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

FORM 10-Q

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

For the quarterly period ended September 30, 2004

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.)

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 an accelerated filer (as defined by Rule 12b-2 of the Act): Yes ☒ No ☐

Number of shares of common stock, \$0.01 par value per share, outstanding as of October 31, 2004, was approximately 93.2 million.

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Part I. Financial Information

Item 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

In millions, except per share amounts

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Product revenue	\$ 762	\$ 671	\$ 2,151	\$ 1,937
Service revenue	692	684	2,045	2,018
Total revenue	1,454	1,355	4,196	3,955
Cost of products	489	425	1,377	1,252
Cost of services	570	556	1,709	1,663
Selling, general and administrative expenses	278	285	832	852
Research and development expenses	58	56	174	171
Total operating expenses	1,395	1,322	4,092	3,938
Income from operations	59	33	104	17
Interest expense	6	7	17	20
Other (income) expense, net	(4)	1	(15)	32
Income (loss) before income taxes	57	25	102	(35)
Income tax expense (benefit)	13	7	(59)	(13)
Net income (loss)	\$ 44	\$ 18	\$ 161	\$ (22)
Net income (loss) per common share				
Basic	\$ 0.47	\$ 0.19	\$ 1.71	\$ (0.23)
Diluted	\$ 0.46	\$ 0.19	\$ 1.68	\$ (0.23)
Weighted average common shares outstanding				
Basic	93.3	94.6	94.0	95.1
Diluted	95.2	95.3	95.8	95.1

See Notes to Condensed Consolidated Financial Statements.

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CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
In millions, except per share amounts

	September 30 2004	December 31 2003
Assets		
Current assets		
Cash, cash equivalents and short-term investments	\$ 625	\$ 689
Accounts receivable, net	1,143	1,230
Inventories, net	392	308
Other current assets	215	195
Total current assets	2,375	2,422
Reworkable service parts and rental equipment, net	218	232
Property, plant and equipment, net	479	514
Goodwill	119	105
Prepaid pension cost	1,368	1,386
Deferred income taxes	554	558
Other assets	297	263
Total assets	\$ 5,410	\$ 5,480
Liabilities and Stockholders' Equity		
Current liabilities		
Short-term borrowings	\$ 4	\$ 3
Accounts payable	419	414
Payroll and benefits liabilities	282	300
Customer deposits and deferred service revenue	375	362
Other current liabilities	514	500
Total current liabilities	1,594	1,579
Long-term debt	307	307
Pension and indemnity plan liabilities	490	484
Postretirement and postemployment benefits liabilities	260	272
Other liabilities	828	941
Minority interests	15	22
Total liabilities	3,494	3,605
Commitments and contingencies (Note 10)		
Stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 92.6 and 94.7 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively	1	1
Paid-in capital	1,034	1,166
Retained earnings	860	699
Accumulated other comprehensive income	21	9
Total stockholders' equity	1,916	1,875
Total liabilities and stockholders' equity	\$ 5,410	\$ 5,480

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
In millions

	Nine Months Ended September 30	
	2004	2003
Operating Activities		
Net income (loss)	\$ 161	\$ (22)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	204	238
Deferred income taxes	2	12
Income tax adjustment (Note 7)	(85)	—
Other adjustments, net	—	3
Changes in assets and liabilities:		
Receivables	91	52
Inventories	(83)	(56)
Current payables	(26)	—
Customer deposits and deferred service revenue	12	(8)
Employee severance and pension	21	12
Other assets and liabilities	(56)	43
Net cash provided by operating activities	241	274
Investing Activities		
Net expenditures and proceeds for service parts	(65)	(67)
Expenditures for property, plant and equipment	(55)	(42)
Proceeds from sales of property, plant and equipment	8	6
Expenditures for capitalized software	(63)	(50)
Other investing activities, net	(43)	(4)
Net cash used in investing activities	(218)	(157)
Financing Activities		
Purchases of company common stock	(271)	(74)
Short-term borrowings, net	1	6
Long-term borrowings, net	—	1
Cash received from real estate transaction (Note 4)	50	—
Proceeds from employee stock plans	136	15
Other financing activities, net	—	(21)
Net cash used in financing activities	(84)	(73)
Effect of exchange rate changes on cash and cash equivalents	(3)	11
(Decrease) increase in cash and cash equivalents	(64)	55
Cash and cash equivalents at beginning of period	689	526
Cash and cash equivalents at end of period	\$ 625	\$ 581

See Notes to Condensed Consolidated Financial Statements.

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 presentation of the consolidated results of operations, financial position, and cash flows for each period presented. The consolidated results for the interim period are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with NCR's Annual Report on Form 10-K for the year ended December 31, 2003.

Certain prior year amounts have been reclassified to conform with the 2004 presentation.

2. SUPPLEMENTAL FINANCIAL INFORMATION

<i>In millions</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Comprehensive Income				
Net income (loss)	\$ 44	\$ 18	\$ 161	\$ (22)
Other comprehensive income, net of tax:				
Unrealized (loss) gain on securities	(1)	(1)	1	4
Unrealized (loss) gain on derivatives	(1)	2	7	4
Additional minimum pension liability	—	1	—	1
Currency translation adjustments	(6)	2	4	51
Total comprehensive income	\$ 36	\$ 22	\$ 173	\$ 38

<i>In millions</i>	September 30 2004	December 31 2003
Inventories		
Work in process and raw materials	\$ 90	\$ 75
Finished goods	302	233
Total inventories, net	\$ 392	\$ 308
Other long-term liabilities		
Tax accruals	\$ 643	\$ 730
Other	185	211
Total other long-term liabilities	\$ 828	\$ 941

3. NEW ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 46 In January 2003, the Financial Accounting Standards Board (FASB) issued Interpretation No. 46 (FIN 46), "Consolidation of Variable Interest Entities," an Interpretation of Accounting Research Bulletin (ARB) No. 51, "Consolidated Financial Statements." FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or the entity does not have sufficient equity at risk. Also, FIN 46 requires disclosure of significant variable interests in variable interest entities in which a company is not required to consolidate. In December 2003, the FASB revised FIN 46 for certain implementation provisions and extended the effective date of the pronouncement to the first quarter of 2004. As a result, the Company adopted the revised guidance on January 1, 2004. Management evaluated the revised provisions of FIN 46 and determined that the adoption of this pronouncement did not have a material impact on the Company's results of operations, financial position or cash flows.

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Emerging Issues Task Force (EITF) Issue 03-6 In March 2004, the EITF ratified the consensus on EITF Issue 03-6, “Participating Securities and the Two-Class Method under FASB Statement No. 128.” The consensus requires the use of a two-class method of calculating earnings per share under FASB Statement No. 128, “Earnings Per Share,” when a company has participating securities. A participating security is defined as a security that may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. NCR does not currently have any participating securities, and although this guidance was adopted in the second quarter of 2004, it did not have any impact on the Company’s results of operations.

Emerging Issues Task Force (EITF) Issue 04-8 In September 2004, the EITF reached consensus on EITF Issue 04-8, “The Effect of Contingently Convertible Debt on Diluted Earnings per Share,” which provides guidance on when the dilutive effect of contingently convertible debt securities with a market price trigger should be included in diluted Earnings per Share. The guidance is effective for all periods ending after December 15, 2004. The guidance of EITF Issue 04-8 is not expected to have a material impact on NCR’s earnings per share calculation for either the fourth quarter or the full year 2004 results.

4. RESTRUCTURING AND REAL ESTATE TRANSACTIONS

During the fourth quarter of 2002, in connection with announced restructuring efforts, NCR’s management approved a real estate consolidation and restructuring plan designed to accelerate the Company’s re-engineering strategies. A pre-tax restructuring charge of \$8 million was recorded in the fourth quarter of 2002 under EITF Issue No. 94-3, “Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity,” to provide for contractual lease termination costs. The balance of this recorded liability at December 31, 2003, was \$7 million. For the nine months ended September 30, 2004, NCR utilized \$3 million of the reserve. The majority of the lease obligations will continue through 2005, with one remaining obligation continuing to 2009.

For the nine months ended September 30, 2004, the Company recognized \$3 million (after-tax) in net income from the disposal of real estate that was previously classified as held for sale. The net book value of the properties was \$7 million. One of these properties has a note receivable bearing interest at 5% with nominal principal payments before a balloon payment of \$5 million in 2007.

Also, the Company executed a sale-leaseback transaction for property owned in Japan in the first quarter of 2004. Due to the terms of the leaseback, the transaction was treated as a financing activity, and the \$50 million of proceeds was required to be treated as an obligation of the Company until the property is vacated by NCR. Therefore, the cash received from the buyer of \$50 million has been classified in financing activities on the statement of cash flows and as a current liability on the balance sheet. The net book value of the land and building of \$32 million as of September 30, 2004, is classified as property, plant and equipment on the balance sheet. The Company will recognize the gain of approximately \$12 million (pre-tax, net of selling expenses) from the completion of this transaction when the building is vacated, which is expected to occur in the fourth quarter of 2004.

5. OTHER INTANGIBLE ASSETS

NCR’s other intangible assets, which were specifically identified when acquired, are deemed to have finite lives and are being amortized over original periods ranging from three to ten years. The gross carrying amount and accumulated amortization for NCR’s other intangible assets were as follows:

	September 30, 2004		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<i>In millions</i>				
Other Intangible Assets				
Patents	\$ 14	\$ (12)	\$ 19	\$ (15)
Intellectual property	19	(5)	13	(5)
Total Other Intangible Assets	\$ 33	\$ (17)	\$ 32	\$ (20)

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The decrease in Patents since December 31, 2003 is due to a patent becoming fully amortized in the first quarter of 2004; therefore, it is no longer listed in the table above. The increase in intellectual property since December 31, 2003, is primarily due to the purchase of intellectual property licenses from Accenture LLP as part of our long-term service agreement. These assets are being amortized over a five year life beginning in 2004.

The aggregate amortization expense (actual and estimated, in millions) for other intangible assets for the following periods is:

For the nine months ended September 30, 2004	For the year ended (estimated)				
	December 31, 2004	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008
\$ 3	\$ 5	\$ 5	\$ 4	\$ 2	\$ 2

6. LONG-TERM DEBT

In June 2002, the Company issued \$300 million of senior unsecured notes with an interest rate of 7.125% due in 2009. The net proceeds from the issuance totaled \$296 million, after discount and expenses, and were used to repay short-term debt with the remainder available for general corporate purposes. In the fourth quarter of 2003, the Company entered into an interest rate swap which effectively converted \$50 million of the notes to floating rate debt.

