                              | \$ 33   | \$ 176                            | \$ 75   |
| (Loss) income from discontinued operations                     | (2)                                | 20      | (4)                               | 110     |
| Net Income applicable to common shares                         | 80                                 | 53      | 172                               | 185     |
| Weighted average outstanding shares of common stock            | 163.2                              | 180.6   | 167.6                             | 180.0   |
| Dilutive effect of employee stock options and restricted stock | 3.0                                | 1.7     | 3.0                               | 2.4     |
| Common stock and common stock equivalents                      | 166.2                              | 182.3   | 170.6                             | 182.4   |
| Basic earnings (loss) per share:                               |                                    |         |                                   |         |
| From continuing operations                                     | \$ 0.50                            | \$ 0.18 | \$ 1.05                           | \$ 0.42 |
| From discontinued operations                                   | \$ (0.01)                          | \$ 0.11 | \$ (0.02)                         | \$ 0.61 |
| Net earnings per share (Basic)                                 | \$ 0.49                            | \$ 0.29 | \$ 1.03                           | \$ 1.03 |
| Diluted earnings (loss) per share:                             |                                    |         |                                   |         |
| From continuing operations                                     | \$ 0.49                            | \$ 0.18 | \$ 1.03                           | \$ 0.41 |
| From discontinued operations                                   | \$ (0.01)                          | \$ 0.11 | \$ (0.02)                         | \$ 0.60 |
| Net earnings per share (Diluted)                               | \$ 0.48                            | \$ 0.29 | \$ 1.01                           | \$ 1.01 |

Options to purchase approximately 0.1 million shares of common stock for the third quarter of 2008, less than 0.1 million shares for the third quarter of 2007, as well as approximately 0.2 million shares for the first nine months of 2008 and less than 0.1 million shares for the first nine months of 2007, were outstanding but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

For the nine months ended September 30, 2008, the Company repurchased approximately 18 million shares of its common stock for \$424 million, of which approximately 4.1 million shares were repurchased during the third quarter of 2008 for \$104 million. Upon repurchase, shares are retired. The Company did not repurchase shares during the nine months ended September 30, 2007 due to the then-impending spin-off of Teradata.

**11. SEGMENT INFORMATION**

Effective January 1, 2008, NCR reorganized its businesses and the management thereof to a functional geographic model, changing from the previous model of global business units organized by product and service offering. In order to align the Company's external reporting of its financial results with this organizational change, the Company modified its segment reporting. The Company now reports the following three segments:

Americas;

Europe, Middle East and Africa (EMEA); and

Asia Pacific and Japan (APJ).

Each of these segments derives revenue by selling products and services to the retail, financial, travel and hospitality, healthcare, entertainment and gaming, and public sector industries. The Company's products, services and solutions enable NCR's customers to connect, interact and

## Edgar Filing: NCR CORP - Form 10-Q

transact with their customers, and include: ATM hardware and software; traditional point-of-sale and self-checkout solutions; self-service kiosk solutions; business consumables; solutions that digitally capture, process and retain item-based transactions; maintenance of NCR solutions; consulting, installation and customer support services; as well as the maintenance and sale of third-party products and services. The Company's chief operating decision maker regularly assesses information relating to these segments to make decisions, including the allocation of resources. Management evaluates the performance of the segments based on revenue and segment gross margin. Segment assets are not included in this assessment of segment performance. We have reclassified our prior period segment information to conform to the current period presentation.

**Table of Contents**

In recognition of the volatility of the effects of pension expense on our segment results and to maintain operating focus on business performance, pension expense, as well as realignment costs and significant gains and losses on the sale of properties 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 data for revenue and gross margin by segment:

| In millions                                  | Three Months Ended<br>September 30 |              | Nine Months Ended<br>September 30 |               |
|----------------------------------------------|------------------------------------|--------------|-----------------------------------|---------------|
|                                              | 2008                               | 2007         | 2008                              | 2007          |
| <b>Revenue by segment</b>                    |                                    |              |                                   |               |
| Americas                                     | \$ 620                             | \$ 569       | \$ 1,685                          | \$ 1,512      |
| EMEA                                         | 502                                | 483          | 1,508                             | 1,302         |
| APJ                                          | 257                                | 226          | 701                               | 635           |
| <b>Total revenue</b>                         | <b>1,379</b>                       | <b>1,278</b> | <b>3,894</b>                      | <b>3,449</b>  |
| <b>Gross margin by segment</b>               |                                    |              |                                   |               |
| Americas                                     | 115                                | 111          | 316                               | 302           |
| EMEA                                         | 140                                | 126          | 408                               | 320           |
| APJ                                          | 69                                 | 60           | 172                               | 148           |
| <b>Total - Segment gross margin</b>          | <b>324</b>                         | <b>297</b>   | <b>896</b>                        | <b>770</b>    |
| Selling, general and administrative expenses | 173                                | 162          | 522                               | 463           |
| Research and development expenses            | 34                                 | 36           | 101                               | 94            |
| Pension expense                              | 5                                  | 12           | 18                                | 29            |
| Other adjustments <sup>(1)</sup>             | 12                                 | 49           | 28                                | 84            |
| <b>Income from operations</b>                | <b>\$ 100</b>                      | <b>\$ 38</b> | <b>\$ 227</b>                     | <b>\$ 100</b> |

<sup>(1)</sup> Other adjustments include \$12 million of organizational realignment costs in the third quarter of 2008, \$32 million of organizational realignment costs in the second quarter of 2008 and a \$16 million gain from the sale of a manufacturing facility in Canada in the first quarter of 2008. Other adjustments for 2007 include \$42 million of costs associated with the manufacturing realignment (\$7 million during the three months ended September 30, 2007). In addition \$27 million of costs related to Japan realignment and \$15 million of costs related to the spin-off of Teradata were incurred in the three months ended September 30, 2007.

**Table of Contents**

The following table presents revenue from products and services for NCR:

| In millions                                    | Three Months Ended<br>September 30 |          | Nine Months Ended<br>September 30 |          |
|------------------------------------------------|------------------------------------|----------|-----------------------------------|----------|
|                                                | 2008                               | 2007     | 2008                              | 2007     |
| Product revenue                                | \$ 757                             | \$ 693   | \$ 2,064                          | \$ 1,809 |
| Professional and installation services revenue | 161                                | 178      | 461                               | 460      |
| <b>Total solution revenue</b>                  | <b>918</b>                         | 871      | <b>2,525</b>                      | 2,269    |
| Support services revenue                       | 461                                | 407      | 1,369                             | 1,180    |
| <b>Total revenue</b>                           | <b>\$ 1,379</b>                    | \$ 1,278 | <b>\$ 3,894</b>                   | \$ 3,449 |

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

The Company adopted SFAS 157 effective January 1, 2008. For accounting purposes, SFAS 157 defines fair value as an exit price, representing an amount that would be received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, SFAS 157 prioritizes the inputs used to measure fair value into the following three-tier fair value hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs, other than quoted prices in active markets, that are observable either directly or indirectly

Level 3: Unobservable inputs for which there is little or no market data

NCR measures its financial assets and financial liabilities at fair value based on one or more of the following three valuation techniques noted in SFAS 157:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).

Income approach: Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option pricing and excess earnings models).

Financial assets and liabilities recorded at fair value as of September 30, 2008 are set forth as follows:

**Fair Value Measurements at Reporting Date Using**

Edgar Filing: NCR CORP - Form 10-Q

| In millions                                  | Quoted Prices in Active<br>Markets for Identical Assets |              |  |             | Significant Other<br>Observable Inputs<br>(Level 2) | Significant<br>Unobservable Inputs<br>(Level 3) |
|----------------------------------------------|---------------------------------------------------------|--------------|--|-------------|-----------------------------------------------------|-------------------------------------------------|
|                                              | Fair Value as of<br>September 30, 2008                  | (Level<br>1) |  |             |                                                     |                                                 |
| <b><u>Assets</u></b>                         |                                                         |              |  |             |                                                     |                                                 |
| Available-for-sale securities <sup>(1)</sup> | \$ 23                                                   | \$ 23        |  | \$ 6        |                                                     | \$                                              |
| Foreign exchange forward contracts           | 6                                                       |              |  | 6           |                                                     |                                                 |
| <b>Total</b>                                 | <b>\$ 29</b>                                            | <b>\$ 23</b> |  | <b>\$ 6</b> |                                                     | <b>\$</b>                                       |
| <b><u>Liabilities</u></b>                    |                                                         |              |  |             |                                                     |                                                 |
| Foreign exchange forward contracts           | \$ 3                                                    | \$           |  | \$ 3        |                                                     | \$                                              |
| <b>Total</b>                                 | <b>\$ 3</b>                                             | <b>\$</b>    |  | <b>\$ 3</b> |                                                     | <b>\$</b>                                       |

<sup>(1)</sup> Included in Other Assets in the Condensed Consolidated Balance Sheet.

