

**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 June 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 July 30, 2004, was approximately 94.2 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 June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Product revenue	\$ 761	\$ 675	\$ 1,389	\$ 1,266
Service revenue	691	691	1,353	1,334
Total revenue	1,452	1,366	2,742	2,600
Cost of products	478	444	888	827
Cost of services	581	563	1,139	1,107
Selling, general and administrative expenses	281	287	554	567
Research and development expenses	59	56	116	115
Total operating expenses	1,399	1,350	2,697	2,616
Income (loss) from operations	53	16	45	(16)
Interest expense	6	6	11	13
Other (income) expense, net	(4)	33	(11)	31
Income (loss) before income taxes	51	(23)	45	(60)
Income tax benefit	71	10	72	20
Net income (loss)	\$ 122	\$ (13)	\$ 117	\$ (40)
Net income (loss) per common share				
Basic	\$ 1.30	\$ (0.14)	\$ 1.24	\$ (0.42)
Diluted	\$ 1.27	\$ (0.14)	\$ 1.22	\$ (0.42)
Weighted average common shares outstanding				
Basic	94.1	94.8	94.4	95.4
Diluted	96.1	94.8	96.1	95.4

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In millions, except per share amounts

	June 30 2004	December 31 2003
Assets		
Current assets		
Cash and cash equivalents	\$ 633	\$ 689
Accounts receivable, net	1,195	1,230
Inventories, net	382	308
Other current assets	205	195
Total current assets	2,415	2,422
Reworkable service parts and rental equipment, net	221	232
Property, plant and equipment, net	482	514
Goodwill	105	105
Prepaid pension cost	1,382	1,386
Deferred income taxes	553	558
Other assets	282	263
Total assets	\$ 5,440	\$ 5,480
Liabilities and Stockholders' Equity		
Current liabilities		
Short-term borrowings	\$ 4	\$ 3
Accounts payable	425	414
Payroll and benefits liabilities	236	300
Customer deposits and deferred service revenue	427	362
Other current liabilities	508	500
Total current liabilities	1,600	1,579
Long-term debt	306	307
Pension and indemnity plan liabilities	479	484
Postretirement and postemployment benefits liabilities	261	272
Other liabilities	838	941
Minority interests	15	22
Total liabilities	3,499	3,605
Commitments and contingencies (Note 9)		
Stockholders' equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	—	—
Common stock: par value \$0.01 per share, 500.0 shares authorized, 93.9 and 94.7 shares issued and outstanding at June 30, 2004 and December 31, 2003, respectively	1	1
Paid-in capital	1,095	1,166
Retained earnings	816	699
Accumulated other comprehensive income	29	9
Total stockholders' equity	1,941	1,875
Total liabilities and stockholders' equity	\$ 5,440	\$ 5,480

See Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In millions

	Six Months Ended June 30	
	2004	2003
Operating Activities		
Net income (loss)	\$ 117	\$ (40)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	136	163
Deferred income taxes	4	(8)
Income tax settlement (Note 7)	(85)	—
Other adjustments, net	(1)	4
Changes in assets and liabilities:		
Receivables	35	72
Inventories	(75)	(34)
Current payables	(74)	(70)
Customer deposits and deferred service revenue	65	64
Employee severance and pension	7	11
Other assets and liabilities	(39)	38
Net cash provided by operating activities	90	200
Investing Activities		
Net expenditures and proceeds for service parts	(39)	(45)
Expenditures for property, plant and equipment	(33)	(29)
Proceeds from sales of property, plant and equipment	7	4
Expenditures for capitalized software	(40)	(33)
Other investing activities, net	(17)	(3)
Net cash used in investing activities	(122)	(106)
Financing Activities		
Purchases of company common stock	(182)	(59)
Short-term borrowings, net	1	1
Long-term borrowings, net	—	—
Cash received from real estate transaction (Note 4)	50	—
Cash received from employee exercise of stock compensation	108	11
Other financing activities, net	1	2
Net cash used in financing activities	(22)	(45)
Effect of exchange rate changes on cash and cash equivalents	(2)	10
(Decrease) increase in cash and cash equivalents	(56)	59
Cash and cash equivalents at beginning of period	689	526
Cash and cash equivalents at end of period	\$ 633	\$ 585

