NCR CORP
Form 10-Q
May 10, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2007

Commission File Number 001-00395

NCR CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**31-0387920**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1700 South Patterson Blvd.

Dayton, Ohio 45479

(Address of principal executive offices) (Zip Code)

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

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

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

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

Number of shares of common stock, $0.01 par value per share, outstanding as of April 30, 2007, was approximately 179.9 million.

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Part I. Financial Information

Item 1. Financial Statements

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months Ended March 31	
In millions, except per share amounts	**2007**	**2006**
Product revenue	$ 665	$ 637
Service revenue	681	646
Total revenue	1,346	1,283
Cost of products	476	402
Cost of services	527	529
Selling, general and administrative expenses	245	245
Research and development expenses	56	60
Total operating expenses	1,304	1,236
Income from operations	42	47
Interest expense	6	6
Other income, net	(9)	(9)
Income before income taxes	45	50
Income tax expense	11	9
Net income	$ 34	$ 41
Net income per common share		
Basic	$ 0.19	$ 0.23
Diluted	$ 0.19	$ 0.22
Weighted average common shares outstanding		
Basic	179.3	181.7
Diluted	182.1	185.0

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	March 31, 2007	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	$ 1,080	$ 947
Accounts receivable, net	1,324	1,408
Inventories, net	717	677
Other current assets	325	300
Total current assets	3,446	3,332
Property, plant and equipment, net	375	378
Goodwill	150	150
Prepaid pension cost	674	639
Deferred income taxes	372	374
Other assets	402	354
Total assets	$ 5,419	$ 5,227
Liabilities and stockholders equity		
Current liabilities		
Short-term borrowings	$ 1	$ 1
Accounts payable	493	534
Payroll and benefits liabilities	236	291
Deferred service revenue and customer deposits	590	492
Other current liabilities	501	452
Total current liabilities	1,821	1,770
Long-term debt	306	306
Pension and indemnity plan liabilities	481	481
Postretirement and postemployment benefits liabilities	461	463
Deferred income taxes	38	27
Income tax accruals	166	132
Other liabilities	147	147
Minority interests	18	20
Total liabilities	3,438	3,346
Commitments and contingencies (Note 8)		
Stockholders equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding at March 31, 2007 and December 31, 2006 respectively		
Common stock: par value $0.01 per share, 500.0 shares authorized, 179.7 and 178.9 shares issued and outstanding at March 31, 2007 and December 31, 2006 respectively	2	2
Paid-in capital	687	655
Retained earnings	1,941	1,900
Accumulated other comprehensive loss	(649)	(676)

Total stockholders equity	1,981	1,881
Total liabilities and stockholders equity	$ 5,419	$ 5,227

See Notes to Condensed Consolidated Financial Statements.

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Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Three Months Ended March 31 2007	2006
Operating activities		
Net Income	$ 34	$ 41
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	43	39
Stock-based compensation expense	8	7
Excess tax benefit from stock-based compensation	(4)	(8)
Deferred income taxes	10	2
Other adjustments to income, net	(4)	(1)
Changes in assets and liabilities:		
Receivables	84	13
Inventories	(40)	(35)
Current payables and accrued expenses	(103)	(117)
Deferred service revenue and customer deposits	99	84
Employee severance and pension	30	21
Other assets and liabilities	(6)	(34)
Net cash provided by operating activities	151	12
Investing activities		
Expenditures for property, plant and equipment	(29)	(15)
Proceeds from sales of property, plant and equipment	11	11
Additions to capitalized software	(24)	(20)
Other investing activities, business acquisitions and divestitures, net		(15)
Net cash used in investing activities	(42)	(39)
Financing activities		
Purchases of Company common stock		(88)
Excess tax benefit from stock-based compensation	4	8
Proceeds from employee stock plans	18	40
Net cash provided by (used in) financing activities	22	(40)
Effect of exchange rate changes on cash and cash equivalents	2	3
Increase (decrease) in cash and cash equivalents	133	(64)
Cash and cash equivalents at beginning of period	947	810
Cash and cash equivalents at end of period	$ 1,080	$ 746

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying Condensed Consolidated Financial Statements have been prepared by NCR Corporation (NCR, the Company, we or us) without audit pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments, except for the accounting change described below) necessary for a fair statement of the consolidated results of operations, financial position, and cash flows for each period presented. The unaudited Condensed Consolidated Statement of Cash Flows for the three months ended March 31, 2006 has been retrospectively adjusted for the accounting change described below. The consolidated results for the interim periods are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with NCR s Form 10-K for the year ended December 31, 2006.