## **Table of Contents**

**Available-For-Sale Securities** The Company has investments in mutual funds and equity securities in Japan that are valued using the market approach with quotations from the NASDAQ stock exchange and two stock exchanges in Japan, respectively.

**Foreign Exchange Forward 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 contracts. The foreign exchange forward contracts are valued using the market approach based on observable market transactions of forward rates.

**Interest Rate Swap** NCR entered into an interest rate swap agreement (swap) in 2003 as part of its risk management strategy. The swap utilized effectively modifies a portion of the exposure to interest rate risk by converting a portion of the Company's fixed-rate debt to a variable rate. The fair value of the swap is determined using the income approach, calculated based on LIBOR yield curves at the reporting date and is considered a Level 2 measure. As of September 30, 2008, the fair value of the swap was less than \$1 million and therefore, it is not presented in the table above.

## **13. BUSINESS COMBINATIONS AND INVESTMENTS**

The Company completed two acquisitions, two minority investments and purchased the remaining 3% minority interest in one of our subsidiaries during the nine months ended September 30, 2008, for total cash consideration of approximately \$54 million. A description of the acquisitions and minority investments are as follows:

Acquisition of Ambient Partners, LLC on April 18, 2008, to extend NCR's self-service portfolio into the digital media merchandising market.

10% minority investment and exclusive licensing agreement with e-Play, LLC on June 17, 2008, to add bare-disc technology to NCR's existing global self-service technology portfolio, expanding consumer self-service options for delivery of digital entertainment. The Company recorded this transaction as a cost method investment and the terms of the agreement include the potential for additional investments that can be made through June 30, 2010, limited to a total investment of 19.5%.

19.6% minority investment and exclusive supply and services agreements with TNR Holdings Corporation (TNR), an operator of movie rental kiosks, on July 28, 2008. NCR also provided financing to TNR in the form of a senior secured note over a five year term. The Company recorded this transaction as an equity method investment and the terms of the agreement include the potential for additional investments that can be made through July 30, 2018.

Acquisition of NCI Ltd. (NCI), a United Kingdom-based company on August 19, 2008. NCI is a leading provider of teller connectivity software used by financial institutions.

Goodwill recognized in these transactions amounted to \$19 million and is not expected to be deductible for tax purposes. Goodwill of \$4 million was assigned to the Americas segment, \$14 million was assigned to the EMEA segment and \$1 million was assigned to the APJ segment. The total amount allocated to identifiable intangible assets as a result of the acquisitions was approximately \$3 million. The weighted-average amortization period is approximately 3 years for the purchased intangible assets, which consist primarily of intellectual property associated with the software and hardware technology.

The operating results of the acquired companies have been included in NCR's results as of the closing date of the acquisitions. The pro forma disclosures otherwise required under FASB Statement No. 141, *Business Combinations*, are not being provided because the impact of the acquisitions are not considered material to NCR's condensed consolidated interim results. The purchase prices of these businesses are reported in other investing activities, business acquisitions and divestitures, net in the Condensed Consolidated Statement of Cash Flows.

**Table of Contents**

**14. DEBT OBLIGATIONS**

In June 2002, the Company issued \$300 million of senior unsecured notes with an interest rate of 7.125% due in the second quarter of 2009. The notes contain certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such notes, of which NCR was in compliance as of September 30, 2008. As these notes are due within twelve months, they are classified as short-term debt on the Condensed Consolidated Balance Sheet. The Company is currently evaluating short- and long-term debt financing to meet its capital and operating requirements in 2009 and subsequent years.

## Table of Contents

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

#### Overview

As more fully discussed in later sections of this MD&A, the following were the significant events for the third quarter of 2008:

Revenue growth driven by increases in all regions: Americas; Europe, Middle East and Africa (EMEA) and Asia Pacific and Japan (APJ);

EMEA and APJ regions experienced improved gross margin performance period-over-period; and

NCR continued organizational realignment and business process improvement initiatives and recorded \$12 million of realignment costs.

We continued our focus in the quarter on our strategic initiatives to increase operating income and provide maximum value to our stakeholders. The initiatives and the actions we are taking are as follows:

- 1) **Drive profitable growth** We expect to invest in sales and other demand creation resources in areas with the greatest potential for profitable growth, such as self-service technologies, including self check-in/out and other self-service solutions. We continue to broaden the scope of our self-service solutions for our existing customers and to introduce these solutions into newer industry-vertical markets, such as travel and hospitality, healthcare, entertainment and gaming, and public sector. For the first nine months of 2008, we made investments relating to our entertainment and financial solutions portfolios. We continue to expect to make acquisitions and investments that we believe will increase our market coverage and enhance our existing solution offerings.
- 2) **Strengthen competitive position** The Company expects to focus on increasing the efficiency and effectiveness of our core functions and the productivity of our employees. Areas of emphasis are expected to include product development, manufacturing and supply chain, customer services delivery and our overall management system. In 2007, we completed the ATM manufacturing realignment program. As of the end of the first quarter of 2008, the Company had also completed the majority of the activities related to its realignment program in Japan. The Company has been successful in executing these realignment programs, as planned, and is realizing the full program benefits beginning in this year. During the third quarter of 2008, we continued the organizational realignment and business process improvement initiatives that we had started in the second quarter of 2008 to address unbalanced resource allocation and legacy process inefficiencies. Refer to Restructuring and Re-engineering in this MD&A for more information regarding our realignment initiatives.
- 3) **Evolve to a more customer-focused, high-technology culture** We continue to focus on the traits and competencies necessary to enable us to deliver profitable growth and strengthen our competitive position. This will be accomplished through organizational and people development, management system changes and alignment, and a stronger linkage between compensation and performance. On January 1, 2008, NCR began management of its business on a geographic basis, changing from the previous model of global business units organized by product and service offering. The new organizational model is delivering increased sales productivity and is expected to reduce overall operating costs.

We expect to continue with these initiatives for the remainder of 2008 and beyond, as we refine our business model and position the Company for growth and profitability. Unless otherwise noted, this MD&A excludes information related to the Teradata Data Warehousing business, which is classified as a discontinued operation for all periods presented due to its spin-off from the Company on September 30, 2007.

**Table of Contents****Results of Operations for Three Months Ended September 30, 2008****Compared to Three Months Ended September 30, 2007**

| <b>In millions</b>                           | <b>2008</b>   | <b>2007</b>  |
|----------------------------------------------|---------------|--------------|
| Consolidated revenue                         | \$ 1,379      | \$ 1,278     |
| Consolidated gross margin                    | \$ 310        | \$ 262       |
| Consolidated operating expenses:             |               |              |
| Selling, general and administrative expenses | 175           | 187          |
| Research and development expenses            | 35            | 37           |
| <b>Consolidated income from operations</b>   | <b>\$ 100</b> | <b>\$ 38</b> |

Revenue increased 8% from the third quarter of 2007 due to growth in sales volume for both products and services. The revenue increase included a benefit of 2% from foreign currency fluctuations. Consolidated income from operations in the third quarter of 2008 included \$12 million of costs related to our organizational realignment initiative, and consolidated income from operations in the third quarter of 2007 included \$27 million of costs related to the Japan realignment initiative, \$15 million of costs for the spin-off of Teradata and \$7 million of costs associated with the manufacturing realignment initiative. After considering these items, consolidated income from operations increased due to higher revenue and an improvement in gross margin, partially offset by a slight increase in operating expenses.

**Gross Margin**

Gross margin as a percentage of revenue for the three months ended September 30, 2008 was 22.5% compared to 20.5% in the third quarter of 2007. Product gross margin of 26.0% in the third quarter of 2008 was the same as compared to the third quarter of 2007. In the third quarter of 2007, product gross margin was impacted by \$7 million, or 1.0%, due to the costs associated with the manufacturing realignment initiative. After considering this item, product gross margin, as a percentage of revenue, decreased slightly in the third quarter of 2008, as the benefits from the manufacturing realignment initiative were offset by an unfavorable geographic and customer mix. Services gross margin increased to 18.2% for the third quarter of 2008 from 14.0% in the third quarter of 2007. The organizational realignment costs recorded in the third quarter of 2008 impacted services gross margin by \$11 million or 1.8%. In the third quarter of 2007, services gross margin was impacted by \$21 million, or 3.6%, due to the costs associated with the Japan realignment initiative and the spin-off of Teradata. After considering the impact of these costs, services gross margin improved due to lower service delivery costs, driven by increased productivity and process improvements.