The most significant portion of the Company's other long-term debt consists of notes payable originating in the United States with interest rates ranging from 8.95% to 9.5% with maturities of \$0.3 million in 2004, \$0.6 million in 2010, and \$5 million in 2020.

7. INCOME TAXES

During the second quarter of 2004, NCR had tax accrual reversals totaling \$85 million, which were recorded as income tax benefits, due to the settlement of tax audits for the period in which NCR was a subsidiary of AT&T Corp. (AT&T). These accruals were created during the early to mid-1990s for identified tax matters and remained on NCR's balance sheet after the Company's spin-off from AT&T. AT&T closed these audits with the United States Internal Revenue Service. The result of this entry on the balance sheet was to decrease other long-term liabilities by \$85 million. Also, the \$85 million is shown on the statement of cash flows as a reconciling item between net income and cash provided by operating activities.

In October 2004, Congress passed the "American Jobs Creation Act of 2004" (otherwise known as AJCA). The Company is currently evaluating the potential impact of the provisions within the AJCA such as the opportunity for a lower tax rate for domestic manufacturing and the one-time repatriation of foreign earnings.

8. STOCK COMPENSATION PLANS AND STOCK REPURCHASE PROGRAMS

Stock Compensation Plans

The NCR Management Stock Plan (the Plan) provides for the grant of several different forms of stock-based benefits, including stock options, relating to shares of NCR common stock. Stock options are generally granted at the fair market value of the common stock at the date of grant, generally have a ten-year term and vest within three years of the grant date. Options to purchase common stock may be granted under the authority of the Board of Directors. Option terms as determined by the Compensation Committee of the Board of Directors will not exceed ten years, as consistent with the Internal Revenue Code. The Plan was adopted by the Board of Directors, with stockholder approval, effective January 1, 1997.

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NCR accounts for its stock-based employee compensation plans using the intrinsic value-based method in accordance with Accounting Principles Board Opinion No. 25 (APB No. 25), which requires compensation expense for options to be recognized when the market price of the underlying stock exceeds the exercise price on the date of grant. In addition, no compensation expense is recorded for purchases under the Employee Stock Purchase Plan (ESPP) in accordance with APB No. 25. If NCR recognized stock option-based compensation expense based on the fair value of stock option grants, restricted stock grants, and employee stock purchases under the ESPP at the grant date, net income (loss) and net income (loss) per basic and diluted share for the three months and nine months ended September 30 would have been as follows:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<i>In millions, except for per share data</i>				
Net income (loss)	\$ 44	\$ 18	\$ 161	\$ (22)
Stock-based employee compensation expense included in reported net income (loss) (pre-tax)	1	1	4	3
Tax (benefit) expense of stock-based employee compensation included in reported net income (loss)	(1)	—	(2)	(1)
Subtotal: Add to net income (loss)	—	1	2	2
Total stock-based employee compensation expense determined under fair value based method for awards (pre-tax)	9	11	25	32
Tax (benefit) expense of stock-based employee compensation determined under fair value based method for awards	(2)	(2)	2	12
Subtotal: Deduct from net income (loss)	7	9	27	44
Pro forma net income (loss)	\$ 37	\$ 10	\$ 136	\$ (64)
Basic net income (loss) per share:				
As reported:	\$ 0.47	\$ 0.19	\$ 1.71	\$ (0.23)
Pro forma:	\$ 0.40	\$ 0.11	\$ 1.45	\$ (0.67)
Diluted net income (loss) per share:				
As reported:	\$ 0.46	\$ 0.19	\$ 1.68	\$ (0.23)
Pro forma:	\$ 0.39	\$ 0.10	\$ 1.42	\$ (0.67)

The pro forma amounts listed above are not necessarily indicative of the effects on net income and net income per diluted share in future years. See Management's Discussion and Analysis of Financial Condition and Results of Operations, "Factors That May Affect Future Results" section, included in this Form 10-Q for a further discussion of stock compensation accounting and its effect on NCR.

The pro forma net loss and net loss per diluted share for all periods presented were computed using the fair value of options as calculated using the Black-Scholes option-pricing method. The following weighted average assumptions were used for the three months and nine months ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Dividend yield	—	—	—	—
Risk-free interest rate	3.63%	3.09%	2.99%	3.01%
Expected volatility	45%	45%	45%	45%
Expected holding period (years)	5	5	5	5

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Purchase of Company Common Stock

For the nine months ended September 30, 2004, the Company purchased 6 million shares of its common stock at an average price per share of \$45.15 under a 2000 Board of Directors share repurchase program and a 1999 Board of Directors share repurchase program. The 2000 Board of Directors share repurchase program authorizes the Company to purchase NCR common stock to the extent of cash received from the exercise of stock options and the ESPP. Under the 1999 Board of Directors authorized program, the Company has \$35 million remaining for NCR common stock purchases. Additional information on these share repurchases is outlined in Part II, Item 2 “Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities” of this quarterly report.

On October 27, 2004, the Board of Directors authorized the repurchase of an additional \$250 million of the Company’s outstanding shares of common stock. This authorization extends the Board’s previous authorization under this stock repurchase program given in 1999 and gives the Company a total remaining authorization of \$285 million to repurchase outstanding shares of NCR common stock.

9. EMPLOYEE BENEFIT PLANS

Components of net periodic benefit expense for the three months ended September 30 are as follows:

<i>In millions</i>	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2004	2003	2004	2003	2004	2003
Net service cost	\$ 9	\$ 11	\$ 9	\$ 11	\$ 18	\$ 22
Interest cost	45	45	22	19	67	64
Expected return on plan assets	(53)	(50)	(29)	(32)	(82)	(82)
Settlement charge	—	—	5	7	5	7
Curtailment charge	—	—	1	—	1	—
Amortization of:						
Transition asset	—	—	—	—	—	—
Prior service cost	—	1	1	—	1	1
Actuarial loss	17	14	11	5	28	19
Net benefit cost	\$ 18	\$ 21	\$ 20	\$ 10	\$ 38	\$ 31

Components of net periodic benefit expense for the nine months ended September 30 are as follows:

<i>In millions</i>	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2004	2003	2004	2003	2004	2003
Net service cost	\$ 35	\$ 35	\$ 31	\$ 32	\$ 66	\$ 67
Interest cost	134	134	64	57	198	191
Expected return on plan assets	(155)	(150)	(96)	(97)	(251)	(247)
Settlement charge	—	—	5	7	5	7
Curtailment charge	1	—	1	—	2	—
Amortization of:						
Transition asset	(1)	(1)	—	—	(1)	(1)
Prior service cost	—	4	4	4	4	8
Actuarial loss	48	41	31	13	79	54
Net benefit cost	\$ 62	\$ 63	\$ 40	\$ 16	\$ 102	\$ 79

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

<i>In millions</i>	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
Net service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	3	5	8	16
Expected return on plan assets	—	—	—	—
Curtailment charge (credit)	—	(12)	—	(12)
Amortization of:				
Prior service cost (benefit)	(3)	1	(9)	(2)
Actuarial loss	1	1	3	5
Net benefit cost (benefit)	\$ 1	\$ (5)	\$ 2	\$ 7

Employer Contributions

Pension For the three months ended September 30, 2004, NCR made no contributions to its U.S. qualified pension plan, and contributed approximately \$23 million to its international plans, and \$2 million to its executive plan. For the nine months ended September 30, 2004, NCR made no contributions to its U.S. qualified pension plan, and contributed approximately \$63 million to its international plans, and \$6 million to its executive plan. NCR anticipates contributing an additional \$44 million to international pension plans and \$2 million to its executive pension plan in 2004 for a total of \$107 million and \$8 million, respectively. NCR does not anticipate making cash contributions to its U.S. qualified pension plan in 2004.

During the second quarter of 2004, NCR made changes to its U.S. defined benefit pension plans in order to limit the plan's participants to U.S.-based employees who were at least 40 years old and hired as of August 31, 2004. While this change does not result in an immediate reduction of the 2004 full year pension expense, the Company believes it will reduce the expense for the U.S. plans in future periods.

Postretirement For the three months ended September 30, 2004, the Company made \$10 million in contributions to its U.S. postretirement plan. For the nine months ended September 30, 2004, NCR made \$29 million in contributions to its U.S. postretirement plan. NCR anticipates contributing an additional \$9 million to its U.S. postretirement plan for a total of \$38 million in 2004.

10. 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 consolidated financial statements, as prescribed by accounting principles generally accepted in the United States (otherwise known as GAAP), are adequate in light of the probable and estimable liabilities. 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 discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's consolidated financial statements or will not have a material adverse effect on its consolidated results of operations, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of September 30, 2004, cannot currently be reasonably determined.

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 (FWPCA) and comparable state statutes, and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA), as amended, and comparable state statutes.

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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 are 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 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 include P.H. Glatfelter Company, Georgia-Pacific Corp. (formerly Fort James), WTM I Co. (formerly Wisconsin Tissue Mills, now owned by Chesapeake Corporation), Riverside Paper Corporation, U.S. Paper Mills Corp. (owned by Sonoco Products Company), and Menasha Corporation.

The governmental and other entities making such claims against NCR and the other PRPs have agreed to coordinate their actions, including the assertion of claims against the PRPs. Additionally, certain claimants have notified NCR and the other PRPs of their intent to commence a natural resource damage (NRD) lawsuit, but have not as yet instituted litigation; and one of the claimants, the U.S. Environmental Protection Agency (USEPA), has formally proposed the Fox River site for inclusion on the CERCLA National Priorities List, but no action has yet been taken on this proposal.

NCR's reserve for the Fox River matter has decreased from the end of the fourth quarter of 2003 to reflect the incurrence of ongoing Fox River-related expenses (which are charged against and reduce the reserve). The reserve was approximately \$71 million as of September 30, 2004 (after taking into consideration amounts expected to be recovered under an indemnity agreement discussed below). The Company 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.

On July 28, 2003, 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 addresses 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 the two portions of the lower part of the Fox River covered by the ROD – Operable Units (OUs) 3 and 4 – the Governments have selected large scale dredging as the remedial approach. The Governments estimate that approximately 6.5 million cubic yards of sediment will be removed from these portions at an estimated cost of approximately \$284 million. The Governments also identify “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 have selected monitored natural attenuation as the remedial approach at an estimated cost of approximately \$40 million. The Governments also indicate that some limited dredging near the mouth of the river might be required, but this will be determined during the design stage of the project. In January 2003, the Governments issued their ROD for the upper portions of the Fox River – OUs 1 and 2. Combining the cost estimates from both RODs, it appears the Governments expect the selected remedies for all five OUs to cost approximately \$400 million exclusive of contingencies.

