NCR CORP
Form 10-Q
August 05, 2008
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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 June 30, 2008

Commission File Number 001-00395

NCR CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**31-0387920**
(State or other jurisdiction of	**(I.R.S. Employer**

incorporation or organization) **Identification No.)**

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 x 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 x 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 x

Number of shares of common stock, $0.01 par value per share, outstanding as of July 31, 2008, was approximately 163.6 million.

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Part I. Financial Information

Item 1. Financial Statements
Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended June 30		Six Months Ended June 30	
In millions, except per share amounts	**2008**	**2007**	**2008**	**2007**
Product revenue	$ 704	$ 630	$ 1,307	$ 1,116
Service revenue	628	549	1,208	1,055
Total revenue	1,332	1,179	2,515	2,171
Cost of products	512	454	953	865
Cost of services	533	456	1,016	880
Selling, general and administrative expenses	184	160	343	305
Research and development expenses	41	30	76	59
Total operating expenses	1,270	1,100	2,388	2,109
Income from operations	62	79	127	62
Interest expense	5	6	11	12
Other income, net	(5)	(7)	(12)	(16)
Income from continuing operations before income taxes	62	80	128	66
Income tax expense	17	29	34	24
Income from continuing operations	45	51	94	42
(Loss) income from discontinued operations, net of tax	(1)	47	(2)	90
Net income	$ 44	$ 98	$ 92	$ 132
Income per common share from continuing operations				
Basic	$ 0.27	$ 0.28	$ 0.55	$ 0.23
Diluted	$ 0.26	$ 0.28	$ 0.54	$ 0.23
Net income per common share				
Basic	$ 0.26	$ 0.54	$ 0.54	$ 0.73
Diluted	$ 0.26	$ 0.54	$ 0.53	$ 0.72
Weighted average common shares outstanding				
Basic	166.8	180.1	169.9	179.7
Diluted	169.9	182.8	172.8	182.4

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	June 30, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 754	$ 952
Accounts receivable, net	991	1,167
Inventories, net	735	717
Other current assets	285	252
Total current assets	2,765	3,088
Property, plant and equipment, net	305	313
Goodwill	67	64
Prepaid pension cost	841	776
Deferred income taxes	202	210
Other assets	376	329
Total assets	$ 4,556	$ 4,780
Liabilities and stockholders equity		
Current liabilities		
Short-term borrowings	$ 301	$ 1
Accounts payable	469	516
Payroll and benefits liabilities	176	231
Deferred service revenue and customer deposits	411	359
Other current liabilities	418	423
Total current liabilities	1,775	1,530
Long-term debt	8	307
Pension and indemnity plan liabilities	442	433
Postretirement and postemployment benefits liabilities	362	359
Deferred income taxes	56	45
Income tax accruals	181	165
Other liabilities	127	165
Minority interests	19	19
Total liabilities	2,970	3,023
Commitments and contingencies (Note 8)		
Stockholders equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding at June 30, 2008 and December 31, 2007		
Common stock: par value $0.01 per share, 500.0 shares authorized, 165.1 and 178.2 shares issued and outstanding at June 30, 2008 and December 31, 2007, respectively	2	2
Paid-in capital	389	683
Retained earnings	1,700	1,608
Accumulated other comprehensive loss	(505)	(536)
Total stockholders equity	1,586	1,757

Total liabilities and stockholders equity	$ 4,556	$ 4,780

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Six Months Ended June 30 2008	2007
Operating activities		
Net Income	$ 92	$ 132
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (income) from discontinued operations	2	(90)
Depreciation and amortization	55	54
Stock-based compensation expense	20	9
Excess tax benefit from stock-based compensation	(1)	(5)
Deferred income taxes	21	22
Gains on sale of property, plant and equipment	(27)	(4)
Changes in operating assets and liabilities:		
Receivables	176	9
Inventories	(18)	(63)
Current payables and accrued expenses	(103)	(53)
Deferred service revenue and customer deposits	52	15
Employee severance and pension	(4)	(10)
Other assets and liabilities	(115)	11
Net cash provided by operating activities	150	27
Investing activities		
Expenditures for property, plant and equipment	(36)	(30)
Proceeds from sales of property, plant and equipment	53	11
Additions to capitalized software	(32)	(23)
Other investing activities, business acquisitions and divestitures, net	(23)	1
Net cash used in investing activities	(38)	(41)
Financing activities		
Repurchases of Company common stock	(320)	
Excess tax benefit from stock-based compensation	1	5
Short-term borrowings, additions	1	
Short-term borrowings, repayments		(1)
Proceeds from employee stock plans	10	36
Other financing activities, net		1
Net cash (used in) provided by financing activities	(308)	41
Cash flows from discontinued operations		
Net cash (used in) provided by operating activities	(16)	206
Net cash used in investing activities		(51)
Net cash provided by financing activities		3
Net cash (used in) provided by discontinued operations	(16)	158
Effect of exchange rate changes on cash and cash equivalents	14	7
(Decrease) increase in cash and cash equivalents	(198)	192
Cash and cash equivalents at beginning of period	952	947
Cash and cash equivalents at end of period	$ 754	$ 1,139