**Operating Expenses**

Total operating expenses, characterized as selling, general and administrative expenses and research and development expenses in the Condensed Consolidated Statements of Operations, were \$210 million for the third quarter of 2008 compared to \$224 million during the same period of 2007. As a percentage of revenue, total operating expenses decreased to 15.2% in the third quarter of 2008, compared to 17.5% for the same period of 2007. Total operating expenses in the third quarter of 2008 included \$1 million of organizational realignment costs, which was recorded as selling, general and administrative expense. In the third quarter of 2007, selling, general and administrative expense was impacted by \$13 million of expenses related to the spin-off of Teradata and \$8 million of expenses due to the Japan realignment initiative. After considering the impact of these expenses, selling, general and administrative expenses increased slightly due to demands associated with higher revenue and continued investments in sales and demand creation. Research and development expenses were slightly lower due to improved resource allocation and productivity improvements.

**Table of Contents****Effects of Pension, Postemployment, and Postretirement Benefit Plans**

Gross margin and operating expenses for the three months ended September 30, 2008 and 2007 were impacted by certain employee benefit plans as shown below:

| In millions            | Three Months Ended<br>September 30 |       |
|------------------------|------------------------------------|-------|
|                        | 2008                               | 2007  |
| Pension expense        | \$ 5                               | \$ 12 |
| Postemployment expense | 21                                 | 43    |
| Postretirement income  | (1)                                | (1)   |
| Net expense            | \$ 25                              | \$ 54 |

Pension expense was lower in the third quarter of 2008 primarily due to a reduction in actuarial loss amortization driven by actuarial gains resulting from higher discount rates and the benefit of strong actual returns on plan assets in prior years. The discount rates were higher primarily due to increases in corporate bond yields.

Postemployment plan expense during the third quarter of 2008 decreased by \$22 million compared to the third quarter of 2007. Postemployment plan expense in the third quarter of 2008 included \$7 million of discrete costs relating to the organizational realignment initiative. In addition, higher postemployment plan expense in the third quarter of 2007 was driven primarily by \$27 million of discrete costs relating to a realignment initiative in Japan. These realignment initiatives are described in more detail in the Restructuring and Re-engineering section of this MD&A.

**Results of Operations by Segment**

Effective January 1, 2008, NCR reorganized its businesses and management thereof to a functional geographic model, changing from the previous model of global business units organized by product and service offering. Under the new organizational structure, NCR manages its business on a geographic basis and reports the following three segments:

Americas;

Europe, Middle East and Africa (EMEA); and

Asia Pacific and Japan (APJ).

For purposes of discussing our operating results by segment, we exclude the impact of certain items, consistent with the manner by which management views each segment and reports our segment results. 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. The effects of pension expense have been excluded from the gross margin for each segment presented and discussed below. In addition, the segment gross margin excludes \$11 million of organizational realignment costs in the third quarter of 2008 and \$28 million of realignment and spin-off costs, in the third quarter of 2007. Our segment results are reconciled to total Company results reported under accounting principles generally accepted in the United States of America (GAAP) in Note 11 of Notes to Condensed Consolidated Financial Statements.

In the segment discussions, we have disclosed the impact of foreign currency fluctuations as it relates to our segment revenue due to its significance during the quarter. As a result of the weaker U.S. Dollar, the Company benefited from currency fluctuations, primarily in our EMEA and APJ regions.

**Americas:** The Americas segment revenue increased 9% during the third quarter of 2008 as compared to the third quarter of 2007. The revenue growth was driven by increases in the sale of both our products and services, primarily attributed to increased volume to financial institutions.

## Edgar Filing: NCR CORP - Form 10-Q

Foreign currency fluctuations provided a minimal benefit to the period-over-period revenue comparison. Gross margin as a percentage of revenue decreased to 18.5% in 2008 compared to 19.5% in 2007. Gross margin was lower primarily due to an unfavorable revenue mix, driven by large customer roll-outs at lower margins.

**Table of Contents**

**EMEA:** The EMEA segment revenue increased 4% during the third quarter of 2008 as compared to the third quarter of 2007, due to slightly higher sales volume from both our products and services. Revenue growth was driven primarily by demand for our products and support services in the Middle East, Africa and Eastern European countries. Foreign currency fluctuations provided a 3% benefit to the period-over-period revenue comparison. Gross margin as a percentage of revenue increased to 27.9% in 2008 compared to 26.1% in 2007, primarily due to a favorable mix of services revenue, lower service delivery costs and lower manufacturing costs due to the manufacturing realignment initiative.

**APJ:** The APJ segment revenue increased 14% during the third quarter of 2008 as compared to the third quarter of 2007, primarily due to a double-digit growth in our product revenue and a significant growth in our services revenue. Revenue growth was led by strong demand from China and Japan. Foreign currency fluctuations provided a 5% benefit to the period-over-period revenue comparison. Gross margin as a percentage of revenue increased slightly to 26.8% in 2008 compared to 26.5% in 2007, primarily due to lower manufacturing and service delivery costs from the manufacturing and the Japan realignment initiatives.

**Interest and Other Income Items**

Interest expense of \$6 million in the third quarter of 2008 was unchanged from the third quarter of 2007.

Other income, net was \$5 million in the third quarter of 2008, compared to \$18 million in the third quarter of 2007. Other income, net includes items such as interest income, minority interest, changes in foreign exchange and gains or losses on equity investments. Other income, net, decreased in the third quarter of 2008 due to an \$11 million decrease in interest income primarily due to lower interest rates and lower cash balances.

**Provision for Income Taxes**

Income tax provisions for interim (quarterly) periods are based on estimated annual income tax rates calculated separately from the effect of significant infrequent or unusual items. The effective tax rate for the three months ended September 30, 2008 was 17%. This compared to an effective tax rate of 34% for the three months ended September 30, 2007. For the three month period ended September 30, 2008, the effective tax rate was lower primarily due to a \$16 million income tax benefit resulting from the favorable Internal Revenue Service audit settlement for the years 2000 through 2006. In addition, in 2007, the tax rate was higher because the Company could not recognize the full benefit of the realignment costs in Japan.

NCR is subject to numerous foreign 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 future periods.

**Results of Operations for Nine Months Ended September 30, 2008****Compared to Nine Months Ended September 30, 2007**

| In millions                                  | 2008     | 2007     |
|----------------------------------------------|----------|----------|
| Consolidated revenue                         | \$ 3,894 | \$ 3,449 |
| Consolidated gross profit                    | \$ 856   | \$ 688   |
| Consolidated operating expenses:             |          |          |
| Selling, general and administrative expenses | 518      | 492      |
| Research and development expenses            | 111      | 96       |
| Consolidated income from operations          | \$ 227   | \$ 100   |

**Table of Contents**

Revenue increased 13% for the nine months ended September 30, 2008 as compared to the nine months ended September 30, 2007, driven by growth across all three of our segments. The revenue increase included a benefit of 4% from foreign currency fluctuations. Consolidated income from operations during the first nine months of 2008 included \$23 million in gains from the sale of two separate properties in Canada, offset by \$44 million of organizational realignment costs. The first nine months of 2007 included \$84 million, net, of costs related to the manufacturing and the Japan realignment initiatives and the spin-off of Teradata. After considering these items, consolidated income from operations was higher due to increased sales volume in all three segments and improvements in gross margin driven by cost reduction initiatives, partially offset by an increase in operating expenses.

**Gross Margin**

Gross margin as a percentage of revenue for the nine months ended September 30, 2008 was 22.0% compared to 19.9% for the nine months ended September 30, 2007. Product gross margin increased to 26.7% compared to 23.8% for the prior year period. The organization realignment costs recorded in the first nine months of 2008 impacted product gross margin by \$2 million or 0.1%. In the first nine months of 2007, the manufacturing realignment costs impacted product gross margin by \$42 million or 2.3%. After considering these realignment costs, product gross margin improved in 2008 due to a decrease in manufacturing costs, as we continue to realize the benefits from the manufacturing realignment initiative. Services gross margin increased to 16.7% for the first nine months of 2008 from 15.7% in the same period of 2007. The organizational realignment costs in the first nine months of 2008 impacted services gross margin by \$29 million or 1.6%. In the first nine months of 2007, services gross margin were impacted by \$21 million, or 1.3%, due to the costs associated with the Japan realignment initiative and the spin-off of Teradata. After considering the impact of these costs, services gross margin improved as we continued to lower our service delivery costs, driven by increased productivity and process improvements.