NCR believes the Governments' cost estimates omit some categories of cost, use unit costs that are lower than what might reasonably be expected, and underestimate the cost of some portions of the selected remedy. As a result, the total clean-up costs could be substantially higher, and the cost estimates are subject to many uncertainties. Now that the final clean-up decision has been made for the lower portions of the Fox River, the Governments have initiated the engineering design of the remedy, a process that could take three to four years. Actual dredging in the lower portions will not begin until the design work is complete. The Governments have indicated they expect the design and dredging work to take at least ten years.

By letter dated September 30, 2003, the Governments notified NCR and 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 design work for OUs 2-5. In response, NCR and Georgia-Pacific (G-P) in March 2004 entered into an Administrative Order on Consent (AOC) with the Governments to perform the remedial design work for OUs 2-5.

NCR, in conjunction with the other PRPs, has developed a substantial body of evidence that may demonstrate that the eventual implementation of alternatives involving river-wide restoration/remediation, particularly massive dredging, would be inappropriate and unnecessary. There is ongoing debate within the scientific, regulatory, legal, public policy and legislative

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communities over how to properly manage large areas of contaminated sediments, and NCR believes there is a high degree of uncertainty about the appropriate scope of alternatives that may ultimately be required by the Governments.

Notwithstanding the issuance of the RODs, the extent of NCR's potential liability is subject to many uncertainties at this time. NCR's eventual liability – which is expected to be paid out over a period of at least ten years, and likely as long as twenty to forty or more years – will depend on a number of factors. In general, the most significant factors include: (1) the total clean-up costs for the site; (2) the total natural resource damages for the site; (3) the share NCR and API will jointly bear of the total 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 clean-up costs and natural resource damages; and (5) NCR's transaction costs to defend itself in this matter. In setting 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 probable outcomes, and there is no amount within that range that appears 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, total clean-up costs for the site, NCR has determined that there is a range of equally probable outcomes, and that no estimate within that range is better than the other estimates. Accordingly, NCR uses the low-end of that range, which is now \$480 million. This amount is derived by taking the Governments' estimate for total clean-up costs – \$400 million – and increasing it by 20% to reflect NCR's analysis that indicates the Governments' own cost estimates are understated. For example, NCR's review indicates that the Governments' \$400 million cost number omits some categories of cost, uses unit costs that are lower than what might reasonably be expected, and underestimates the cost of some elements of the selected remedy. However, there can be no assurances that this amount will not be significantly higher. For example, one consultant has expressed an opinion that total clean-up costs for the site could be approximately \$1.1 billion.
- Second, for total natural resource damages, NCR has determined that there is a range of equally probable outcomes, and that no estimate within that range is better than the other estimates. Accordingly, NCR uses the low-end of that range, which is the lowest estimate in the Governments' 2000 report on natural resource damages. This amount is \$176 million.
- Third, for the NCR/API share of clean-up costs and natural resource damages, NCR examined figures developed by several independent, nationally-recognized engineering and paper-industry experts, along with those set forth in draft government reports. Again, the Company determined that there is a range of equally probable outcomes, and that no estimate within that range is better than the other estimates. Accordingly, NCR uses the low-end of that range, which is based primarily on an estimate of the joint NCR/API percentage of direct discharges of PCBs to the river.
- Fourth, for the NCR share of the joint NCR/API payments, the Company estimates that it would pay approximately half of the total costs jointly attributable to NCR/API. This is based on a sharing agreement between NCR and API, the terms of which are confidential. This factor assumes that API is able to pay its share of the NCR/API joint share.
- Finally, for NCR's transaction costs to defend this matter, the Company has estimated the costs that are likely to be incurred over the ten years ending in 2013, the time period the Governments project it will take to design 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 the Company's defense and transaction costs will be in the future. NCR expects that the bulk of these transaction costs will be incurred over the first four to five years of this time period, when the remedy will be designed and the initial dredging will begin. Once dredging is underway, NCR believes that its transaction costs may decrease significantly on an annual basis.

While it remains difficult to predict, NCR does not expect there to be any significant near-term changes to any of the above-described estimates that are likely to have a material effect on the amount of our accrual. However, there are other estimates for each of these factors which are significantly higher than the estimates described above. NCR believes there is such uncertainty surrounding these estimates that it cannot quantify the high-end of the range of such estimates.

NCR has discussed above the Company's overall, long-term exposure to the Fox River liability. However, NCR's short-term liability for this matter is limited. In December 2001, NCR and API entered into an interim settlement with the Governments

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that limits NCR/API's joint cash payouts to \$10 million per year over a four-year period beginning at the time of such interim settlement. Any portion of an annual \$10 million installment not paid out in a given year will be rolled over and made available for payment during subsequent years up until December 10, 2005. In exchange for these payments, the Governments have agreed not to take any enforcement actions against NCR and API during the term of the settlement. These payments are being shared by NCR and API under the terms of the confidential settlement agreement discussed above and will be credited against NCR's long-term exposure for this matter. NCR's share of these payments was taken into account in determining its reserve. Six and a half million of the amounts paid under the interim settlement will be used to fund part of the design work NCR and G-P are performing under the AOC discussed above.

AT&T and Lucent Technologies, Inc. (Lucent) are jointly responsible for indemnifying NCR for a portion of amounts for the Fox River incurred by NCR over a certain threshold. NCR's estimate of what AT&T and Lucent will pay under the indemnity is recorded as a long-term receivable of \$15 million and is deducted in determining the net amount discussed above.

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 taken from the Governments' decisions, reports and supporting documents), estimates as to the number and participation level of any other PRPs, the extent of the contamination, and the nature of required remedial and restoration actions. Accruals are adjusted as further information develops or circumstances change. Management expects that the amounts accrued 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 consolidated financial statements are the estimated gross undiscounted amounts of such liabilities (except for the Fox River site where the Governments' clean-up decisions and supporting documents set forth estimates for certain long-term costs at net present worth), without deductions for insurance or third-party indemnity claims. 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 would be reflected as receivables in the consolidated financial statements. For the Fox River site, an asset relating to the AT&T and Lucent indemnity has been recognized, as payment is deemed probable.

Other Commitments

During the second quarter of 2004, the Company entered into a settlement agreement with a partner in the Customer Services business for fees owed from a services agreement entered into in 2002 that continues to be in existence through the date of this report. During the six months ended June 30, 2004, the Company recorded charges of \$11 million associated with the settlement, and as of June 30, 2004, the Company had a reserve of \$12 million. As a result of the settlement, a \$10 million payment was made in the third quarter of 2004 along with the utilization of an additional \$1 million primarily related to other 2004 matters with this services partner. The reserve as of September 30, 2004, was \$1 million and is expected to be utilized in the fourth quarter of 2004.

Guarantees and Product Warranties

Guarantees associated with NCR's business activities are reviewed for appropriateness and impact to the Company's financial statements. Periodically, NCR's customers enter into various leasing arrangements coordinated by NCR with a leasing partner. In some instances, NCR guarantees the leasing partner a minimum value at the end of the lease term on the leased equipment or guarantees lease payments between the customer and the leasing partner. As of September 30, 2004, the maximum future payment obligation of this guaranteed value was \$8 million and an associated liability balance of \$7 million.

NCR has an equity investment in an affiliate in which the Company has issued debt guarantees originally five years in length for the affiliate to third party lending institutions. These guarantees expire at various dates in 2007. If default occurs, NCR's maximum amount of future payment obligation on these guarantees would be \$2 million at September 30, 2004. The Company has not recorded a liability in connection with these guarantees.

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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 historic factors such as labor rates, average repair time, travel time, number of service calls per machine, and cost of replacement parts. Each business unit consummating a sale recognizes the total customer revenue and records the associated warranty liability using pre-established warranty percentages for that product class. Any additional warranty coverage requested by NCR's customers is accounted for as a maintenance contract and revenue is recognized over the contract life. 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 following table identifies the activity relating to the warranty reserve:

In millions	Nine Months Ended September 30	
	2004	2003
Warranty reserve liability		
Beginning balance at January 1	\$ 18	\$ 16
Accruals for warranties issued	32	30
Settlements (in cash or in kind)	(31)	(30)
Ending balance at September 30	\$ 19	\$ 16

NCR also offers extended warranties to its customers as maintenance contracts. NCR accounts for these contracts by deferring the related maintenance revenue over the extended warranty period. Amounts associated with these maintenance contracts 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 consolidated financial condition, results of operations, or cash flows.

11. EARNINGS PER SHARE

Basic earnings per share are 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, except that the weighted average number of shares outstanding includes the additional dilution from potential common stock, such as stock options and restricted stock awards, when appropriate.

In accordance with Statement of Financial Accounting Standards No. 128, "Earnings per Share," potential common shares were excluded from the fully diluted shares and corresponding fully diluted earnings per share for the nine months ended September 30, 2003, as the inclusion thereof would have been antidilutive due to the net loss for that period. For the nine months ended September 30, 2003, the fully diluted shares would have been 95.9 million shares.

12. ACQUISITIONS

On September 30, 2004, the Company acquired Kinetics, Inc. (Kinetics), a leading provider of self-service solutions for the travel industry that is headquartered in Lake Mary, Florida. This acquisition further strengthens NCR's self-service portfolio enabling the Company to extend its market reach and leadership to additional market segments like airline and hotel check-in, quick-service food ordering and event ticketing. The acquisition was accounted for as a purchase. While the Company is still finalizing the purchase price allocation, approximately \$8 million of the purchase price was allocated to software development costs, and the Company recorded goodwill of approximately \$15 million, allocated to the Retail Store Automation business unit. The \$26 million cash payment made to complete this acquisition is reported as other investing

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activities within the Condensed Consolidated Statements of Cash Flows as of September 30, 2004. The operating results of Kinetics will be included in the Company's consolidated financial statements from September 30, 2004 forward. The pro forma disclosures required under FASB Statement No. 141 "Business Combinations" are not being provided because the impact of the transaction is not material.

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13. SEGMENT INFORMATION

NCR is managed through the following business units which are also the Company's operating segments: (1) Data Warehousing, (2) Financial Self Service, (3) Retail Store Automation, (4) Payment and Imaging, (5) Systemedia, (6) Customer Services, and (7) Other, which primarily relates to the resale of third-party hardware and related professional and installation services in our high availability and networking services businesses, and to a business that is not aligned to NCR's other segments.