See Notes to Condensed Consolidated Financial Statements.

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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.

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

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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 six month periods ended June 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

	Three Months Ended June 30		Six Months Ended June 30	
In millions	**2008**	**2007**	**2008**	**2007**
Comprehensive Income				
Income from continuing operations	**$ 45**	$ 51	**$ 94**	$ 42
Other comprehensive (loss) income, net of tax:				
Unrealized loss on securities			**(2)**	(1)
Unrealized loss on derivatives accounted for as hedges	**(1)**	(1)	**(1)**	(2)
Amortization of costs associated with pension, postemployment and postretirement benefits	**15**	21	**30**	43
Currency translation adjustments	**(25)**	20	**4**	25
Comprehensive income from continuing operations	**34**	91	**125**	107
Comprehensive (loss) income from discontinued operations	**(1)**	49	**(2)**	94
Total comprehensive income	**$ 33**	$ 140	**$ 123**	$ 201

Comprehensive income from discontinued operations for the three months ended June 30, 2007 includes $47 million of income from discontinued operations, net of tax, as well as $2 million of other comprehensive income related to the discontinued operation. Comprehensive income from discontinued operations for the six months ended June 30, 2007 includes $90 million of income from discontinued operations, net of tax, as well as $4 million of other comprehensive income related to the discontinued operation.

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In millions	June 30, 2008	December 31, 2007
Inventories, net		
Work in process and raw materials	**$ 132**	$ 138
Finished goods	**205**	194
Service parts	**398**	385
Total inventories, net	**$ 735**	$ 717

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. See Note 12, Fair Value of Assets and Liabilities, for further discussion of the adoption 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 its 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 adoption of SFAS 141R is not expected to have a material impact on the Company s financial position, results of operations or liquidity; however, our accounting for all business combinations after adoption will comply with the new standard.

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 November 15, 2008. The adoption of SFAS 161 is not expected to 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.

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FASB Staff Position No. FAS 142-3 In April 2008, the FASB issued FASB Staff Position 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 generally accepted accounting principles (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 for approximately 650 employee terminations, 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. The realignment activities and the associated costs recorded in the second quarter of 2008 primarily relate to geographic reportable segments of Americas and Europe, Middle East and Africa (EMEA). The results by segment, reported under Statement of Financial Accounting Standards No. 131, *Disclosures about Segments of an Enterprise and Related Information* as disclosed in Note 11, Segment Information, excludes the impact of these costs, which is consistent with the manner by which management assesses the performance and views the results of each segment. 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*. The accrued liability of $32 million related to this initiative was recorded in the Condensed Consolidated Balance Sheet in other current liabilities. The Company made $3 million in payments during the three months ended June 30, 2008 and expects that the remaining $29 million will primarily be paid during the second half of 2008. The Company also expects additional realignment activities during the second half of 2008 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.

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 Europe, Middle East and Africa region as well as the Asia Pacific and Japan region. As expected, this realignment has improved productivity and freed capital to invest in revenue-generating programs in sales, engineering and market development. As a result of this realignment, in the first quarter of 2007, the Company recorded $46 million for employee severance and other termination benefits in cost of products. Of the $46 million initially recorded for this realignment, $37 million was recorded as a discrete cost in accordance with SFAS 112, and the remainder was recorded in accordance with SFAS 146. As some employees were terminated prior to eligibility for severance and others were expected to continue employment in other parts of the Company, as well as due to the mix of employees differing from the original expected employee mix, the amount of severance payouts was lower than originally estimated. Accordingly, the Company reduced the manufacturing realignment reserve by $11 million in the second quarter of 2007 to reflect the change in estimate. This reduction was recorded in cost of products in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2007. As of December 31, 2007, $11 million of the reserve remained for this initiative, of which $9 million was utilized through payments during the first six months of 2008. The reserve balance of approximately $2 million as of June 30, 2008 is expected to be paid over the balance of 2008. This initiative resulted in approximately 1,100 employee terminations.