**Operating Expenses**

Total operating expenses, characterized as selling, general and administrative expenses and research and development expenses in the Condensed Consolidated Statements of Operations, were \$629 million for the first nine months of 2008 compared to \$588 million during the same period of 2007. As a percentage of revenue, total operating expenses in the first nine months of 2008 decreased to 16.2%, compared to 17.0% for the prior year period. Total operating expenses in the first nine months of 2008 were impacted by \$13 million of organizational realignment costs, of which \$9 million was recorded as selling, general and administrative expense and \$4 million was recorded as research and development expense. These expenses were more than offset by a \$23 million gain from the sale of two separate properties in Canada, which were recorded in selling, general and administrative expense. In the first nine months of 2007, selling, general and administrative expense was impacted by \$13 million of expenses related to the spin-off of Teradata and \$8 million of expenses due to the Japan realignment initiative. After considering the impact of the above items, selling, general and administrative expenses were higher in 2008 due to demands associated with higher revenue and continued investments in sales and demand creation. Research and development expenses increased as we made investments to launch new products in 2008 and beyond.

**Effects of Pension, Postemployment, and Postretirement Benefit Plans**

Gross margin and operating expenses for the nine months ended September 30, 2008 and 2007 were impacted by certain employee benefit plans as shown below:

| In millions            | Nine Months Ended<br>September 30 |        |
|------------------------|-----------------------------------|--------|
|                        | 2008                              | 2007   |
| Pension expense        | \$ 18                             | \$ 29  |
| Postemployment expense | 75                                | 99     |
| Postretirement income  | (2)                               | (1)    |
| Net expense            | \$ 91                             | \$ 127 |

## **Table of Contents**

Pension expense was lower in the first nine months of 2008 primarily due to a reduction in actuarial loss amortization driven by actuarial gains resulting from higher discount rates and the benefit of strong actual returns on plan assets in prior years. The discount rates were higher primarily due to increases in corporate bond yields. We expect pension expense of approximately \$25 to \$30 million in 2008.

The volatility and performance of financial markets could impact future pension expense and plan contributions. If actual returns continue to be less than expected or if discount rates decline significantly, future pension expense and the amount and timing of future plan contributions may be adversely impacted.

The postemployment plan expense includes \$35 million of organizational realignment costs for the nine months ended September 30, 2008 and \$59 million of manufacturing and Japan realignment costs for the nine months ended September 30, 2007. These realignment initiatives are described in more detail in the Restructuring and Re-engineering section of this MD&A.

## **Results of Operations by Segment**

The description of our operating segments and the exclusion of certain items from our segment operating performance is discussed in this MD&A under Results of Operations by Segment for the three months ended September 30, 2008 compared to the three months ended September 30, 2007. In addition to the effects of pension expense, the segment gross margin also excludes \$31 million of organizational realignment costs in the nine months ended September 30, 2008 and \$63 million of realignment and spin-off costs in the nine months ended September 30, 2007.

In the segment discussions, we have disclosed the impact of foreign currency fluctuations as it relates to our segment revenue due to its significance during the first nine months of 2008. As a result of the weaker U.S. Dollar, the Company benefited from currency fluctuations, primarily in our EMEA and APJ segments.

**Americas:** The Americas segment revenue increased 11% during the first nine months of 2008 as compared to the first nine months of 2007. The revenue increase was driven by double-digit growth from products and solid growth from services, primarily attributed to increased volume. Foreign currency fluctuations provided a 1% benefit to the period-over-period revenue comparison. Gross margin as a percentage of revenue decreased to 18.8% in 2008 compared to 20.0% in 2007. The margins were lower due to an unfavorable revenue mix, driven by sales to large financial and retail customers at lower margins.

**EMEA:** The EMEA segment revenue increased 16% during the first nine months of 2008 as compared to the prior year period, driven by significant increases in sales volume from both our products and services. Most of our major revenue producing countries in EMEA experienced revenue growth during the first nine months of 2008. Foreign currency fluctuations provided a 6% benefit to the period-over-period revenue comparison. Gross margin as a percentage of revenue increased to 27.1% in 2008 compared to 24.6% in 2007, primarily driven by a decrease in manufacturing costs due to the manufacturing realignment initiative and a continued emphasis on services cost reduction.

**APJ:** The APJ segment revenue increased 10% during the first nine months of 2008 as compared to the first nine months of 2007, led by a double digit increase in service revenue and significant growth from product revenue. Foreign currency fluctuations provided an 8% benefit to the period-over-period revenue comparison. Gross margin as a percentage of revenue increased to 24.5% in 2008 compared to 23.3% in 2007, primarily due to lower manufacturing and service delivery costs from the manufacturing and the Japan realignment initiatives.

## **Interest and Other Income Items**

Interest expense of \$17 million during the first nine months of 2008 was slightly lower than the \$18 million of interest expense during the first nine months of 2007.

Other income, net decreased by \$17 million during the first nine months of 2008, compared to the first nine months of 2007. Other income, net includes items such as interest income, minority interest, changes in foreign exchange, gains or losses on equity investments and expenses for environmental matters related to the Company's former operations. Other income, net decreased in the first nine months of 2008 due to a \$23 million decrease in interest income primarily due to lower interest rates and lower cash balances. This was offset by \$7 million of expense related to the Fox River environmental matter in the first nine months of 2007 that did not recur in the first nine months of 2008.

## **Table of Contents**

### **Provision for Income Taxes**

Income tax provisions for interim (quarterly) periods are based on estimated annual income tax rates calculated separately from the effect of significant infrequent or unusual items. The effective tax rate in the first nine months of 2008 was 22%. The effective tax rate in the first nine months of 2007 was 35%. For the nine month period ended September 30, 2008, the effective tax rate was lower primarily due to a \$16 million income tax benefit resulting from the favorable Internal Revenue Service audit settlement for the years 2000 through 2006. In addition, for the nine months ended September 30, 2007 the effective tax rate was higher due to an \$11 million net adjustment to increase income tax expense recorded in the second quarter of 2007 as described in Note 1 of Notes to Condensed Consolidated Financial Statements. After considering the impact of these items, the effective tax rate was higher for the nine months ended September 30, 2008 compared to the prior year period due to an unfavorable mix of taxable profits and losses by country.

NCR is subject to numerous U.S. and foreign 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 future periods.

### **Restructuring and Re-engineering**

In the second quarter of 2008, NCR commenced a global realignment initiative to reduce redundancies and process inefficiencies to become more customer-focused and market-driven. This initiative is addressing legacy process inefficiencies and unbalanced resource allocation by focusing on organizational design, process re-engineering and business process outsourcing. The initiative is resulting in reductions in employment and productivity improvements, while freeing up funds to invest in growth programs such as sales, engineering, and market development. As a result of this initiative, in the second quarter of 2008, the Company recorded \$32 million for employee severance and other termination benefits, of which \$2 million was recorded as cost of products, \$18 million was recorded as cost of services, \$8 million was recorded as selling, general and administrative expense and the remaining \$4 million was recorded as research and development expense. Of the \$32 million total expense recognized in the second quarter of 2008, \$28 million was recorded as a discrete cost in accordance with Statement of Financial Accounting Standards No. 112 (SFAS 112), *Employers' Accounting for Postemployment Benefits*, when the severance liabilities were determined to be probable and reasonably estimable. The remaining \$4 million was recorded in accordance with Statement of Financial Accounting Standards No. 146 (SFAS 146), *Accounting for Costs Associated with Exit or Disposal Activities*.

In the third quarter of 2008, as additional reductions in employment were identified under the global realignment initiative, the Company recorded an additional \$12 million of employee severance and other termination benefits, net of immaterial refinements to the costs recognized in the second quarter of 2008. Of the \$12 million total expense recognized in the third quarter of 2008, \$11 million was recorded as cost of services and \$1 million was recorded as selling, general and administrative expense. Of this \$12 million, \$7 million was recorded as a discrete cost in accordance with SFAS 112, when the severance liabilities were determined to be probable and reasonably estimable, and the remaining \$5 million was recorded in accordance with SFAS 146. The realignment activities and the associated costs recognized during the second and the third quarter of 2008 for approximately 750 employee terminations relate to each of our reportable segments of Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific and Japan (APJ). Related to this initiative, the Company made \$8 million in payments during the three months ended September 30, 2008 and \$11 million in payments during the nine months ended September 30, 2008. The remaining accrued liability balance of \$33 million as of September 30, 2008 is recorded in the Condensed Consolidated Balance Sheet in other current liabilities as the Company expects that payment of the remaining obligation will occur during through early 2009. The expected cost savings resulting from these realignment actions will be utilized to invest in growth opportunities and improve profitability.

The Company continues to expect to identify additional opportunities focusing on organizational design, process re-engineering and business process outsourcing and therefore expects additional realignment activities through 2009 as a result of this initiative. The costs related to these activities are not reasonably estimable at this time as we are in the process of defining the scope of the activities and quantifying the impact thereof.