The following table presents data for revenue by operating segment for the periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<i>In millions</i>				
Revenue by segment				
Data Warehousing				
Products	\$ 155	\$ 126	\$ 493	\$ 423
Professional and installation-related services	83	82	240	235
	<u>238</u>	<u>208</u>	<u>733</u>	<u>658</u>
Data Warehousing solution	238	208	733	658
Data Warehousing support services	74	66	216	194
	<u>312</u>	<u>274</u>	<u>949</u>	<u>852</u>
Total Data Warehousing revenue	312	274	949	852
Financial Self Service				
Products	276	214	736	600
Professional and installation-related services	62	57	183	157
	<u>338</u>	<u>271</u>	<u>919</u>	<u>757</u>
Total Financial Self Service revenue	338	271	919	757
Retail Store Automation				
Products	156	147	427	389
Professional and installation-related services	61	63	167	174
	<u>217</u>	<u>210</u>	<u>594</u>	<u>563</u>
Total Retail Store Automation revenue	217	210	594	563
Systemedia	127	119	358	353
Payment and Imaging				
Products	28	25	74	76
Professional and installation-related services	8	9	27	25
	<u>36</u>	<u>34</u>	<u>101</u>	<u>101</u>
Total Payment and Imaging revenue	36	34	101	101
Customer Services				
Professional and installation-related services	77	81	233	225
Customer Service Maintenance:				
Financial Self Service	145	137	422	405
Retail Store Automation	115	113	344	350
Payment and Imaging	26	26	81	79
Other	89	99	271	308
	<u>452</u>	<u>456</u>	<u>1,351</u>	<u>1,367</u>
Total Customer Services revenue	452	456	1,351	1,367
Other				
Products	20	40	63	96
Professional and installation related services	22	27	76	75
	<u>42</u>	<u>67</u>	<u>139</u>	<u>171</u>
Total Other revenue	42	67	139	171
Elimination of installation-related services included in both the Customer Services segment and other reported segments	(70)	(76)	(215)	(209)
	<u>\$ 1,454</u>	<u>\$ 1,355</u>	<u>\$ 4,196</u>	<u>\$ 3,955</u>
Total Revenue	\$ 1,454	\$ 1,355	\$ 4,196	\$ 3,955

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The following table presents a reconciliation of total revenue from the revenue by operating segment table to revenue reported on the condensed consolidated statements of operations:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<i>In millions</i>				
Total Product Revenue	\$ 762	\$ 671	\$ 2,151	\$ 1,937
Total Services Revenue	692	684	2,045	2,018
Total Revenue	\$ 1,454	\$ 1,355	\$ 4,196	\$ 3,955

The following table presents data for operating income (loss) by segment for the periods ended September 30:

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<i>In millions</i>				
Operating income (loss) by segment				
Data Warehousing	\$ 42	\$ 21	\$ 151	\$ 84
Financial Self Service	63	47	134	88
Retail Store Automation	11	9	8	(14)
Systemedia	2	5	5	7
Payment and Imaging	5	4	11	14
Customer Services	4	11	(8)	21
Other	(9)	(11)	(30)	(40)
Elimination of installation-related services operating income included in both the Customer Services segment and other reported segments	(21)	(22)	(65)	(64)
Subtotal - Segment operating income	97	64	206	96
Pension expense	(38)	(31)	(102)	(79)
Total income (loss) from operations	\$ 59	\$ 33	\$ 104	\$ 17

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

Overview

The third quarter of 2004 was another strong quarter as we continued to generate revenue growth along with a significant increase in operating income. We continued to see strong demand for our Data Warehousing and Financial Self Service solutions during the quarter along with the realization of benefits from our actions to reduce cost and expenses. Our progress with respect to our key value drivers in the third quarter of 2004 is as follows:

- **Data Warehousing revenue growth** – Data Warehousing doubled its operating income in the third quarter of 2004 compared to the third quarter of 2003 in large part due to significant revenue growth as companies continue to invest in the strong analytic value proposition our Teradata® data warehouses provide.
- **Financial Self Service revenue growth** – Financial Self Service is continuing to grow revenue at a significant rate due to an automated teller machine (ATM) upgrade cycle in the United States related to regulatory standards and strong growth in both the Europe/Middle East/Africa (EMEA) and Asia/Pacific regions.
- **Retail Store Automation profitability** – Retail Store Automation achieved an operating profit of \$11 million in the third quarter of 2004. With a year-to-date operating profit of \$8 million, the business is well positioned to achieve full-year profitability. NCR also strengthened its self-service portfolio with the acquisition of Kinetics, Inc. which broadens Retail Store Automation's portfolio of self-service products with an ability to reach additional market segments like airline and hotel check-in, quick-service food ordering and event ticketing.
- **Customer Services performance** – Customer Services generated operating income in the third quarter of 2004 despite continued revenue declines. Although we are continuing our actions to improve the financial results of this segment, we are still being hampered by price erosion due to competition and a less favorable mix of high-margin maintenance revenue from businesses we exited in the 1990s.
- **Cost and expense reductions** – The cost and expense reductions started in 2003 continue to yield benefits to our gross margin and operating income.

Each of these drivers is discussed in greater detail in other sections of this MD&A.

We also made progress this quarter on our key strategic initiatives. These initiatives and the actions we are taking are as follows:

- 1) **Continue to improve our value propositions** – With our Teradata data warehouses continually being recognized as a best-in-class product and our ATM business experiencing significant growth for the year to date period, we believe the value propositions we provide are strong. We plan to continue to make investments in areas of research and development and other value added activities to further enhance our current product offerings.
- 2) **Enhance demand creation** – We continue to make investments in the hiring of additional sales people to increase NCR's market coverage. As an example, our percentage of sales related personnel to total headcount is at one of the highest levels ever for our Data Warehousing business. Increasing our sales force is driving additional opportunities through our sales process, which we then need to convert into wins. NCR was successful in the third quarter of 2004 in converting more opportunities into wins, but the timing of capital spending decisions by our customers has a large impact on this process.
- 3) **Improve performance in Customer Services** – The strategy in our Customer Services business has been changing as we are focused on increasing the maintenance capture rate of NCR products with less emphasis on servicing non-NCR products. This should be accomplished by increasing our focus on selling products and services together because we believe this gives us a competitive advantage and increases the effectiveness of our sales people.

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Our Customer Services business continues to experience a revenue base that is declining at a faster rate than we can reduce costs. This is partially due to our global operations because we operate in regions, such as Europe, where it is difficult to reduce headcount. We continue to analyze our operations to reduce costs, but we are also taking actions, which may have an increased expense impact in the short-term, to position this business for long-term financial success. Part of this strategy includes increased severance actions that we plan to take over the next year. Despite the impact to current and future year results, decisions such as this should position this business for long-term success.

- 4) **Continue to reduce our cost structure** – To improve our competitive position in the market, we continue to optimize our cost and expense structure. We have completed the actions that should deliver \$200 million of cumulative cost savings in 2004, even after absorbing incremental costs associated with the Sarbanes-Oxley Act of 2002 and the negative impact from foreign currency fluctuations. Furthermore, we expect to achieve our goal of delivering \$250 million of annualized cost savings in 2005, using 2002 as a starting point. Limiting our spending along with longer term benefits of modifying our pension and other benefit plans will facilitate further reduction of our cost structure for the long-term success of the Company.

We expect to continue with these initiatives throughout 2004 and into 2005, as we position the Company for growth and profitability.

Results of Operations for Three Months Ended September 30, 2004 Compared to Three Months Ended September 30, 2003

<i>In millions</i>	2004	2003
Consolidated revenue	\$1,454	\$1,355
Consolidated gross margin	\$ 395	\$ 374
Consolidated operating expenses:		
Selling, general and administrative expenses	278	285
Research and development expenses	58	56
Consolidated income from operations	\$ 59	\$ 33

Total Company revenue increased 7% in the third quarter of 2004 versus the same period for 2003 due to double-digit revenue growth in Financial Self Service and Data Warehousing. The effects of foreign currency fluctuations provided a 3 percentage point favorable impact on total revenue. While we do not believe this represents a turnaround in the technology spending environment, we are encouraged because we believe this revenue growth is an indicator of our strong value propositions. Income from operations during the three months ended September 30, 2004 grew to \$59 million as we continue to leverage our cost and expense reductions against increases in revenue due to higher volumes.

Effects of Pension, Postemployment, and Postretirement Benefit Plans

Gross margin and operating expenses for the three months ended September 30, 2004 and 2003, were impacted by certain employee benefit plans as follows:

<i>In millions</i>	Three Months Ended September 30	
	2004	2003
Pension expense	\$ 38	\$ 31
Postemployment expense	22	21
Postretirement expense (income)	1	(5)
Net expense	\$ 61	\$ 47

During the three months ended September 30, 2004, NCR incurred \$38 million of pension expense compared to \$31 million in the third quarter of 2003. The increase was due primarily to discount rate reductions and increased amortization of actual investment returns between 2000 and 2002, which were less than expected. NCR expects to recognize a total of approximately \$140 million of pension expense in 2004. Also during the second quarter, we made changes to our U.S.

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defined benefit pension plans to limit the plan's participants to U.S.-based employees who were at least 40 years old and hired as of August 31, 2004. While this change does not result in an immediate reduction of our pension expense, we believe it will reduce the expense for the U.S. plans in future periods.

Postemployment plan expense during the three months ended September 30, 2004 was \$22 million compared to \$21 million during the same period last year. The \$1 million increase for the quarter is primarily due to refinements in the information supporting our involuntary turnover assumption for the severance plan based on planned headcount reduction actions, primarily concentrated in our Customer Services business. The Company continues to expect approximately \$100 million of severance-related postemployment benefits expense in 2004. Also during the third quarter of 2004, postretirement plan expense was \$1 million compared to income of \$5 million for the same three months in 2003. The net amount in 2003 was due to a \$12 million one-time benefit related to the elimination of U.S. postretirement life insurance benefits in late 2003 and an increase in the rate of contributions from retiree participants effective in 2004.

For the third quarter of 2004, gross margin declined to 27.2% as a percentage of revenue compared to 27.6% for the three months ended September 30, 2003, partially due to the increased pension and severance costs mentioned above. Both product and service margins declined in the year-over-year comparison with a majority of the pension and severance expense being absorbed by services. Product gross margin declines were primarily due to hardware price erosion in our Self Service business from competitive pressures and an adverse product mix in our Data Warehousing revenue.

Total operating expenses, characterized as "selling, general and administrative expenses" and "research and development expenses" in the Condensed Consolidated Statement of Operations, were \$336 million for the third quarter of 2004 compared to \$341 million during the same period of 2003. As a percentage of revenue, total operating expenses improved to 23.1% in the third quarter of 2004 from 25.2% for the same period of 2003. We continue to curtail our overall spending while reallocating some of these resources to demand creation and research and development activities for our three major product businesses.