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. As of December 31, 2007, $7 million of the initial reserve for this initiative remained, which was fully utilized in the six months ended June 30, 2008.

The following table summarizes the reserve liability for these realignment activities as of December 31, 2007 and as of June 30, 2008, which is included on the Condensed Consolidated Balance Sheets in other current liabilities. The cash expenditures necessary to satisfy the remaining obligations are expected to be paid primarily during the remainder of 2008.

In millions	**Employee Severance and Other Benefits**
Restructuring reserves	
Balance as of December 31, 2007	**$ 18**
Costs recognized during the six months ended June 30, 2008	**32**
Payments during the six months ended June 30, 2008	**(19)**
Ending balance as of June 30, 2008	**$ 31**

In the six months ended June 30, 2008, the Company recognized $23 million in gains in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations from the sale of two separate properties in Canada. During the first quarter of 2008, the Company recognized a $16 million gain from the sale of a manufacturing facility in Canada, and in the second quarter of 2008, the Company recognized a $7 million gain from the sale of a separate property in Canada.

5. IDENTIFIABLE INTANGIBLE ASSETS

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	**June 30, 2008**		**December 31, 2007**	
In millions	**Amortization Life (in Years)**	**Gross Carrying Amount**	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Identifiable intangible assets					
Non-compete arrangements	3 - 5	**$ 6**	**$ (3)**	$ 5	$ (3)
Intellectual property	2 - 5	**47**	**(31)**	45	(27)
Total identifiable intangible assets		**$ 53**	**$ (34)**	$ 50	$ (30)

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The increase in the intellectual property and the non-compete intangible assets since December 31, 2007 is primarily due to our investments made 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	Six months ended June 30, 2008	For the year ended (estimated) 2008	2009	2010	2011	2012
Amortization expense	**$ 4**	$ 9	$ 8	$ 4	$ 1	$ 1

6. STOCK COMPENSATION PLANS

As of June 30, 2008, the Company s primary types of share-based compensation were stock options and restricted stock. The Company recorded stock-based compensation expense for the periods ended June 30 as follows:

In millions	Three Months Ended June 30 2008	2007	Six Months Ended June 30 2008	2007
Stock options	**$ 4**	$ 2	**$ 8**	$ 5
Restricted stock	**6**	2	**12**	4
Total stock-based compensation (pre-tax)	**10**	4	**20**	9
Tax benefit	**(3)**	(2)	**(6)**	(3)
Total stock-based compensation, net of tax	**$ 7**	$ 2	**$ 14**	$ 6

Stock-based compensation expense is recognized in the financial statements based upon fair value. Stock-based compensation expense increased compared to prior year, primarily due to expected performance against targets, higher grant activity and the modifications of stock awards for NCR employees in connection with the spin-off of Teradata on September 30, 2007. The modifications resulted in the establishment of new service and performance-based measures for a portion of the awards outstanding at the time of the spin-off. As these adjustments were modifications of awards in accordance with Statement of Financial Accounting Standards No. 123 (revised 2004) (SFAS 123R), *Share-Based Payment,* the Company compared the fair value of the awards immediately prior to the modification to the fair value immediately after the modification to measure the incremental stock-based compensation cost. These modifications resulted in an increased expense of $1 million for the three months ended June 30, 2008 and approximately $3 million for the six months ended June 30, 2008.

The weighted average fair value of option grants was estimated based on the below weighted average assumptions and was $8.63 for the three months ended June 30, 2008 and $7.41 for the six months ended June 30, 2008.

	Three Months Ended June 30 2008	2007	Six Months Ended June 30 2008	2007
Dividend yield				
Risk-free interest rate	**3.09%**	4.63%	**2.59%**	4.51%
Expected volatility	**32.7%**	31.6%	**31.9%**	32.5%
Expected holding period (years)	**5.1**	5.0	**5.1**	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.