**Table of Contents**

In the first quarter of 2007, the Company initiated a manufacturing realignment primarily related to its ATM products, which included outsourcing certain manufacturing activities in the Americas region and shifting other manufacturing activities from high cost to low cost geographies in the EMEA region as well as the APJ region. This realignment resulted in approximately 1,100 employee terminations and, as expected, improved productivity and freed capital to invest in revenue-generating programs such as sales, engineering and market development. As a result of this realignment, in the first six months of 2007, the Company recorded \$35 million for employee severance and other termination benefits in cost of products. Of the \$35 million recorded for this realignment, \$29 million was recorded as a discrete cost in accordance with SFAS 112, and the remainder was recorded in accordance with SFAS 146. In the three months ended September 30, 2007, the Company recorded \$4 million of additional expense in cost of products due to updates in the estimated costs that were primarily attributed to changes in the expected mix of severance payments. In addition, the Company incurred costs of \$3 million associated with training, travel and professional services for the three and the nine month periods ended September 30, 2007, which were directly related to this realignment initiative and were expensed as incurred. As of December 31, 2007, \$11 million of the reserve remained for this initiative, of which approximately \$10 million was utilized through the first nine months of 2008. The reserve balance of approximately \$1 million as of September 30, 2008 is expected to be paid over the balance of 2008.

In the third quarter of 2007, NCR commenced a realignment program in Japan, which was primarily focused on its customer services. The realignment program, which resulted in approximately 130 employee terminations, included actions to improve operating efficiency and strengthen the Company's competitive position in Japan. As a result of this realignment program, in the third quarter of 2007, the Company recorded \$27 million as a discrete cost for employee severance in accordance with SFAS 112 (\$19 million in cost of services and \$8 million in selling, general and administrative expense). As a result of the payments made, as of December 31, 2007, \$7 million of the initial reserve for this initiative remained, which was fully utilized in the nine months ended September 30, 2008. Beginning in the fourth quarter of 2007, the Company started realizing cost savings related to this initiative and has achieved targeted cost savings of \$10 to \$12 million on an annualized basis.

The costs of these realignment initiatives are not expected to have a significant impact on the Company's financial position, revenues, liquidity or sources and uses of capital resources. The realignment costs are expected to be funded by the Company's cash, and although this will result in short-term cash outflows, the Company expects future cost savings and no adverse impact to revenue as a result of these changes.

**Financial Condition, Liquidity, and Capital Resources**

NCR's management uses a non-GAAP measure called free cash flow, which we define as net cash provided by operating activities less capital expenditures for property, plant and equipment, and additions to capitalized software, to assess the financial performance of the Company. 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. The components that are used to calculate free cash flow are GAAP measures that are taken directly from the Condensed Consolidated Statements of Cash Flows. We believe free cash flow information is useful for investors because it relates the operating cash flows of the Company 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, repurchase 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. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP.

The table below shows net cash provided by operating activities and capital expenditures for the following periods:

| <b>In millions</b>                                   | <b>Nine Months Ended<br/>September 30</b> |             |
|------------------------------------------------------|-------------------------------------------|-------------|
|                                                      | <b>2008</b>                               | <b>2007</b> |
| Net cash provided by operating activities            | \$ 307                                    | \$ 92       |
| Less: Expenditures for property, plant and equipment | (58)                                      | (43)        |
| Less: Additions to capitalized software              | (47)                                      | (35)        |
| Free cash flow                                       | \$ 202                                    | \$ 14       |

## **Table of Contents**

For the nine months ended September 30, 2008, cash provided by operating activities increased by \$215 million, while capital expenditures increased by \$27 million, resulting in an increase in free cash flow of \$188 million compared to the first nine months of 2007. The increase in cash provided by operating activities was primarily driven by higher income from continuing operations (net of non-cash items) as well as improvements in working capital. The improvement in working capital was mainly due to improved collections of accounts receivable, while inventory also improved compared to prior year. These improvements were partially offset by the timing of payables. Capital expenditures increased due to planned investments in property, plant & equipment and capitalized software.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. These other investing activities for the nine months ended September 30, 2008 included net proceeds of \$54 million from the sale of property, plant and equipment, offset by \$54 million of cash used for acquisitions and investments. Our financing activities in the first nine months of 2008 primarily consisted of cash outflows from our share repurchase activities and cash inflows from the issuance of shares through our employee stock plans. For the nine months ended September 30, 2008, cash outflows from share repurchases were \$424 million to repurchase approximately 18 million shares. In 2007, NCR did not purchase shares from the open market until after the spin-off of Teradata was completed on September 30, 2007. Cash inflows from stock plans were \$15 million in the first nine months of 2008 compared to \$43 million in the first nine months of 2007. The decrease in cash inflows was primarily due to a decrease in the number of options exercised in the nine months ended September 30, 2008.

Net cash used in activities from discontinued operations was \$17 million for the first nine months of 2008 compared to \$192 million of cash provided by discontinued operations for the first nine months of 2007. The cash outflow of \$17 million in the first nine months of 2008 was primarily due to payments for legal, accounting, professional and consulting services in connection with the spin-off of Teradata in 2007.

Our cash and cash equivalents totaled \$733 million as of September 30, 2008. We believe our cash flows from operations, the credit facilities we currently have in place and other short- and long-term debt financing, will be sufficient to satisfy our future working capital, research and development activities, capital expenditures, pension contributions and other financing requirements for the foreseeable future. Our ability to generate positive cash flows from operations is dependent on successfully addressing the risks related to general economic conditions, competitive pressures, and other business and risk factors. If we are unable to generate sufficient cash flows from operations, or otherwise comply with the terms of our credit facilities and senior notes, we may be required to refinance all or a portion of our existing debt or seek additional financing alternatives. Furthermore, as described in Note 14 of Notes to Condensed Consolidated Financial Statements, as the \$300 million of senior unsecured notes with an interest rate of 7.125% will become due in the second quarter of 2009, the Company is currently evaluating short- and long-term debt financing to meet its capital and operating requirements in 2009 and subsequent years.

**Contractual and Other Commercial Commitments:** There have been no significant changes in our contractual and other commercial commitments as described in our Form 10-K for the year ended December 31, 2007. The Company's uncertain tax positions are not expected to have a significant impact on liquidity or sources and uses of capital resources. Our guarantees and product warranties are discussed in Note 8 of Notes to Condensed Consolidated Financial Statements.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

Management has reassessed the critical accounting policies as disclosed in our 2007 Form 10-K and determined that there were no changes to our critical accounting policies in the nine months ended September 30, 2008. Also, there were no significant changes in our estimates associated with those policies. See Note 8 of Notes to Condensed Consolidated Financial Statements for an update relating to the reserve for the Fox River environmental matter.

### **New Accounting Pronouncements**

See discussion in Note 3 of Notes to Condensed Consolidated Financial Statements for new accounting pronouncements.

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

We are exposed to market risk, including changes in foreign currency exchange rates and interest rates. We use a variety of measures to monitor and manage these risks, including derivative financial instruments. 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. 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 contracts. This is primarily done through the hedging of (i) foreign currency denominated inter-company inventory purchases by the marketing units and (ii) foreign currency denominated inventory sales by the manufacturing units. All of these transactions are firmly committed or forecasted. These foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses are deferred in other comprehensive income and recognized in the determination of income when the underlying hedged transaction impacts earnings. As we hedge inventory purchases, the ultimate gain or loss from the derivative contract is recorded in cost of products when the inventory is sold to an unrelated third party.

We have exposure to approximately 50 functional currencies. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. The U.S. Dollar was weaker in 2008 as compared to 2007, based on comparable weighted averages for our functional currencies. This had a favorable impact of 2% on third quarter 2008 revenue compared to third quarter 2007 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.

Our strategy is to hedge, on behalf of each subsidiary, a portion of our 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 length of time hedge contracts are entered into may vary significantly. In the longer term (longer than the hedging period of up to 15 months), the subsidiaries are still subject to the impacts of foreign currency fluctuations. In addition, the subsidiary results are still subject to any impact of translating the functional currency results to U.S. Dollars. When hedging certain foreign currency transactions of a long-term investment nature (net investments in foreign operations), the gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Gains and losses on other foreign exchange contracts are recognized in other income or expense as exchange rates change.

For purposes of potential risk analysis, 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 in the value of the U.S. Dollar against foreign currencies from the prevailing market rates would result in increases in the fair value of the hedge portfolio of \$16 million as of September 30, 2008 and \$14 million as of September 30, 2007. Conversely, a 10% depreciation of the U.S. Dollar against foreign currencies from the prevailing market rates would result in decreases in the fair value of the hedge portfolio of \$16 million as of September 30, 2008 and \$14 million as of September 30, 2007.