Results of Operations by Segment

Our key solutions are categorized as Data Warehousing, Financial Self Service, Retail Store Automation and Customer Services, each of which is a reportable operating segment. In addition, our Systemedia and Payment and Imaging solutions are reportable segments. A seventh segment, Other, primarily relates to the Company's resale of third-party computer hardware and related professional and installation services, and to a business in Japan that is not aligned with our other segments. Our segments are comprised of hardware, software, and professional and installation-related services.

For purposes of discussing our operating results by segment, we exclude the impact of certain items from operating income or loss, consistent with the manner by which management views each segment and reports our operating segment results under Statement of Financial Accounting Standards No. 131 (SFAS 131), "Disclosures about Segments of an Enterprise and Related Information." 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 operating income or loss for each reporting segment presented and discussed below. Our segment results are reconciled to total Company results reported under accounting principles generally accepted in the United States of America (otherwise known as GAAP) in Note 13 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 in the third quarter of 2004.

Data Warehousing: Data Warehousing revenue increased 14% during the third quarter of 2004 to \$312 million from \$274 million in the third quarter of 2003. We continued to be very successful in closing many of our open opportunities this quarter due to the strong value propositions our Data Warehousing solutions provide. Revenue growth for this segment was driven from double-digit growth in both our products and support services. Foreign currency fluctuations provided a 3 percentage point benefit to the current period revenue. Due to higher volume, improvement in services profitability and reduction in infrastructure costs, operating income increased to \$42 million for the three months ended September 30, 2004, from \$21 million for the third quarter of 2003.

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Financial Self Service: Financial Self Service revenue grew to \$338 million in the third quarter of 2004 from \$271 million for the same period in 2003, representing a 25% increase. Foreign currency fluctuations provided a 4 percentage point benefit to revenue in the third quarter of 2004. This revenue growth was driven by double-digit growth in all regions. In the Americas region, we continued to benefit from an upgrade cycle in the United States due to regulatory changes. In the EMEA and Asia/Pacific regions we had several key wins due to financial institutions continuing to replace older units as well as continued growth in developing markets such as Eastern Europe and India. In addition, there was a sale in the third quarter of 2004 in the EMEA region of ATM units that a customer was previously renting from NCR. In the third quarter of 2004, operating income improved significantly to \$63 million from \$47 million for the same period of 2003. This growth was driven by the volume increases mentioned above and, to a much lesser extent, the favorable foreign currency movement.

Retail Store Automation: For the third quarter of 2004, Retail Store Automation revenue grew 3% to \$217 million from \$210 million in the third quarter of 2003. The increase in revenue was driven by foreign currency fluctuations which provided a 3 percentage point benefit to third quarter 2004 revenue. However, the Americas region has seen significant revenue growth beyond foreign currency as customers update their point-of-sale and scanner technology and continue to make investments in self-checkout and self-service kiosks. Also during the quarter, Retail Store Automation experienced an increase in operating income to \$11 million compared to \$9 million for the same period of 2003. The increase in operating income was due to continuing success with the volume expansion mentioned above as well as cost and expense reductions.

Systemedia: Systemedia experienced a 7% increase in revenue during the third quarter of 2004 as compared to the third quarter of 2003. The increase in revenue was mainly driven by growth in the Americas region as a result of increased demand in our laser forms and laser supplies offerings. Foreign currency fluctuations provided a 3 percentage point benefit to revenue during the quarter. Operating income decreased \$3 million primarily due to the impact of paper price increases which could not be passed on to customers under contract and the ongoing decline in sales of mature products such as traditional forms and proprietary inking products.

Payment and Imaging: For the third quarter of 2004, Payment and Imaging revenue grew 6% to \$36 million from \$34 million in the third quarter of 2003. The increase in revenue was primarily driven by growth in the Americas region from customers purchasing imaging solutions and moving away from traditional check processing equipment in response to the Check Clearing for the 21st Century Act (commonly referred to as "Check 21") and strong revenue growth in Japan. Foreign currency changes provided a 1 percentage point benefit to third quarter 2004 revenue. Operating income slightly increased to \$5 million in the third quarter of 2004 compared to \$4 million in the same period of 2003 primarily driven by revenue volume.

Customer Services: Revenue for Customer Services decreased 1% during the third quarter of 2004 to \$452 million while operating results decreased to \$4 million from \$11 million for the three months ended September 30, 2004 and 2003, respectively. Foreign currency changes provided a 3 percentage point benefit to revenues for the third quarter of 2004. The year-over-year financial results of this business continue to be adversely affected by price erosion due to strong competitive pressures and a declining base of higher-margin revenue from businesses that we exited in the 1990s. Actions continue to be taken to reduce the infrastructure cost within Customer Services which are expected to have a positive impact on operating income starting in 2005.

Other: Revenue for the Other segment decreased 37% to \$42 million in the three months ended September 30, 2004, from \$67 million during the same period for 2003 as we continue to de-emphasize third-party product sales. Operating loss decreased to \$9 million in the third quarter of 2004 from \$11 million in the third quarter of 2003. The lower operating loss in 2004 is reflective of declining sales of low-margin third-party hardware and expense reductions.

Revenue by Region

Regional revenue for the three months ended September 30, 2004, compared to the same period for 2003 increased 6% in the Americas, 9% in EMEA, 11% in Asia/Pacific and declined 9% in Japan. Changes in foreign currency rates provided a 8 percentage point, a 5 percentage point, and a 2 percentage point benefit to third quarter 2004 revenue in the EMEA, Japan, and Asia/Pacific regions, respectively. Strong volumes in our three major product segments of Financial Self Service, Retail Store Automation, and Data Warehousing drove the Americas revenue growth. The revenue growth in the EMEA region was mainly due to increased volumes in Financial Self Service and Data Warehousing as well as foreign currency fluctuations. The revenue growth in the Asia/Pacific regions was mainly due to increased volumes in Financial Self Service and Customer Services as well as foreign currency fluctuations. Finally, in our Japan region, revenue declines in Retail Store Automation, Customer Services and Data Warehousing led to the overall decrease.

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The Americas region comprised 49% of our total revenue in the third quarter of 2004, while the EMEA region comprised 32%, Asia/Pacific region comprised 11%, and Japan comprised 8%.

Interest expense and other income

Interest expense declined slightly to \$6 million for the quarter ended September 30, 2004, as compared to \$7 million in the third quarter of 2003.

Other income, net, for the third quarter of 2004 was \$4 million compared to \$1 million of expenses for the third quarter of 2003.

Provision for Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates calculated separately from the effect of significant infrequent or unusual items. Our tax rate of 23% for the third quarter of 2004 reflects a reduction from 28% for the same quarter of 2003 and a reduction from 27% for the second quarter of 2004. The Company expects its effective tax rate for the full-year 2004 to be 25%. As a result, the Company's tax rate for the third quarter of 2004 reflects the year-to-date adjustment associated with the lower rate. The reduction is principally due to an increased proportion of operating profits attributable to foreign operations. The full-year effective tax rate for 2005 is expected to be in line with the full-year 2004 effective tax rate.

NCR is working to resolve other tax matters related to prior years and anticipates the resolution to several of these matters in upcoming quarters. While NCR believes it is appropriately reserved with regard to these audits as of September 30, 2004, to the extent that additional tax benefits result from such resolutions, it would benefit the tax provision in the period in which such resolution is reached.

Results of Operations for Nine Months Ended September 30, 2004 Compared to Nine Months Ended September 30, 2003

<i>In millions</i>	2004	2003
Consolidated revenue	\$4,196	\$3,955
Consolidated gross margin	\$1,110	\$1,040
Consolidated operating expenses:		
Selling, general and administrative expenses	832	852
Research and development expenses	174	171
Consolidated income from operations	\$ 104	\$ 17

NCR's revenue of \$4,196 million for the nine months ended September 30, 2004 was a 6% increase from the prior year period. This growth included 4 percentage points of favorable impact from foreign currency fluctuations. We have experienced strong growth in our Financial Self Service business mainly due to higher product volumes, our Data Warehousing business for both products and services as well as additional growth in our Retail Store Automation business. Income from operations for the first nine months of 2004 was positively impacted from increases in volume for our three main product businesses, our cost and expense reductions, and benefits from foreign currency fluctuations. The increase in income from operations is of even greater significance considering the higher pension and severance costs we experienced during the 2004 period.

Effects of Pension, Postemployment, and Postretirement Benefit Plans

Gross margin and operating expenses for the nine months ended September 30, 2004 and 2003, were impacted by certain employee benefit plans as follows:

<i>In millions</i>	Nine Months Ended September 30	
	2004	2003
Pension expense	\$ 102	\$ 79
Postemployment expense	74	64
Postretirement expense	2	7
Net expense	\$ 178	\$ 150

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For the nine months ended September 30, 2004, NCR incurred \$102 million of pension expense compared to \$79 million for the same period for 2003. The increase was due primarily to discount rate reductions and increased amortization of actual investment returns between 2000 and 2002, which were less than expected. NCR expects to recognize a total of approximately \$140 million of pension expense in 2004. Also during 2004, we made changes to our U.S. defined benefit pension plans in order to limit eligibility to U.S. based employees who were at least 40 years old and hired as of August 31, 2004. While this change does not result in an immediate reduction of pension expense, we believe it will reduce pension expense related to the U.S. plans for future periods.

Postemployment plan expense during the nine months ended September 30, 2004 was \$74 million compared to \$64 million during the same period last year. The \$10 million increase is primarily due to refinements in the information supporting our involuntary turnover assumption for the severance plan based on planned headcount reduction actions, primarily concentrated in our Customer Services business. The Company continues to expect approximately \$100 million of severance-related postemployment benefits expense in 2004. Also, postretirement plan expense of \$2 million was lower than the expense of \$7 million for the nine month period in 2003. The decrease was due to the elimination of U.S. postretirement life insurance benefits in late 2003 and an increase in the rate of contributions from retiree participants effective in 2004.

We experienced a slight increase in gross margin for the nine months ended September 30, 2004, from the same period for 2003 to 26.5% from 26.3%. The gross margin increase of 0.2 percentage points was led by product margins, which experienced higher levels due to improved volumes. Our cost reductions combined with volume increases in Financial Self Service, Data Warehousing and Retail Store Automation assisted in this growth. On the services business, gross margin decreased to 16.4% for the first nine months of 2004 from 17.6% for the same period of 2003 as we experienced continued price erosion due to the competitive market and incremental operational costs which affected this business. Actions continue to be taken to reduce the infrastructure cost within Customer Services which are expected to have a positive impact on operating income starting in 2005.