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7. EMPLOYEE BENEFIT PLANS

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

In millions	U.S. Pension Benefits 2008	2007	International Pension Benefits 2008	2007	Total Pension Benefits 2008	2007
Net service cost	**$**	$	**$ 8**	$ 11	**$ 8**	$ 11
Interest cost	**49**	46	**27**	23	**76**	69
Expected return on plan assets	**(62)**	(62)	**(34)**	(32)	**(96)**	(94)
Amortization of:						
Prior service cost			**2**	3	**2**	3
Actuarial loss		1	**17**	20	**17**	21
Net benefit (income) cost	**$ (13)**	$ (15)	**$ 20**	$ 25	**$ 7**	$ 10

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

In millions	U.S. Pension Benefits 2008	2007	International Pension Benefits 2008	2007	Total Pension Benefits 2008	2007
Net service cost	**$**	$	**$ 16**	$ 21	**$ 16**	$ 21
Interest cost	**97**	92	**54**	45	**151**	137
Expected return on plan assets	**(124)**	(123)	**(67)**	(63)	**(191)**	(186)
Amortization of:						
Prior service cost			**4**	6	**4**	6
Actuarial loss		2	**33**	41	**33**	43
Net benefit (income) cost	**$ (27)**	$ (29)	**$ 40**	$ 50	**$ 13**	$ 21

Of the total net benefit cost presented above, the cost related to discontinued operations was $2 million and $4 million for the three and six months ended June 30, 2007, respectively.

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

In millions	Three Months Ended 2008	2007	Six Months Ended 2008	2007
Interest cost	**$ 2**	$ 2	**$ 4**	$ 4
Amortization of:				
Prior service benefit	**(4)**	(4)	**(7)**	(7)
Actuarial loss	**1**	2	**2**	3
Net benefit income	**$ (1)**	$	**$ (1)**	$

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

In millions	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Net service cost	**$ 6**	$ 8	**$ 12**	$ 16
Interest cost	**4**	1	**8**	6
Amortization of:				
Actuarial loss	**3**	7	**6**	13
Net benefit cost	**$ 13**	$ 16	**$ 26**	$ 35
Restructuring severance cost (benefit)	**28**	(8)	**28**	29
Total postemployment cost	**$ 41**	$ 8	**$ 54**	$ 64

Of the total postemployment cost presented above, the cost related to discontinued operations was $4 million and $8 million for the three and six months ended June 30, 2007, respectively.

Employer Contributions

Pension For the three months ended June 30, 2008, NCR contributed approximately $18 million to its international pension plans and $2 million to its executive pension plan. For the six months ended June 30, 2008, NCR contributed approximately $33 million to its international pension plans and $4 million to its executive pension plan. NCR anticipates contributing an additional $47 million to its international pension plans for a total of $80 million and $6 million to its executive pension plan for a total of $10 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 June 30, 2008, the Company made $4 million in contributions to its U.S. postretirement plan. For the six months ended June 30, 2008, the Company made $8 million in contributions to its U.S. postretirement plan. NCR anticipates contributing an additional $10 million to its U.S. postretirement plan for a total of $18 million in 2008.

Postemployment For the three months ended June 30, 2008, NCR contributed approximately $10 million to its postemployment plans, including $2 million related to the organizational realignment initiative which started in the second quarter of 2008. For the six months ended June 30, 2008, the Company made $29 million in contributions to its postemployment plans, including $15 million related to the manufacturing and Japan realignment initiatives and $2 million related to the organizational realignment initiative. NCR anticipates contributing an additional $53 million to its postemployment plans in 2008 for a total of $82 million. This total includes $41 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 June 30, 2008 cannot currently be reasonably determined.

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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.

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 June 30, 2008, the reserve for the Fox River matter was approximately $79 million compared to $85 million as of December 31, 2007. The change in the reserve was due primarily to utilizations for payment of clean-up activities and legal fees. During the second quarter of 2007, NCR increased its net reserve for the Fox River matter, which resulted in $7 million in net expense in other income, net in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2007. 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 not expected to be completed until late 2008 at the earliest. 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 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 third or fourth quarter of 2008. At the same time, certain PRPs and the Governments are exploring value engineering concepts intended to reduce the costs of the remediation, though these efforts are 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.

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. As of June 30, 2008, there were 22 defendants in the case, and a number of counterclaims seeking contribution under CERCLA had been filed against NCR and API. No trial date or other schedule has been set for this lawsuit.

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 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 I 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 is estimated to be between $537 million (assuming no cost-overrun contingency) and $664 million (assuming a 30% contingency). However, there can be no assurances that these amounts will not be significantly higher. The cost information obtained through the RFP responses, and the subsequent proposal refinement and continuing negotiations, suggest these amounts and the best estimate of clean-up costs may increase, but the contractor negotiations must be completed and the referenced value engineering analysis must progress further, 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 new information NCR obtained in the prior year. 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 that has been collected over the last few years, along with various analyses of this data, have allowed NCR to move away from its prior discharge analysis and use this proximity approach. 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.