## **Table of Contents**

The interest rate risk associated with our borrowing and investing activities as of September 30, 2008 was not material in relation to our condensed consolidated financial position, results of operations or cash flows.

We utilize non-exchange traded financial instruments, such as foreign exchange forward 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. Also, we do not enter into hedges for speculative purposes.

We are potentially subject to concentrations of credit risk on accounts receivable and financial instruments, such as hedging instruments, short-term investments, 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, the continued downturn in the U.S. or 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, 2008, we did not have any major 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 ensure 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 ensure 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 2008, 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**

While we have changed ownership of certain internal controls in the first nine months of 2008 to reflect our new functional geographic organizational model, there have been no changes in our internal control over financial reporting that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Table of Contents

### Part II. Other Information

#### Item 1. LEGAL PROCEEDINGS

The information required by this item is included in Note 8 of Notes to Condensed Consolidated Financial Statements of this quarterly report and is incorporated herein by reference.

#### Item 1A. RISK FACTORS

This report and other documents that we file with the SEC, as well as other oral or written statements we may make from time to time, contain information based on management's beliefs and include forward-looking statements (within the meaning of the Private Securities Litigation Reform Act of 1995) that involve a number of known and unknown risks, uncertainties and assumptions. These forward-looking statements are not guarantees of future performance, and there are a number of factors including, but not limited to, those listed below, that could cause actual outcomes and results to differ materially from the results contemplated by such forward-looking statements. We do not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Economic Pressures** *Our business may be negatively affected by the current global credit crisis.* The current economic climate, and particularly the increased difficulty in securing credit, could impact the ability of our customers to make capital expenditures, thereby affecting their ability to purchase our products. Additionally, customers in the financial services sector, which has been severely impacted by the credit crisis, have consolidated in response to the crisis, which could further impact our business by reducing our customer base. Certain of our retail customers who have seen significant dampening of consumer demand, could face increased financial pressures that could impact their capital expenditures. The extent of the impact, if any, of the global credit crisis, will depend on a number of factors, including whether the U.S. economy, and the global economy generally, enter into a prolonged recession as a result of the deterioration of the credit markets.

**Competition** *If we do not compete effectively within the technology industry, we will not be successful.* We operate in the intensely competitive information technology industry. This industry is characterized by rapidly changing technology, evolving industry standards, frequent new product introductions, price and cost reductions, and increasingly greater commoditization of products, making differentiation difficult. Our competitors include other large companies in the technology industry, such as: IBM, Inc., Hewlett-Packard Company, Diebold, Inc., Wincor, Getronics NV (a subsidiary of KPN as of October 2007), Fujitsu, and Unisys Corporation, some of which have widespread distribution and penetration of their platforms and service offerings. In addition, we compete with companies in specific markets, such as entry-level ATMs, payment and imaging, and business consumables and media products. Our future competitive performance and market position depend on a number of factors, including our ability to: react to competitive product and pricing pressures (particularly in the ATM marketplace); penetrate and meet the changing competitive requirements and deliverables in developing and emerging markets, such as India and China in the ATM market; exploit opportunities in new vertical markets, such as travel and hospitality, healthcare, entertainment and gaming, and public sector; rapidly and continually design, develop and market, or otherwise maintain and introduce solutions and related products and services for our customers that are competitive in the marketplace; react on a timely basis to shifts in market demands; compete in reverse auctions for new and continuing business; reduce costs without creating operating inefficiencies; maintain competitive operating margins; improve product and service delivery quality; and effectively market and sell all of our diverse solutions. Our business and operating performance could be impacted by external competitive pressures, such as increasing price erosion and the addition of new competitors. Our customers sometimes finance our product sales through third-party financing companies. In the case of customer default, these financing companies may be forced to resell this equipment at discounted prices, thus impacting our ability to sell incremental units. The impact of these product and pricing pressures could include lower customer satisfaction, decreased demand for our solutions, loss of market share and reduction of operating profits.

**Operating Results Fluctuations** *Our revenue and operating results could fluctuate for a number of reasons, including:*

**Seasonality** Our sales are historically seasonal, with lower revenue in the first quarter and higher revenue in the fourth quarter of each year. Such seasonality also causes our working capital cash flow requirements to vary from quarter to quarter depending on the variability in the volume, timing and mix of product sales. In addition, revenue in the third month of each quarter is typically higher than in the first and second months. These factors, among other things, make forecasting more difficult and may adversely affect our ability to predict financial results accurately.

## **Table of Contents**

*Foreign Currency* Our revenue and operating income are subject to variability due to the effects of foreign currency fluctuations against the U.S. Dollar. We have exposure to approximately 50 functional currencies. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. The effects of currency fluctuations are partially mitigated by our hedging strategy; however, certain significant currency fluctuations could adversely affect our results of operations.

*Cost/Expense Reductions* We are actively working to reduce our costs and expenses to improve operating profitability without jeopardizing the quality of our products or the effectiveness of our operations. Our success in achieving targeted cost and expense reductions depends on a number of factors, including our ability to achieve infrastructure rationalizations, drive lower component costs, improve supply chain efficiencies, and among other things, optimize the efficiency of our customer services resources. If we do not successfully complete our cost reduction initiatives, our results of operations or financial condition could be adversely affected.

*Contractual Obligations of Consulting Services* We maintain a professional services consulting workforce to fulfill contracts that we enter into with our customers that may extend to multiple periods. Our profitability is largely a function of performing to customer contractual arrangements within the estimated costs to perform these obligations. If we exceed these estimated costs, our profitability related to these contracts may be negatively impacted. In addition, if we are unable to maintain appropriate utilization rates for our consultants, we may not be able to sustain profitability on these contracts.

*Diversification* While we believe the spin-off of Teradata on September 30, 2007 was the proper strategic move for both companies, following the spin-off, the Company is less diversified than before. Consequently, we must rely primarily on our self-service and assisted-service products (along with the associated customer services business) to drive growth and profitability. If these products or service offerings suffer a significant decrease in demand or increase in costs, our results of operations or financial condition could be adversely affected.

*Acquisitions and Divestitures* As part of our strategy, we intend to selectively acquire and divest technologies, products and businesses. As these acquisitions and divestitures take place and we begin to include or exclude, as the case may be, the financial results related to these transactions, it could cause our operating results to fluctuate.

*Pension Funds* Consistent with local competitive practice and regulations, we sponsor pension plans in many of the countries where we do business. A number of these pension plans are supported by pension fund investments that are subject to financial market risk. The liabilities, assets and costs of these plans are reported in our financial statements in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87), *Employer's Accounting for Pensions*, Statement of Financial Accounting Standards No. 132 (revised 2003) (SFAS 132R), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, and Statement of Financial Accounting Standards No. 158 (SFAS 158), *Employer's Accounting for Defined Benefit Pension and Other Postretirement Plans*. In conforming to these standards, we are required to make a number of actuarial assumptions for each plan, including expected long-term return on plan assets and discount rate. Our future financial results could be materially impacted by volatility in financial market performance, changes in regulations regarding funding requirements, and changes in the actuarial assumptions, including those described in our *Critical Accounting Policies and Estimates* section of the MD&A included in Item 7 of Part II of the Form 10-K for the year ended December 31, 2007.

Throughout 2008, the financial markets have been extraordinarily volatile, global equity markets have declined dramatically, and fixed income credit spreads have widened to almost unprecedented levels. Depending on how the markets perform in the fourth

**Table of Contents**

quarter, our financial performance may be materially impacted in future periods. Additionally if these market conditions persist, the decline in the value of plan assets that we have experienced so far this year, though partially offset by the impact of higher discount rates, could lead to significantly larger contribution requirements in future years.

Consistent with the requirements of paragraphs 44-45 of SFAS 87, we estimate our discount rate and long-term expected rate of return on asset assumptions on a country-by-country basis after consultation with independent actuarial consultants. We examine interest rate levels and trends within each country, particularly yields on high-quality long-term corporate bonds, relative to our expected future benefit payments to determine our discount rate assumptions. Our long-term expected rate of return on asset assumptions are developed by considering the asset allocation and implementation strategies employed by each pension fund relative to capital market expectations.

*Stock-based Compensation* Similar to other companies, we use stock awards as a form of compensation for certain employees. The Company adopted Statement of Financial Accounting Standards No. 123R (revised 2004) (SFAS 123R), *Share-Based Payment*, beginning January 1, 2006. SFAS 123R requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The amount recognized for stock compensation expense could vary depending on a number of assumptions or changes. For example, assumptions such as the risk-free rate, expected holding period and expected volatility that drive our valuation model could change. Other examples that could have an impact include changes in the mix and type of awards, changes in our compensation plans or tax rate, changes in our forfeiture rate, differences in actual results compared to management's estimates for performance-based awards or an unusually high amount of expirations of stock options.