Total operating expenses, characterized as “selling, general and administrative expenses” and “research and development expenses” in the Condensed Consolidated Statement of Operations, were \$1,006 million compared to \$1,023 million during the nine months ended September 30, 2004 and 2003, respectively. The total expense reduction was due to efforts to curtail our spending as we continue to challenge our infrastructure and benefit costs. While we continue our review of our overall cost structure, we are allocating additional spending to value-added activities such as sales and research and development for select business units in order to grow our revenue base.

Results of Operations by Segment

The description of our operating segments and the exclusion of certain items from operating income or loss of the operating results by segment discussed in this Management’s Discussion and Analysis under “Results of Operations by Segment” for the three months ended September 30, 2004, compared to the three months ended September 30, 2003, is incorporated by reference and made part hereof.

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 in the nine months ended September 30, 2004.

Data Warehousing: Revenue growth of 11% for Data Warehousing for the nine months ended September 30, 2004, was mainly driven by increased product volumes and to a lesser extent increased support services. Foreign currency fluctuations provided a 4 percentage point benefit to this segment’s revenues during the first nine months of 2004. This strong growth is indicative of customers valuing the superior analytical capabilities of our Data Warehousing solutions and the return on investment they can provide. While we have seen fluctuations in the information technology environment in the past, our outlook remains relatively positive as we expect to see flat revenue in the fourth quarter of 2004 as compared to a very strong fourth quarter of 2003. Operating income for the nine months ended September 30, 2004 and 2003, was \$151 million and \$84 million, respectively. The increase in operating income reflects the increased volumes and the benefits of cost and expense reductions implemented by this business unit.

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Financial Self Service: Revenue for Financial Self Service grew 21% to \$919 million in the first nine months of 2004. This increase was the result of growth in all regions. In the Americas region we continue to benefit from financial institutions in the United States upgrading their networks to meet recent regulatory changes. Growth in the EMEA region is attributable to new order growth for replacements of NCR and non-NCR equipment and expansion of ATM networks in Eastern Europe. Growth in the Asia/Pacific region is broad based with market expansion in India leading the way. The impact of foreign currency fluctuations provided a benefit of 5 percentage points to Financial Self Service revenue for the first nine months of 2004. Operating income also grew significantly to \$134 million from \$88 million for the nine months ended September 30, 2004 and 2003, respectively. Operating income improvements were driven by the increased volumes, favorable foreign currency movement, as well as cost and expense reductions.

Retail Store Automation: Retail Store Automation revenue grew 6% to \$594 million from \$563 million in the first nine months of 2004 as compared to the same period for 2003, respectively. Foreign currency fluctuations provided a 4 percentage point benefit to the 2004 period's revenue. The revenue growth was attributable to higher product volumes, as we continue to experience growth in self-checkout systems and point-of-sale terminals, as well as foreign currency rate changes. The operating income improvement of \$22 million or from an operating loss of \$14 million to \$8 million profit for the nine months ended September 30, 2004, is the result of cost and expense reductions, higher volumes mentioned above, and favorable foreign currency fluctuations.

Systemedia: Revenue for Systemedia increased 1% to \$358 million during the first nine months of 2004 as compared to the same period for 2003. Foreign currency fluctuations provided a benefit of 4 percentage points in revenues during the first nine months of 2004. Operating income was \$5 million compared to \$7 million for the nine months ended September 30, 2004 and 2003, respectively. This business continues to see heavy competition for traditional media products which affects both pricing and volumes. Product cost has been impacted by significant paper price increases which represents the largest percentage of product cost for this unit. Operating income was positively affected by manufacturing cost and expense reductions.

Payment and Imaging: Revenue was flat at \$101 million for Payment and Imaging in the nine months ended September 30, 2004 and 2003, respectively. Foreign currency fluctuations provided a 1 percentage point benefit to the 2004 nine month period revenue amount. Operating income decreased to \$11 million in the first nine months of 2004 from \$14 million for the nine month period ended September 30, 2003. As we have seen in the first nine months of 2004, we expect to see continued shifts in our revenue base from higher-margin traditional processing equipment to lower margin imaging solutions for the remainder of the year in response to regulatory changes.

Customer Services: Revenue for Customer Services decreased 1% to \$1,351 million during the first nine months of 2004 compared to the same period for 2003. Foreign currency fluctuations provided a 4 percentage point benefit to revenue during the period. Customer Services' revenue has been impacted by price erosion as competition for services remains strong. Also impacting the year-over-year comparison is the declining base of high-margin revenue associated with businesses we exited in the 1990s. Operating income has declined from price erosion as well as from actions we are taking to correct the operating trends of this business which are expected to have a positive impact on operating income starting in 2005. One of these actions is planned headcount reductions, which resulted in higher severance-related postemployment benefits expense for the nine month 2004 period.

Other: Revenue for this segment decreased 19% to \$139 million in the first nine months of 2004 from \$171 million during the same period for 2003. Operating loss was \$30 million in the first nine months of 2004 compared to \$40 million in the first nine months of 2003. The decline in revenue for the period was due to a continued de-emphasis of low-margin third-party product sales. The lower operating loss for this segment in 2004 is reflective of declining sales of low-margin third-party hardware and expense reductions.

Revenue by Region

Revenue in the first nine months of 2004 compared to the same period of 2003 increased 6% in EMEA, increased 5% in the Americas, increased 4% in the Asia/Pacific region, and decreased 2% in Japan. Changes in foreign currency rates provided a 8 percentage point, a 7 percentage point, and a 4 percentage point benefit to the 2004 period revenue in the EMEA, Japan, and Asia/Pacific regions, respectively. The growth in our EMEA region was primarily due to changes in foreign currency rates and increased volumes in Financial Self Service which was offset by declines in other businesses. In the Americas

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region, the revenue growth was attributable to strong volumes in our three major product segments of Financial Self Service, Retail Store Automation, and Data Warehousing. In the Asia/Pacific region, foreign currency changes primarily drove the revenue growth. However, certain segments, such as Financial Self Service and Data Warehousing, grew beyond the currency impact which was then offset by volume declines in other businesses. In Japan, volume declines were experienced in nearly every business.

The Americas region comprised 50% of our total revenue in the first nine months of 2004, the EMEA region comprised 32%, the Asia/Pacific region comprised 11%, and Japan comprised 7%.

Interest expense and other income

For the nine months ended September 30, 2004, interest expense decreased \$3 million to \$17 million as we benefited from lower debt levels and a variable interest rate swap we entered into in the fourth quarter of 2003. The variable rate of the swap is currently lower than the fixed rate of 7.125% on the debt and is providing us with the lower expense.

Other income, net, for the first nine months of 2004 was \$15 million compared to \$32 million of expenses for the same period of 2003. The 2004 amount includes \$4 million related to sales of real estate from the first quarter and a \$3 million acquisition break-up fee received from Optimal Robotics Corp. The nine months ended September 30, 2003, includes a \$35 million charge related to accruals for the Fox River environmental matter. This matter is discussed in Note 10 of the Notes to Condensed Consolidated Financial Statements.

Provision for Income Taxes

Income tax provisions for interim periods are based on estimated annual income tax rates calculated separately from the effect of significant infrequent or unusual items. Our effective tax rate excluding significant infrequent or unusual items of 25% for the nine months ended September 30, 2004, reflects a reduction from 28% for the same period of 2003 and a reduction from 27% for the six months ended June 30, 2004. The reduction in NCR's effective tax rate is principally due to an increased proportion of operating profits attributable to foreign operations during 2004, as compared to 2003. NCR expects its tax rate for the remainder of 2004 to be 25%. The full-year effective tax rate for 2005 is expected to be in line with the full-year 2004 effective tax rate.

Our nine months ended September 30, 2004 tax rate of -58% includes a second quarter significant infrequent item of \$85 million for tax accrual reversals due to the settlement of tax audits while NCR was a subsidiary of AT&T and is discussed in Note 7 of the Notes to Condensed Consolidated Financial Statements.

The tax rate for the first nine months of 2003 was favorably impacted by the resulting tax benefit from increases to the reserves for the Fox River environmental matter. This matter provided a \$13 million benefit to the tax provision for the year to date period.

Restructuring and Re-Engineering

During the third quarter of 2004, we continued with our re-engineering plans started in 2002 to drive operational efficiency throughout our organization. The key points from our activities in the third quarter of 2004 were as follows:

1) Continued reduction of costs and expenses – We continue to analyze the cost structure of the Company in order to improve our competitiveness in the markets in which we serve. We have completed the actions that should deliver \$200 million of cumulative cost savings in 2004, even after absorbing incremental costs associated with the Sarbanes-Oxley Act of 2002 and the negative impact from foreign currency fluctuations. In addition, during the second quarter, we announced actions, which were implemented in the third quarter of 2004, to reduce our pension expense in future years by making changes to our U.S. based pension plans. In the future, we may make similar changes to our international pension plans. We remain on track to achieve our goal of delivering \$250 million of annualized cost savings in 2005, using 2002 as a starting point.

2) Enterprise Resource Planning (ERP) system implementation – We completed the implementation of our ERP system in Belgium, Portugal, Spain, and the Netherlands during the third quarter of 2004 along with certain applications deployed to our operations in Germany, China, and India. For the remainder of the year, deployment of certain ERP business functions will occur on a very limited basis.

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3) Transition of transaction processing to Accenture LLP (Accenture) – Additional general ledger, accounts receivable, accounts payable, and service order management functions were transitioned to Accenture during the quarter. For certain functions by country, Accenture now has the responsibility for recording and processing of transactions; however, NCR is providing appropriate oversight over these activities. All of the transition activities scheduled for 2004 were completed by the end of the third quarter of 2004 with no additional processes being transitioned until the first quarter of 2005.

4) Real estate consolidation and restructuring – We continued to examine our portfolio of owned and leased properties during the quarter in order to lower our overall facility costs. We are currently negotiating to sell certain owned properties by the end of 2004, which may result in additional real estate gains in 2004 if we are successful in closing the transactions. Also, for the nine months ended September 30, 2004, NCR utilized \$3 million of the restructuring reserve as described in Note 4 of the Notes to Condensed Consolidated Financial Statements. The majority of the lease obligations relating to the reserve will continue through 2005, with one remaining obligation continuing to 2009.

As part of NCR's continued efforts to reduce real estate holdings worldwide and to reduce NCR's total real estate expenses, the Company anticipates recording an estimated \$6 million charge in the fourth quarter of 2004 to terminate additional lease obligations.