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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 advent of the allocation litigation referenced above, the initial bids received in response to the RFP, the subsequent value engineering efforts designed to render the clean-up more efficient and less costly, 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, 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 and 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 June 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 June 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

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warranty percentages for the respective product classes. From time to time, product design or quality corrections are accomplished through modification programs. When identified, associated costs of labor and parts for such programs are estimated and accrued as part of the warranty reserve.

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

In millions	2008	2007
Warranty reserve liability		
Beginning balance at January 1	**$ 13**	$ 13
Accruals for warranties issued	**30**	17
Settlements (in cash or in kind)	**(28)**	(18)
Ending balance at June 30	**$ 15**	$ 12

The accruals for warranties issued increased for the six months ended June 30, 2008 compared to the six months ended June 30, 2007 due to higher product revenue and the increase of 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 NCR s continuing operations for the three and six months ended June 30, 2008 was 27%. This compares to an effective tax rate of 36% for the three and six months ended June 30, 2007. The effective tax rate was lower primarily due to the $11 million net adjustment to increase income tax expense recorded in the second quarter of 2007 as described in Note 1, Basis of Presentation. Considering the impact of this adjustment, the effective tax rate was higher for the three and six months ended June 30, 2008 compared to the prior year periods due to an unfavorable mix of taxable profits and losses by country.

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.

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

In millions, except per share amounts	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Income from continuing operations	**$ 45**	$ 51	**$ 94**	$ 42
(Loss) income from discontinued operations	**(1)**	47	**(2)**	90
Net Income applicable to common shares	**44**	98	**92**	132
Weighted average outstanding shares of common stock	**166.8**	180.1	**169.9**	179.7
Dilutive effect of employee stock options and restricted stock	**3.1**	2.7	**2.9**	2.7
Common stock and common stock equivalents	**169.9**	182.8	**172.8**	182.4
Basic earnings (loss) per share:				
From continuing operations	**$ 0.27**	$ 0.28	**$ 0.55**	$ 0.23
From discontinued operations	**$ (0.01)**	$ 0.26	**$ (0.01)**	$ 0.50
Net earnings per share (Basic)	**$ 0.26**	$ 0.54	**$ 0.54**	$ 0.73
Diluted earnings (loss) per share:				
From continuing operations	**$ 0.26**	$ 0.28	**$ 0.54**	$ 0.23
From discontinued operations	**$**	$ 0.26	**$ (0.01)**	$ 0.49
Net earnings per share (Diluted)	**$ 0.26**	$ 0.54	**$ 0.53**	$ 0.72

Options to purchase less than 0.1 million shares of common stock for the second quarter of 2008 and the second quarter of 2007, as well as less than 0.1 million shares for the first six months of 2008 and the first six 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 six months ended June 30, 2008, the Company repurchased approximately 13.8 million shares of its common stock for $320 million, of which approximately 5.2 million shares were repurchased during the second quarter of 2008 for $127 million. The Company did not repurchase shares during the six months ended June 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 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.

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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 property 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 June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Revenue by segment				
Americas	$ 578	$ 519	$ 1,065	$ 943
EMEA	513	441	1,006	819
APJ	241	219	444	409
Total revenue	1,332	1,179	2,515	2,171
Gross margin by segment				
Americas	108	106	201	191
EMEA	146	109	268	194
APJ	57	49	103	88
Total - Segment gross margin	311	264	572	473
Selling, general and administrative expenses	175	158	349	301
Research and development expenses	35	30	67	58
Pension expense	(7)	(8)	(13)	(17)
Other adjustments [1]	(32)	11	(16)	(35)
Income from operations	$ 62	$ 79	$ 127	$ 62

(1) Other adjustments include $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 the first and second quarter of 2007 include amounts associated with the manufacturing realignment initiative.

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

In millions	Three Months Ended June 30 2008	Three Months Ended June 30 2007	Six Months Ended June 30 2008	Six Months Ended June 30 2007
Product revenue	**$ 704**	$ 630	**$ 1,307**	$ 1,116
Professional and installation services revenue	**164**	155	**300**	282
Total solution revenue	**868**	785	**1,607**	1,398
Support services revenue	**464**	394	**908**	773
Total revenue	**$ 1,332**	$ 1,179	**$ 2,515**	$ 2,171

12. FAIR VALUE OF ASSETS AND LIABILTIES

The Company adopted SFAS No. 157 effective January 1, 2008. For accounting purposes, SFAS No. 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

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