*Income Taxes* We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), *Accounting for Income Taxes*, which recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. If we are unable to generate sufficient future taxable income, if there is a material change in the actual effective tax rates, if the time period within which the underlying temporary differences become taxable or deductible, or if the tax laws change unfavorably, then we could be required to increase our valuation allowance against our deferred tax assets, resulting in an increase in our effective tax rate. On January 1, 2007, the Company adopted Financial Accounting Standards Board Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. Any increase in liabilities related to uncertain tax positions recognized under FIN 48 could result in an increase in our effective tax rate.

*Real Estate* Our strategy over the past several years with respect to owned and leased real estate has been to reduce our holdings of excess real estate. In line with this strategy, the exit of facilities may affect net income, and adverse real estate markets could impede our ability to reduce the size of our real estate portfolio.

**Multinational Operations** *Our multinational operations expose us to business and legal risk in the various countries where we do business.* For the year ended December 31, 2007 and the nine months ended September 30, 2008, the percentage of revenues from outside of the United States was 65% and 66%, respectively. We believe that our geographic diversity may help to mitigate some risks associated with geographic concentrations of operations (e.g., adverse changes in foreign currency exchange rates, deteriorating economic environments or business disruptions due to economic or political uncertainties). However, our ability to manufacture and sell our solutions domestically in the United States and internationally is subject to risks, which include among others: the impact of the global credit crisis on the stability of national economies, including those of countries where we have operations; political conditions in each country that could adversely affect demand for our solutions in these markets; the impact of a continued downturn in the global economy on demand for our products in certain countries; currency exchange rate fluctuations that could result in lower demand for our products as well as generate currency translation losses; changes to and compliance with a variety of local laws and regulations that may increase our cost of doing business in these markets or otherwise prevent us from effectively competing in these

## **Table of Contents**

markets; changing competitive requirements and deliverables in developing and emerging markets; and the impact of civil unrest relating to war and terrorist activity on the economy or markets in general, or on our ability, or that of our suppliers, to meet commitments.

**Introduction of New Solutions** *If we do not swiftly and successfully develop and introduce new solutions in the competitive, rapidly changing environment in which we do business, our business results will be impacted.* The development process for our solutions requires high levels of innovation from both our product development team and our suppliers of the components embedded in our solutions. In addition, the development process can be lengthy and costly, and requires us to commit a significant amount of resources to bring our business solutions to market. If we are unable to anticipate our customers' needs and technological trends accurately, or are otherwise unable to complete development efficiently, we would be unable to introduce new solutions into the market on a timely basis, if at all, and our business and operating results could be impacted. Likewise, we sometimes make assurances to customers regarding new technologies, and our results could be impacted if we are unable to deliver such technologies as planned. Also, if we cannot successfully market and sell both existing and newly developed solutions, our business and operating results could be impacted. Our hardware and software-based solutions may contain known, as well as undetected errors, which may be found after the product introductions and shipments. While we attempt to remedy errors that we believe would be considered critical by our customers prior to shipment, we may not be able to detect or remedy all such errors, and this could result in lost revenues, delays in customer acceptance and incremental costs, each of which would impact our business and operating results.

**Reliance on Third Parties** *If third-party suppliers upon which we rely are not available, our ability to bring our products to market in a timely fashion could be affected.* In most cases, there are a number of vendors providing the services and producing the parts and components that we utilize. However, there are some components that are purchased from single sources due to price, quality, technology or other reasons. For example, we depend on transaction processing services from Accenture, computer chips and microprocessors from Intel Corporation, contract manufacturing from Flextronics International Ltd. (formerly, Soletron Corporation) and operating systems from Microsoft Corporation. Certain parts and components used in the manufacturing of our ATMs and the delivery of many of our retail solutions are also supplied by single sources. In addition, there are a number of key suppliers for our businesses who provide us with critical products for our solutions. If we were unable to purchase the necessary services, including contract manufacturing, parts, components or products from a particular vendor, and we had to find an alternative supplier, our new and existing product shipments and solution deliveries could be delayed, impacting our business and operating results. We have, from time to time, formed alliances with third parties that have complementary products, software, services and skills. Many different relationships are formed by these alliances, such as outsourcing arrangements to manufacture hardware and subcontract agreements with third parties to perform services and provide products and software to our customers in connection with our solutions. For example, we rely on third parties for cash replenishment services for our ATM products. Also, some of these third parties have access to confidential NCR and customer data, the integrity and security of which we need to ensure. These alliances introduce risks that we cannot control, such as nonperformance by third parties and difficulties with or delays in integrating elements provided by third parties into our solutions. Lack of information technology infrastructure, shortages in business capitalization, manual processes and data integrity issues of smaller suppliers can also create product time delays, inventory and invoicing problems, staging delays, as well as other operating issues. The failure of third parties to provide high-quality products or services that conform to required specifications or contractual arrangements could impair the delivery of our solutions on a timely basis, create exposure for non-compliance with our contractual commitments to our customers and impact our business and operating results.

**Intellectual Property** *Our continuing ability to be a leading technology and services solutions provider could be negatively affected if we do not develop and protect intellectual property that drives innovation.* To that end, it is critical that we continue to develop leading technologies to protect and enhance our proprietary rights in our intellectual property through patent, copyright, trademark and trade secret laws. These efforts include protection of the products and application, diagnostic and other software we develop. To the extent we are not successful our business could be adversely impacted. Also, many of our offerings rely on technologies developed by others, and if we are unable to continue to obtain licenses for such technologies, our business would be impacted. Over the last several years, there has been an increase in the issuance of software and business method patents, and more companies are

## **Table of Contents**

aggressively enforcing their intellectual property rights. This trend could impact NCR because, from time to time, we receive notices from third parties regarding patent and other intellectual property claims. Whether such claims are with or without merit, they may require significant resources to defend. If an infringement claim is successful, or in the event we are unable to license the infringed technology or to substitute similar non-infringing technology, our business could be adversely affected.

**Work Environment** *Our restructuring and re-engineering initiatives could negatively impact productivity and business results.* As part of our ongoing efforts to optimize our cost structure, from time to time, we shift and realign our employee resources, which could temporarily result in reduced productivity levels. In addition to reducing costs and expenses, we have initiatives to grow revenue, such as improving sales training, addressing sales territory requirements, maintaining and monitoring customer satisfaction with our solutions, and focusing on our strong value propositions. We typically have many initiatives underway. Effective January 1, 2008, we reorganized our structure, moving from a business unit model organized by product and service offering to a functional geographic model. If we do not establish the proper allocation of responsibility and lines of communication in this new model, our business and operating results could be impacted. If we are not successful in managing our other initiatives and minimizing any resulting loss in productivity, our business and operating results similarly could be negatively impacted.

*If we do not attract and retain quality employees, we may not be able to meet our business objectives.* Our employees are vital to our success. Our ability to attract and retain highly skilled technical, sales, consulting and other key personnel is critical, as these key employees are difficult to replace. If we are unable to attract or retain highly qualified employees by offering competitive compensation, secure work environments and leadership opportunities now and in the future, our business and operating results could be negatively impacted.

*If we do not maintain effective internal controls and accounting policies and practices necessary to ensure reliable reporting of our results, our ability to comply with our legal obligations could be negatively affected.* Our internal controls, accounting policies and practices, and internal information systems enable us to capture and process transactions in a timely and accurate manner in compliance with accounting principles generally accepted in the United States of America, laws and regulations, taxation requirements and federal securities laws and regulations. Our internal controls and policies are being closely monitored by management as we continue to implement a worldwide Enterprise Resource Planning (ERP) system and continue further transitions of our transaction support functions to Accenture. While we believe these controls, policies, practices and systems are adequate to ensure data integrity, unanticipated and unauthorized actions of employees or contractors (both domestic and international), temporary lapses in internal controls due to shortfalls in transition planning and oversight, or resource constraints, could lead to improprieties and undetected errors that could impact our financial condition or results of operations. Moreover, while management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2007 (as set forth in Management's Report on Internal Control over Financial Reporting included in Item 9A of the Form 10-K for the year ended December 31, 2007), due to their inherent limitations, such controls may not prevent or detect misstatements in our reported financial statements. Such limitations include, among other things, the potential for human error or circumvention of controls. Further, the Company's internal control over financial reporting is subject to the risk that controls may become inadequate because of a failure to remediate control deficiencies, changes in conditions or a deterioration of the degree of compliance with established policies and procedures.

*Our ability to effectively manage our business could be negatively impacted if we do not invest in and maintain reliable information systems.* It is periodically necessary to replace, upgrade or modify our internal information systems. If we are unable to replace, upgrade or modify such systems in a timely and cost-effective manner, especially in light of demands on our information technology resources, our ability to capture and process financial transactions and therefore, our financial condition or results of operations, may be impacted.