While we have many ongoing projects relating to our re-engineering plans, maintaining a strong level of internal control effectiveness is critical to our business. This will be especially important this year and beyond as we work to certify our internal control effectiveness in response to the requirements of Section 404 of the Sarbanes-Oxley Act of 2002. Ongoing business process initiatives, such as the movement towards global processes, the continued implementation of an ERP system, and the transition of key transaction processing activities and functions to Accenture, add to the task of meeting our certification requirements. NCR's management is focused on mitigating the risks involving these changes through constant oversight, conscientious design, and regular review of our internal control structure as we proceed with these initiatives.

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, reworkable service parts, and additions to capitalized software, to assess the financial performance of the Company. The components that are used to calculate free cash flow are GAAP measures that are 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 flow 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. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under accounting principles generally accepted in the United States of America (otherwise known as GAAP).

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

<i>In millions</i>	Nine Months Ended September 30	
	2004	2003
Net cash provided by operating activities	\$ 241	\$ 274
Less: Net expenditures for reworkable service parts	65	67
Less: Expenditures for property, plant and equipment	55	42
Less: Additions to capitalized software	63	50
Free cash flow	\$ 58	\$ 115

We generated free cash flow in the third quarter of 2004. Our free cash flow for the nine months ended September 30, 2004, compared to the nine months ended September 30, 2003, decreased \$57 million primarily due to a decrease in our cash provided by operating activities. Inventory levels have been higher in the first nine months of 2004 as compared to the same period of 2003 which is contributing to the decline in free cash flow. Inventories have increased in Retail Store Automation with the aggressive conversion to a new configure-to-order model, which drives shorter lead times. Although we expected

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increases in Retail Store Automation's inventories due to the configure-to-order model, the inventory levels are higher than we would like and we are working to correct this issue through better purchase and inventory management. We have also seen expected increases in Financial Self Service product inventory as we expand our manufacturing capacity to better meet demand in high-growth areas. Also contributing to the decline in free cash flow for year to date 2004 versus 2003 are higher incentive compensation plan payments (which were paid in the first quarter of the year, based on the 2003 operating performance of the Company), higher sales taxes due to the timing of payments, and higher levels of capital expenditures. Improvements in collections of accounts receivable partially offset these free cash flow declines. Accounts receivable improved by \$91 million during the first nine months of 2004, excluding the \$4 million of accounts receivable from the acquisition of Kinetics which is reflected as an other investing activity, compared to a \$52 million improvement during the first nine months of 2003.

Cash proceeds from real estate transactions and sales of property, plant, and equipment provided \$58 million of cash during the nine months ended September 30, 2004, as we continue to reduce our real estate holdings. Also during that period, we purchased \$271 million of our common stock under our share purchase programs authorized by the Board of Directors (see Item 2 "Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities" of Part II of this quarterly report for details). Partially offsetting this cash outflow was \$136 million of cash received from employee stock plan exercises, which were higher than last year due to the higher stock price in each quarter of 2004 as compared to 2003. The cash received from employee stock plan exercises is used to purchase our common stock to help offset the dilutive effects of the exercises. On October 27, 2004, the Board of Directors authorized the repurchase of an additional \$250 million of the Company's outstanding shares of common stock. This authorization extends the Board's previous authorization under this stock repurchase program given in 1999.

Contractual and Other Commercial Commitments: There has been no significant change in our contractual and other commercial commitments as described in our Annual Report on Form 10-K for the year ended December 31, 2003. Our long-term debt is discussed in Note 6 of Notes to Condensed Consolidated Financial Statements of this quarterly report and is incorporated in this Item 2 by reference and made part hereof. Also, our guarantees and product warranties are discussed in Note 10 of Notes to Condensed Consolidated Financial Statements of this quarterly report and is incorporated in this Item 2 by reference and made part hereof.

Our cash flows from operations, the credit facilities (existing or future arrangements), the 7.125% senior notes, 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 general economic conditions, competitive pressures, and other business and risk factors described below in "Factors That May Affect Future Results." If we are unable to generate sufficient cash flows from operations, or otherwise comply with the terms of our credit facilities and the 7.125% senior notes, we may be required to refinance all or a portion of our existing debt or seek additional financing alternatives.

Factors That May Affect Future Results

This quarterly report and other documents that we file with the United States Securities and Exchange Commission (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, which 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 is affected by the global economies in which we operate.* The current economic climate, which includes decreased and/or more closely scrutinized capital spending by many industries, could impact our ability to meet our commitments to customers, the ability of our suppliers to meet their commitments to us, the timing of purchases by our current and potential customers, or the ability of our customers to fulfill their obligations to us on a timely basis. The extent of this impact, if any, is dependent on a number of factors, including the duration of the current economic climate, its effect on the markets and other general economic and business conditions.

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Competition *Our ability to compete effectively within the technology industry is critical to our future success.* 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: International Business Machines Corporation (IBM), Oracle Corporation, Diebold, Inc., Dell Computer Corporation (Dell), Wincor Nixdorf GmbH & Co., Getronics NV, 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 self-checkout, payment and imaging, and business consumables and media products.

We offer a broad suite of consulting and support services across our Data Warehousing, Financial Self Service, Retail Store Automation and Payment and Imaging segments. We compete with companies in consulting and support services, and we partner with companies such as Cisco Systems, Dell, and Sun Microsystems to deliver IT infrastructure services solutions and also other consulting and support services.

Our future competitive performance and market position depend on a number of factors, including our ability to: react to competitive product and pricing pressures; penetrate and meet the changing competitive requirements and deliverables in developing and emerging markets, such as India and China in the ATM business; 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; take advantage of data warehousing market demands; reduce costs without creating operating inefficiencies; maintain competitive operating margins; improve product and service delivery quality; and market and sell all of our diverse solutions effectively. Our business and operating performance could be impacted by external competitive pressures, such as increasing price erosion and the addition of competitors. In addition, our Payment and Imaging segment is shifting from traditional item processing as check volume and the traditional item processing markets are declining and financial institutions are migrating to a digital process with the potential to clear checks electronically. This is in response to the Check Clearing for the 21st Century Act (commonly referred to as “Check 21”), which was enacted in October 2003 and became effective in October 2004.

Our Customer Services business is being impacted from competitive pressures related to our maintenance services business on third-party equipment as sales of these products continue to decline primarily as a result of our revised strategy which focuses more on servicing NCR equipment as opposed to non-NCR equipment.

Our customers finance many of our product sales through third-party financing companies. In case of customer default, these financing companies may be forced to resell this equipment at discounted prices impacting our ability to sell incremental units. The impact of these competitive product and pricing pressures could include lower customer satisfaction, decreased demand for our solutions, loss of market share and reduction of operating profits.

Operating Result Fluctuations *Our revenue and operating results could fluctuate for a number of reasons.* Future operating results could continue to be subject to fluctuations based on a variety of factors, 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.

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, in which our primary exposure is from fluctuations in the Euro, British Pound, and Japanese Yen. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. Although the foreign currency environment is difficult to predict, the effects of foreign currency fluctuations are partially mitigated by our hedging strategy.

Cost/Expense Reductions We are actively working to manage our costs and expenses to continue to improve operating profitability without jeopardizing the quality of our products or the efficiencies of our operations. We are also striving to become a lower cost provider of certain Financial Self Service and Retail Store Automation solutions. Our success in achieving targeted cost and expense reductions depends on a number of factors, including our ability to achieve infrastructure

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rationalizations, drive lower component costs, improve supply chain efficiencies, among other things. If we do not successfully complete our cost reduction initiatives, our results of operation 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 for this portion of our Customer Services segment 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 consulting services profitability under these contracts may be negatively impacted. In addition, if we are not able to maintain appropriate utilization rates for our professionals, we may not be able to sustain our consulting services' profitability.

Acquisitions and Divestitures As part of our solutions strategy, we intend to continue 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 investments, 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 which are subject to financial market risk. The liabilities and assets of these plans are reported in our financial statements in accordance with Statement of Financial Accounting Standards SFAS No. 87 (SFAS 87), "Employer's Accounting for Pensions." In conforming to the requirements of SFAS 87, 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 and changes in the actuarial assumptions, including those described in our "Critical Accounting Policies and Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2003. Consistent with the requirements of paragraphs 44-45 of SFAS 87, we estimate our discount rate and long-term expected rate of return on assets assumptions on a country-by-country basis after consultation with independent actuarial consultants. We examine interest rate trends within each country, particularly yields on high-quality long-term corporate bonds, 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 Compensation Accounting Similar to other companies, we use stock options and other stock based awards as a form of compensation for certain employees. Currently, the expense of stock options is not reflected in our operating results under accounting guidance from Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Note 8 of Notes to Condensed Consolidated Financial Statements discloses the current and past quarter's theoretical impact of expensing employee stock compensation based on the fair value of the grants. Our future operating results will be affected if and when the Financial Accounting Standards Board's proposed statement on expensing all forms of stock compensation based on the fair value of grants is enacted.

We believe that our theoretical stock compensation pre-tax expense for full-year 2004 will be less than our full-year 2003 theoretical stock compensation pre-tax expense; however, projecting the tax benefit or expense for employee stock compensation is complex. The tax impact from stock compensation is impacted by actual employee exercises of options, forfeitures, and cancellations, among other items, which are difficult to forecast. As a result, any predictions of the actual amount of the after-tax stock compensation expense of the Company in future periods are subject to these variable events.

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, or if there is a material change in the actual effective tax rates or 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.

Real Estate Our strategy over the past several years with respect to real estate has been to reduce our holdings of excess real estate. In line with this strategy, we anticipate the sale of facilities, which may impact net income. Adverse real estate markets could impede our ability to reduce the size of our real estate portfolio.

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Multinational Operations *Generating substantial revenues from our multinational operations helps to balance our risks and meet our strategic goals.* In the third quarter of 2004, our percentage of revenues from outside of the United States was 58%. 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 and deteriorating economic environments or business disruptions due to economic or political uncertainties). However, our ability to sell our solutions domestically in the United States and internationally is subject to the following risks, among others: general economic and political conditions in each country which could adversely affect demand for our solutions in these markets; currency exchange rate fluctuations which 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 which may increase our cost of doing business in these markets or otherwise prevent us from effectively competing in these 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 *The solutions we sell are very complex, and we need to rapidly and successfully develop and introduce new solutions.* We operate in a competitive, rapidly changing environment, and our future business and operating results depend, in part, on our ability to develop and introduce new solutions that our customers choose to buy. The development process for our complex solutions, including our software application development programs and the migration of our Teradata Data Warehousing solution to the latest hardware and software platforms, requires high levels of innovation from both our developers 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. In addition, if we are unable to successfully market and sell both existing and newly developed solutions, such as our advanced-function ATMs and self-checkout technologies, and transition our Payment and Imaging solutions from traditional item processing to imaging, our business and operating results could be impacted.