Strategic Separation On January 5, 2007, NCR announced its intention to separate into two independent publicly traded companies through the spin-off of 100% of the Company s Teradata Data Warehousing business to holders of shares of NCR stock. The transaction, expected to be tax-free to NCR and its shareholders, will enable the two public companies to better focus on their distinct customer bases, business strategies and operational needs.

The stock distribution ratio for the Teradata Data Warehousing spin-off is expected to be one-for-one, and the separation is expected to be completed in the third quarter of 2007. Consummation of the proposed separation is subject to certain conditions, including final approval by NCR s Board of Directors, receipt of a ruling from the Internal Revenue Service (IRS) with respect to the tax-free status of the spin-off, the absence of any material changes or developments, and the filing and acceptance of registration statements with the Securities and Exchange Commission. The separation will not require a vote by NCR shareholders.

In connection with the proposed separation, in the first quarter of 2007, the Company incurred $2 million of costs primarily for legal, accounting, and other professional and consulting fees, which have been recognized as selling, general and administrative expense in the Condensed Consolidated Statement of Operations. In total, the Company expects to incur $50 to $65 million of nonrecurring costs related to the transaction, with the possibility that such costs could be higher. These nonrecurring costs are expected to consist of, among other things, legal fees, tax and accounting fees, professional advisory services, employee costs and other costs associated with executing the separation transaction.

Accounting Change In the second quarter of 2006, the Company changed its method of accounting for reworkable service parts used in its Customer Services maintenance business. The previous accounting method was to classify reworkable service parts as long-lived assets and to depreciate the parts over their estimated useful lives (three to six years). The Company s new method of accounting is to classify reworkable service parts as inventory and to expense the cost of the parts when they are placed in customer equipment under maintenance contracts.

The Company concluded that the impact of the change in accounting was not material to previously reported results, and treated the change in method of accounting for reworkable service parts as a change in accounting principle in accordance with Statement of Financial Accounting Standards No. 154(SFAS 154), *Accounting Changes and Error Corrections*. SFAS 154 requires that such accounting changes be made on a retrospective basis and that the unaudited Condensed Consolidated Financial Statements be adjusted to apply the inventory method retrospectively to all prior periods.

As a result of applying the accounting change retrospectively, expenditures, net of proceeds, for reworkable service parts of $26 million for the three months ended March 31, 2006 that was part of investing activities, is now reflected in the accompanying unaudited Condensed Consolidated Statement of Cash Flows as a component of operating activities. The impact of the accounting change on previously reported income from operations, net income and earnings per share was not material.

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

2. SUPPLEMENTAL FINANCIAL INFORMATION

In millions	Three Months Ended March 31	
	2007	2006
Comprehensive Income		
Net income	$ 34	$ 41
Other comprehensive income, net of tax:		
Unrealized (loss) gain on securities	(1)	1
Unrealized loss on derivatives	(1)	(2)
Changes in pension, postemployment and postretirement benefit liabilities	23	
Currency translation adjustments	6	11
Other adjustments		3
Total comprehensive income	$ 61	$ 54

In millions	March 31, 2007	December 31, 2006
Inventories		
Work in process and raw materials	$ 116	$ 106
Finished goods	231	215
Service parts	370	356
Total inventories, net	$ 717	$ 677

3. NEW ACCOUNTING PRONOUNCEMENTS

FASB Interpretation No. 48 In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing thresholds and attributes for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. The Company adopted the provisions of FIN 48 on January 1, 2007. See Note 9 for further discussion of the adoption of FIN 48.

Statement of Financial Accounting Standards No. 157 In September 2006, the FASB issued SFAS No. 157 (SFAS 157), *Fair Value Measurements*. This statement defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosures about fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on our financial condition and results of operations.

Statement of Financial Accounting Standards No. 159 In February 2007, the FASB issued SFAS No. 159 (SFAS 159), *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 115*. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. The fair value option may be elected on an instrument-by-instrument basis, with few exceptions. SFAS 159 also establishes presentation and disclosure requirements to facilitate comparisons between companies that choose different measurement attributes for similar assets and liabilities. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on our financial condition and results of operations.

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4. MANUFACTURING REALIGNMENT

On January 11, 2007, NCR announced plans to realign its global manufacturing operations. These include:

- Reducing manufacturing operations and shifting the focus of the Dundee, Scotland, facility to new product introductions and the manufacturing of high-complexity/low-volume solutions

- Meeting volume demand in Europe, Middle East, Africa and Asia-Pacific through lower-cost manufacturing facilities in Hungary, China and India

- Moving to a contract manufacturing model with Solectron in the Americas

The realignment is expected to reduce overall operating costs and to free capital to invest in revenue-generating programs in sales, engineering and market development. The Company will continue to focus resources on engineering and advanced development, product management and marketing in affected locations where the manufacturing realignment is anticipated to result in