**Acquisitions and Alliances** *If we do not successfully integrate acquisitions or effectively manage alliance activities, we may not drive future growth.* As part of our overall solutions strategy, we intend to make investments in companies, products, services and technologies, either through acquisitions, investments, joint ventures or strategic alliances. Acquisitions and alliance activities inherently involve risks. The risks we may encounter include those associated with assimilating and integrating different business

**Table of Contents**

operations, corporate cultures, personnel, infrastructures and technologies or products acquired or licensed, and the potential for unknown liabilities within the acquired or combined business. The investment or alliance may also disrupt our ongoing business, or we may not be able to successfully incorporate acquired products, services or technologies into our solutions and maintain quality. Further, we may not achieve the projected synergies once we have integrated the business into our operations. This may lead to additional costs not anticipated at the time of acquisition.

**Environmental** *Our historical and ongoing manufacturing activities subject us to environmental exposures.* Our facilities and operations are subject to a wide range of environmental protection laws, and we have investigatory and remedial activities underway at a number of facilities that we currently own or operate, or formerly owned or operated, to comply, or to determine compliance, with such laws. In addition, our products are subject to environmental laws in certain jurisdictions. Given the uncertainties inherent in such activities, there can be no assurances that the costs required to comply with applicable environmental laws will not impact future operating results. We have also been identified as a potentially responsible party in connection with certain environmental matters, including the Fox River matter, as further described in

Environmental Matters under Note 8 of the Notes to Condensed Consolidated Financial Statements, Commitments and Contingencies, included in Item 1 of Part I of this Report and in the Critical Accounting Policies and Estimates section of the MD&A included in Item 7 of Part II of the Form 10-K for the year ended December 31, 2007, and we incorporate such disclosures by reference and make them a part of this risk factor. As described in more detail in such disclosures, we maintain an accrual for our potential liability relating to the Fox River matter that represents certain critical estimates and judgments made by us regarding our potential liability; however, both the ultimate costs associated with the Fox River matter and our share of those costs are subject to a wide range of potential outcomes, which could impact our future operating results and the amount of accrued liability.

**Contingencies** *We face uncertainties with regard to regulations, lawsuits and other related matters.* In the normal course of business, we are subject to proceedings, lawsuits, claims and other matters, including those that relate to the environment, health and safety, employee benefits, export compliance, intellectual property, data privacy and other regulatory compliance and general matters. Because such matters are subject to many uncertainties, their outcomes are not predictable. While we believe that amounts provided in our Condensed Consolidated Financial Statements are currently adequate in light of the probable and estimable liabilities, there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results. Additionally, we are subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, which are rapidly changing and subject to many possible changes in the future. Although we do not believe that recent regulatory and legal initiatives will result in significant changes to our internal practices or our operations, changes in accounting standards, taxation requirements, and federal securities laws and regulations, among others, may substantially increase costs to our organization and could have an impact on our future operating results.

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

During the three months ended September 30, 2008, the Company repurchased 4.1 million shares of its common stock at an average price per share of \$25.27. As of the beginning of the fourth quarter of 2008, the Company has a total remaining authorization of approximately \$95 million to purchase outstanding shares of NCR common stock. In addition, subsequent to the third quarter of 2008, from October 1, 2008, through October 21, 2008, the Company repurchased 3.7 million shares for approximately \$69 million.

The following table provides information relating to the Company's repurchase of common stock for the three months ended September 30, 2008:

| Time Period                            | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced 2000 Board Authorized Dilution Offset Program | Total Number of Shares Purchased as Part of Publicly Announced 1999 Board Authorized Program | Maximum Dollar Value of Shares that May Yet be Purchased Under the 1999 Program |
|----------------------------------------|----------------------------------|------------------------------|--------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------|
| July 1 through July 31, 2008           | 1,455,700                        | \$ 25.87                     |                                                                                                              | 1,455,700                                                                                    | \$ 157,051,649                                                                  |
| August 1 through August 31, 2008       | 1,023,000                        | \$ 26.43                     |                                                                                                              | 1,023,000                                                                                    | \$ 130,016,775                                                                  |
| September 1 through September 30, 2008 | 1,641,523                        | \$ 24.02                     | 205,244                                                                                                      | 1,436,279                                                                                    | \$ 95,378,772                                                                   |
| <b>Third quarter total</b>             | <b>4,120,223</b>                 | <b>\$ 25.27</b>              | <b>205,244</b>                                                                                               | <b>3,914,979</b>                                                                             | <b>\$ 95,378,772</b>                                                            |



## **Table of Contents**

In addition, the Company occasionally purchases vested restricted stock shares from Section 16 officers at the current market price to cover their withholding taxes. For the three months ended September 30, 2008, 20,545 shares were purchased at an average price of \$26.21 per share.

### **Item 3. DEFAULTS UPON SENIOR SECURITIES**

None.

### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

### **Item 5. OTHER INFORMATION**

In 2007, the Company transitioned the manufacturing of its ATMs, payment solutions, and self-checkout solutions in the Americas to Flextronics International Ltd. (formerly, Solectron Corporation), a provider of electronics manufacturing and integrated supply-chain services. Flextronics also procures a variety of components used in the manufacturing process on our behalf. Flextronics manufactures NCR products in Columbia, South Carolina; Guadalajara, Mexico; and Jaguariuna, Brazil. Given the Company's decision to outsource its manufacturing activities for these products to Flextronics, a disruption in production at Flextronics could impact the timing of customer shipments. Refer to Item 1A of this Report under the caption, "Reliance on Third Parties" for further information regarding the potential impact of this relationship on our business operations.

### **Item 6. EXHIBITS**

- 3.1 Articles of Amendment and Restatement of NCR Corporation as amended May 14, 1999 (incorporated by reference to Exhibit 3.1 from the NCR Corporation Form 10-Q for the period ended June 30, 1999).
- 3.2 Bylaws of NCR Corporation, as amended and restated on January 23, 2008 (incorporated by reference to Exhibit 3.1 to the NCR Corporation Current Report on Form 8-K filed January 25, 2008).
- 4.1 Common Stock Certificate of NCR Corporation (incorporated by reference to Exhibit 4.1 from the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1999).
- 4.2 Preferred Share Purchase Rights Plan of NCR Corporation, dated as of December 31, 1996, by and between NCR Corporation and The First National Bank of Boston (incorporated by reference to Exhibit 4.2 from the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1996).
- 4.3 NCR Corporation hereby agrees to furnish the Securities and Exchange Commission, upon its request, a copy of any instrument which defines the rights of holders of long-term debt of NCR Corporation and all of its subsidiaries for which consolidated or unconsolidated financial statements are required to be filed, and which does not exceed 10% of the total assets of NCR Corporation and its subsidiaries on a consolidated basis.

---

**Table of Contents**

|          |                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 4.4      | Indenture, dated as of June 1, 2002, between NCR Corporation and The Bank of New York (incorporated by reference to Exhibit 4.4 to the June 30, 2002 Form 10-Q).                                                                                                                                                                                                                                                                          |
| 4.5      | Registration Rights Agreement, dated June 6, 2002, by and between NCR Corporation and Salomon Smith Barney Inc., Banc One Capital Markets, Inc., BNY Capital Markets, Inc., Fleet Securities, Inc., J.P. Morgan Securities Inc. and McDonald Investments Inc., relating to \$300,000,000 principal amount of 7.125% Senior Notes due 2009 (incorporated by reference to Exhibit 4.5 to the June 30, 2002 Form 10-Q).                      |
| 4.6(a-c) | Terms of 7.125% Senior Notes due 2009, including the form of notes (incorporated by reference to Exhibits 4.6(a-c) to the June 30, 2002 Form 10-Q).                                                                                                                                                                                                                                                                                       |
| 10.1     | Purchase and Manufacturing Services Agreement effective as of January 19, 2007, between NCR Corporation and Solectron Corporation (now Flextronics International Ltd.) (incorporated by reference to Exhibit 10.6 to the Form 10-K/A for the fiscal year ended December 31, 2006, filed June 4, 2008). Certain portions of this exhibit were granted confidential treatment by the Securities and Exchange Commission on October 2, 2008. |
| 31.1     | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated October 28, 2008.                                                                                                                                                                                                                                                                                             |
| 31.2     | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 dated October 28, 2008.                                                                                                                                                                                                                                                                                             |
| 32       | Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated October 28, 2008.                                                                                                                                                                                                                                                                                             |

**Table of Contents**

**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, 2008

By: /s/ Anthony Massetti  
Anthony Massetti  
Senior Vice President and Chief Financial Officer