

NCR CORP  
Form 10-Q  
May 12, 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 March 31, 2008**

**Commission File Number 001-00395**

**NCR CORPORATION**

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**31-0387920**  
(I.R.S. Employer  
Identification No.)

Edgar Filing: NCR CORP - Form 10-Q

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 April 30, 2008, was approximately 167.5 million.

**Table of Contents****TABLE OF CONTENTS**

Description	Page
<b><u>PART I. Financial Information</u></b>	
Item 1. <u>Financial Statements</u>	
<u>Condensed Consolidated Statements of Operations (Unaudited) Three Months Ended March 31, 2008 and 2007</u>	3
<u>Condensed Consolidated Balance Sheets (Unaudited) March 31, 2008 and December 31, 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows (Unaudited) Three Months Ended March 31, 2008 and 2007</u>	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>	21
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	26
Item 4. <u>Controls and Procedures</u>	27
Description	Page
<b><u>PART II. Other Information</u></b>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
Item 3. <u>Defaults Upon Senior Securities</u>	34
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	34
Item 5. <u>Other Information</u>	34
Item 6. <u>Exhibits</u>	34
<u>Signatures</u>	36
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 March 31</b>	
	<b>2008</b>	<b>2007</b>
Product revenue	\$ 603	\$ 486
Service revenue	580	506
<b>Total revenue</b>	<b>1,183</b>	<b>992</b>
Cost of products	441	411
Cost of services	483	424
Selling, general and administrative expenses	159	145
Research and development expenses	35	29
<b>Total operating expenses</b>	<b>1,118</b>	<b>1,009</b>
<b>Income (loss) from operations</b>	<b>65</b>	<b>(17)</b>
Interest expense	6	6
Other income, net	(7)	(9)
Income (loss) from continuing operations before income taxes	66	(14)
Income tax expense (benefit)	17	(5)
Income (loss) from continuing operations	49	(9)
(Loss) income from discontinued operations, net of tax	(1)	43
<b>Net income</b>	<b>\$ 48</b>	<b>\$ 34</b>
<b>Income (loss) per common share from continuing operations</b>		
Basic	\$ 0.28	\$ (0.05)
Diluted	\$ 0.28	\$ (0.05)
<b>Net income per common share</b>		
Basic	\$ 0.28	\$ 0.19
Diluted	\$ 0.27	\$ 0.19
<b>Weighted average common shares outstanding</b>		
Basic	173.0	179.3

Diluted	175.7	179.3
See Notes to Condensed Consolidated Financial Statements.		

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

In millions, except per share amounts

	March 31, 2008	December 31, 2007
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 851	\$ 952
Accounts receivable, net	1,048	1,167
Inventories, net	752	717
Other current assets	260	252
<b>Total current assets</b>	<b>2,911</b>	<b>3,088</b>
Property, plant and equipment, net	309	313
Goodwill	66	64
Prepaid pension cost	831	776
Deferred income taxes	208	210
Other assets	331	329
<b>Total assets</b>	<b>\$ 4,656</b>	<b>\$ 4,780</b>
<b>Liabilities and stockholders equity</b>		
Current liabilities		
Short-term borrowings	\$ 1	\$ 1
Accounts payable	481	516
Payroll and benefits liabilities	163	231
Deferred service revenue and customer deposits	432	359
Other current liabilities	380	423
<b>Total current liabilities</b>	<b>1,457</b>	<b>1,530</b>
Long-term debt	308	307
Pension and indemnity plan liabilities	450	433
Postretirement and postemployment benefits liabilities	362	359
Deferred income taxes	53	45
Income tax accruals	179	165
Other liabilities	158	165
Minority interests	22	19
<b>Total liabilities</b>	<b>2,989</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 March 31, 2008 and December 31, 2007		
Common stock: par value \$0.01 per share, 500.0 shares authorized, 169.8 and 178.2 shares issued and outstanding at March 31, 2008 and December 31, 2007, respectively		
	2	2
Paid-in capital	503	683
Retained earnings	1,656	1,608
Accumulated other comprehensive loss	(494)	(536)

Edgar Filing: NCR CORP - Form 10-Q

<b>Total stockholders equity</b>	1,667	1,757
<b>Total liabilities and stockholders equity</b>	\$ 4,656	\$ 4,780

See Notes to Condensed Consolidated Financial Statements.

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

In millions

	<b>Three Months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
<b>Operating activities</b>		
Net Income	\$ 48	\$ 34
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (income) from discontinued operations	1	(43)
Depreciation and amortization	29	27
Stock-based compensation expense	10	5
Excess tax benefit from stock-based compensation		(2)
Deferred income taxes	7	5
Gains on sale of property, plant and equipment	(17)	(4)
Changes in operating assets and liabilities:		
Receivables	119	67
Inventories	(35)	(37)
Current payables and accrued expenses	(94)	(74)
Deferred service revenue and customer deposits	73	41
Employee severance and pension	(21)	26
Other assets and liabilities	(39)	(2)
<b>Net cash provided by operating activities</b>	<b>81</b>	<b>43</b>
<b>Investing activities</b>		
Expenditures for property, plant and equipment	(17)	(22)
Proceeds from sales of property, plant and equipment	38	11
Additions to capitalized software	(15)	(12)
<b>Net cash provided by (used in) investing activities</b>	<b>6</b>	<b>(23)</b>
<b>Financing activities</b>		
Repurchases of Company common stock	(193)	
Excess tax benefit from stock-based compensation		2
Proceeds from employee stock plans	4	18
<b>Net cash (used in) provided by financing activities</b>	<b>(189)</b>	<b>20</b>
<b>Cash flows from discontinued operations</b>		
Net cash (used in) provided by operating activities	(13)	108
Net cash used in investing activities		(19)
Net cash provided by financing activities		2
<b>Net cash (used in) provided by discontinued operations</b>	<b>(13)</b>	<b>91</b>
Effect of exchange rate changes on cash and cash equivalents	14	2
(Decrease) increase in cash and cash equivalents	(101)	133
Cash and cash equivalents at beginning of period	952	947



<b>Cash and cash equivalents at end of period</b>	\$ 851	\$ 1,080
---	--------	----------

See Notes to Condensed Consolidated Financial Statements.

---

**Table of Contents**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**1. BASIS OF PRESENTATION**

The accompanying Condensed Consolidated Financial Statements have been prepared by NCR Corporation (NCR, the Company, we or us) without audit pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) 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.

As discussed in Note 10, 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. We have reclassified prior period segment information to conform to the current period presentation of our segment information.

**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.

**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 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.

**Table of Contents**

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 quarter ended March 31, 2008, the amount from bill and hold transactions approximated 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 March 31	
	2008	2007
<b>Comprehensive Income</b>		
Income (loss) from continuing operations	\$ 49	\$ (9)
Other comprehensive (loss) income, net of tax:		
Unrealized loss on securities	(2)	(1)
Unrealized loss on derivatives accounted for as hedges		(1)
Amortization of costs associated with pension, postemployment and postretirement benefits	15	22
Currency translation adjustments	29	5
Total comprehensive income from continuing operations	91	16
Total comprehensive (loss) income from discontinued operations	(1)	