Our solutions, which contain both hardware and software products, may contain known, as well as undetected errors, which may be found after the product's introduction and shipment. 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, which would all impact our business and operating results.

Reliance on Third Parties *Third-party suppliers provide important elements to our solutions.* In most cases, there are a number of vendors 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 chips and microprocessors from Intel Corporation and operating systems from Microsoft. Certain parts and components used in the manufacturing of our ATMs and the delivery of many of our Retail Store Automation 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 parts, components or products from a particular vendor and we had to find an alternative supplier, our new and existing product shipments and solutions 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 non-performance by third parties and difficulties with or delays in integrating elements provided by third parties into our solutions.

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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 and 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 *As a technology company, our intellectual property portfolio is key to our future ability to be a leading technology and services solutions provider.* To that end, it is critical that we continue to develop leading technologies and work 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 these efforts are not successful, our business could be adversely impacted. In addition, many of our offerings rely on technologies developed by others, and if we are not able to continue to obtain licenses for such technologies, our business would be impacted.

There has been a recent increase in the issuance of software and business method patents, and more companies are 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, 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

Restructuring and Re-engineering As we discussed above, we are implementing a re-engineering plan to drive operational efficiency throughout our Company. In order to drive cost and expense out of our businesses, we are rationalizing our infrastructure through real estate and support cost reductions, including consolidating a portion of our product development functions to locations outside of the United States; simplifying our front- and back-office processes by standardizing global IT applications and finance and administration processes; reducing our product costs through design and procurement initiatives; and working to lower our cost of services through completion of a global model for such services. Also, as we move our transaction support processes to Accenture, we have mutually agreed to schedules for the transition of work. An inability to meet the associated timelines or commitments on the part of either NCR or Accenture could have a material adverse impact on the Company's results from operations, financial condition, and cash flows. In addition to reducing costs and expenses, our plan includes 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 currently have many initiatives underway. If we are not successful in managing these initiatives and minimizing any resulting loss in productivity, our business and operating results could be impacted.

Employees 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. Our current re-engineering efforts may adversely impact our workforce. If we are not able 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 impacted.

Internal Controls / Accounting Policies and Practices 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. We continue to implement the corporate governance, internal control and accounting rules being issued in connection with the Sarbanes-Oxley Act of 2002 (the Act). Our internal controls and policies are being closely monitored by management, as well as the Board of Directors, as we implement the procedures necessary under Section 404 of the Act, implement a worldwide ERP system, and transition 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 (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.

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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 operation may be impacted.

Acquisitions and Alliances *Our ability to successfully integrate acquisitions or effectively manage alliance activities will help drive future growth.* As part of our overall solutions strategy, we intend to continue to make investments in companies, products, services and technologies, either through acquisitions, 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 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.

It is our policy not to discuss or comment upon negotiations regarding such business combinations or divestitures unless they are material and a definitive agreement is signed or circumstances indicate a high degree of probability that a material transaction will be consummated, unless the law requires otherwise.

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. 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 Note 10 of Notes to Condensed Consolidated Financial Statements, 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 on the Fox River matter which represents certain critical estimates and judgments made by us regarding our potential liability; however, both the ultimate costs associated with the Fox River site and our share of those costs are subject to a wide range of potential outcomes.

Contingencies *Like other technology companies, 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 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 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, rapid changes in accounting standards, taxation requirements (including tax rate changes, new tax laws and revised tax interpretations), and federal securities laws and regulations, among others, may substantially increase costs to our organization and could impact our future operating results.

Critical Accounting Policies and Estimates

Management has reassessed the critical accounting policies as disclosed in our 2003 Annual Report on Form 10-K and determined that no additions or deletions are needed to the policies as disclosed. See Note 10 of Notes to Condensed Consolidated Financial Statements for the status of the Fox River environmental matter. In our critical accounting policy for pension, postretirement and postemployment benefits, we provided the involuntary turnover assumption that we use as part of the determination of our liability for postemployment benefits. This is the most significant assumption we use in the calculation of our postemployment liability, and consequently our expense, for our severance plans. We used an involuntary turnover assumption of 4% in the determination of our 2003 postemployment plan expense, but in the second quarter of 2004,

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we refined the information supporting the assumption. The change in estimate was an increase to 5%, and is based on planned headcount reduction actions primarily concentrated in our Customer Services business.

New Accounting Pronouncements

See discussion in Note 3 of Notes to Condensed Consolidated Financial Statements of new accounting pronouncements adopted in the first three quarters of 2004.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 foreign currency denominated inter-company inventory purchases by the marketing units and of 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 revenue when the inventory is sold to an unrelated third-party.

We have exposure to approximately 50 functional currencies, in which our primary exposure is from fluctuations in the Euro, British Pound, and Japanese Yen. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. The U.S. Dollar was approximately 3 percent weaker in the third quarter of 2004 as compared to the third quarter of 2003 based on comparable weighted averages for our functional currencies. This does not include the effects of our hedging activities and, therefore, does not reflect the actual impact of fluctuations in exchange rates on our operating results.

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. In this way, 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. As of September 30, 2004 and 2003, a 10% appreciation in the value of the U.S. Dollar against foreign currencies from the prevailing market rates would result in a \$21 million increase or a \$17 million increase in the fair value of the hedge portfolio, respectively. Conversely, a 10% depreciation of the U.S. Dollar against foreign currencies from the prevailing market rates would result in a \$21 million decrease or a \$17 million decrease in the fair value of the hedge portfolio as of September 30, 2004 and 2003, respectively.

The interest rate risk associated with our borrowing and investing activities at September 30, 2004, was not material in relation to our consolidated financial position, results of operations or cash flows. In 2003, we swapped a portion of our 7.125% senior unsecured notes from the fixed rate to a variable rate.

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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 current global economy could have an adverse impact on the ability of our customers to pay their obligations on a timely basis; however, we believe that the reserves for potential losses are adequate. At September 30, 2004 and 2003, we did not have any major concentration of credit risk related to financial instruments.

Item 4. 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. Based on their evaluation as of the end of the third quarter of 2004, 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, in all material respects, to meet such objective 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.

In 2003, the Company entered into a service agreement pursuant to which many of NCR’s key transaction processing activities will eventually be performed by Accenture LLP (Accenture). As of June 30, 2004, and going forward, as part of the transition of transaction processing, Accenture has the primary responsibility for processing the quarter close activities including the majority of transaction processing for general ledger activities. Accenture began transaction processing for NCR’s order to revenue cycle during the second and third quarter of 2004, except for Data Warehousing and Systemmedia whose order to revenue process is not being transitioned to Accenture, and represents approximately one-third of these transactions on a revenue basis. NCR personnel provided support to Accenture through these transitions. We believe this is a significant change with respect to the personnel responsible for the effectiveness of transaction processing activities in NCR’s control environment. NCR is providing appropriate oversight for these Accenture administered functions. Additional transition activities are expected to begin again in the first quarter of 2005.

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Part II. Other Information

Item 1. LEGAL PROCEEDINGS

The information required by this item is included in the material under Note 10 of Notes to Condensed Consolidated Financial Statements of this quarterly report regarding environmental matters only and is incorporated in this Item 1 by reference and made part hereof.

Item 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table provides information relating to the Company's repurchase of common stock for the nine months ended September 30, 2004:

Month	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
First quarter total	2,050,000	\$ 43.83	1,300,000	750,000
Second quarter total	1,950,000	\$ 47.02	1,014,500	935,500
July 1 through July 31, 2004	—	\$ —	—	—
August 1 through August 31, 2004	1,450,000	\$ 44.05	377,500	1,072,500
September 1 through September 30, 2004	550,000	\$ 46.28	200,000	350,000
Third quarter total	2,000,000	\$ 44.67	577,500	1,422,500
Year to date total	6,000,000	\$ 45.15	2,892,000	3,108,000

The 2000 Board of Directors share repurchase program authorizes the Company to purchase NCR common stock to the extent of cash received from the exercise of stock options and the ESPP. Under the 1999 Board of Directors authorized program, the Company has \$35 million remaining for NCR common stock purchases.

On October 27, 2004, the Board of Directors authorized the repurchase of an additional \$250 million of the Company's outstanding shares of common stock. This authorization extends the Board's previous authorization under this stock repurchase program given in 1999 and gives the Company a total remaining authorization of \$285 million to repurchase outstanding shares of NCR common stock.

In addition to those share purchases, the Company occasionally purchases vested restricted stock shares from Section 16 officers to cover withholding taxes. For the nine months ended September 30, 2004, the total of these purchases were 8,578 shares at an average price of \$46.76 per share.

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) and Articles Supplementary of NCR Corporation (incorporated by reference to Exhibit 3.1 from the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1996 (the “1996 NCR Annual Report”).
- 3.2 Bylaws of NCR Corporation, as amended and restated on January 28, 2004 (incorporated by reference to Exhibit 3.2 from the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 2003).
- 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 1996 NCR Annual Report).
- 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.
- 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 NCR Corporation Form 10-Q for the period ended June 30, 2002 (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).
- 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 November 5, 2004.
- 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 November 5, 2004.
- 32 Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 dated November 5, 2004.

NCR and Teradata, are either registered trademarks or trademarks of NCR International, Inc. in the United States and/or other countries.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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.

Date: November 5, 2004

NCR CORPORATION

By: /s/ Peter J. Bocian

Peter J. Bocian
Senior Vice President and Chief Financial Officer

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECURITIES
EXCHANGE ACT RULE 13a-14**

I, Mark Hurd, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NCR Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ Mark Hurd

Mark Hurd
President and Chief Executive Officer

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECURITIES
EXCHANGE ACT RULE 13a-14**

I, Peter J. Bocian, certify that:

1. I have reviewed this quarterly report on Form 10-Q of NCR Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - d) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - e) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - f) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - c) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - d) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2004

/s/ Peter J. Bocian

Peter J. Bocian
Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of NCR Corporation, a Maryland corporation (the "Company"), on Form 10-Q for the period ending September 30, 2004, as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002), that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

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

Dated: November 5, 2004

/s/ Mark Hurd

Mark Hurd
President and Chief Executive Officer

Dated: November 5, 2004

/s/ Peter J. Bocian

Peter J. Bocian
Senior Vice President and Chief Financial Officer

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