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 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 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 June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Comprehensive Income				
Net income (loss)	\$ 122	\$ (13)	\$ 117	\$ (40)
Other comprehensive income, net of tax:				
Unrealized gain on securities	1	5	2	5
Unrealized gain (loss) on derivatives	2	(8)	8	2
Currency translation adjustments	(4)	56	10	49
Total comprehensive income	\$ 121	\$ 40	\$ 137	\$ 16

<i>In millions</i>	June 30 2004	December 31 2003
Inventories		
Work in process and raw materials	\$ 82	\$ 75
Finished goods	300	233
Total inventories, net	\$ 382	\$ 308
Other long-term liabilities		
Tax accruals	\$ 645	\$ 730
Other	193	211
Total other long-term liabilities	\$ 838	\$ 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 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.

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

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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.

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 six months ended June 30, 2004, NCR utilized \$2 million of the reserve. The majority of the lease obligations will continue through 2005, with one remaining obligation continuing to 2009.

For the six months ended June 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. Accounting for this transaction requires that the \$50 million of proceeds be treated as an obligation of the Company until the property is vacated by NCR. 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 \$34 million as of June 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 October 2004.

5. OTHER INTANGIBLE ASSETS

Other intangible assets were specifically identified when acquired. NCR's other intangible assets 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:

<i>In millions</i>	June 30, 2004		December 31, 2003	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Other Intangible Assets				
Patents	\$ 14	\$ (11)	\$ 19	\$ (15)
Intellectual property	17	(5)	13	(5)
Total Other Intangible Assets	\$ 31	\$ (16)	\$ 32	\$ (20)

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 will be fully amortized over a five year life beginning in 2004.

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

For the six months ended June 30, 2004	For the year ended (estimated)				
	December 31, 2004	December 31, 2005	December 31, 2006	December 31, 2007	December 31, 2008
\$ 2	\$ 5	\$ 5	\$ 3	\$ 2	\$ 1

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 spin-off. 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.

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-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 six months ended June 30 would have been as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
<i>In millions, except for per share data</i>				
Net income (loss)	\$ 122	\$ (13)	\$ 117	\$ (40)
Stock-based employee compensation expense included in reported net income (loss) (pre-tax)	2	1	3	2
Tax (benefit) expense of stock-based employee compensation included in reported net income (loss)	(1)	—	(1)	(1)
Subtotal: Add to net income (loss)	1	1	2	1
Total stock-based employee compensation expense determined under fair value based method for awards (pre-tax)	9	10	16	21
Tax (benefit) expense of stock-based employee compensation determined under fair value based method for awards	3	15	4	14
Subtotal: Deduct from net income (loss)	12	25	20	35
Pro forma net income (loss)	\$ 111	\$ (37)	\$ 99	\$ (74)
Basic net income (loss) per share:				
As reported:	\$ 1.30	\$ (0.14)	\$ 1.24	\$ (0.42)
Pro forma:	\$ 1.18	\$ (0.39)	\$ 1.05	\$ (0.78)
Diluted net income (loss) per share:				
As reported:	\$ 1.27	\$ (0.14)	\$ 1.22	\$ (0.42)
Pro forma:	\$ 1.16	\$ (0.39)	\$ 1.03	\$ (0.78)

The pro forma amounts listed above are not necessarily indicative of the effects on net income and net income per basic and 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 income (loss) and net income (loss) per basic and 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 six months ended June 30:

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Dividend yield	—	—	—	—
Risk-free interest rate	3.72%	2.89%	2.99%	2.96%
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 six months ended June 30, 2004, the Company made the following purchases of its common stock:

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
January 1 through January 31, 2004	185,000	\$ 40.65	185,000	—
February 1 through February 29, 2004	1,525,000	\$ 44.12	865,000	660,000
March 1 through March 31, 2004	340,000	\$ 44.26	250,000	90,000
First quarter total	2,050,000	\$ 43.83	1,300,000	750,000
April 1 through April 30, 2004	—	\$ —	—	—
May 1 through May 31, 2004	1,283,500	\$ 46.11	510,000	773,500
June 1 through June 30, 2004	666,500	\$ 48.77	504,500	162,000
Second quarter total	1,950,000	\$ 47.02	1,014,500	935,500
Year to date total	4,000,000	\$ 45.39	2,314,500	1,685,500

The 2000 Board of Directors share purchase 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 an additional \$98 million authorized for NCR common stock purchases.

9. EMPLOYEE BENEFIT PLANS

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

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2004	2003	2004	2003	2004	2003
Net service cost	\$ 13	\$ 12	\$ 11	\$ 11	\$ 24	\$ 23
Interest cost	45	45	21	19	66	64
Expected return on plan assets	(51)	(50)	(33)	(33)	(84)	(83)
Settlement charge	—	—	—	—	—	—
Curtailement charge	1	—	—	—	1	—
Amortization of:						
Transition asset	—	—	—	—	—	—
Prior service cost	—	1	1	2	1	3
Actuarial loss	15	13	9	4	24	17
Net benefit cost	\$ 23	\$ 21	\$ 9	\$ 3	\$ 32	\$ 24

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Components of net periodic benefit expense for the six months ended June 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	\$ 26	\$ 24	\$ 22	\$ 21	\$ 48	\$ 45
Interest cost	90	89	42	38	132	127
Expected return on plan assets	(102)	(100)	(66)	(65)	(168)	(165)
Settlement charge	—	—	—	—	—	—
Curtailed charge	1	—	—	—	1	—
Amortization of:						
Transition asset	(1)	(1)	—	—	(1)	(1)
Prior service cost	—	3	2	4	2	7
Actuarial loss	31	27	19	8	50	35
Net benefit cost	\$ 45	\$ 42	\$ 19	\$ 6	\$ 64	\$ 48

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

<i>In millions</i>	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Net service cost	\$ —	\$ —	\$ —	\$ —
Interest cost	2	6	5	11
Expected return on plan assets	—	—	—	—
Curtailed charge (credit)	—	—	—	—
Amortization of:				
Prior service cost (benefit)	(3)	(2)	(6)	(3)
Actuarial loss	1	2	2	4
Net benefit cost	\$ —	\$ 6	\$ 1	\$ 12

Employer Contributions

Pension For the three months ended June 30, 2004, NCR contributed \$0 to its U.S. qualified pension plan, approximately \$20 million to international plans, and \$2 million to its executive plan. For the six months ended June 30, 2004, NCR contributed \$0 to its U.S. qualified pension plan, approximately \$40 million to international plans, and \$4 million to its executive plan. NCR anticipates contributing an additional \$67 million to international pension plans and \$4 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, the Company made changes to NCR's U.S. defined benefit pension plans in order to limit eligibility to U.S. based employees who are at least 40 years old and hired at August 31, 2004. While this change does not result in an immediate effect to 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 June 30, 2004, the Company made \$10 million in contributions to its U.S. postretirement plan. For the six months ended June 30, 2004, NCR made \$19 million in contributions to its U.S. postretirement plan. NCR anticipates contributing an additional \$19 million to its U.S. postretirement plan for a total of \$38 million in 2004.

Other Employee Benefit Plans

Postemployment The Company accounts for its postemployment benefits using FASB Statement No. 112, "Employers' Accounting for Postemployment Benefits," which requires actuarial estimates and assumptions to be used in the determination of the Company's liability. During the second quarter of 2004, the Company refined the information supporting the involuntary turnover assumption for the severance plan based on planned headcount reduction actions, primarily concentrated in our Customer Services segment. This change in estimate caused an incremental \$10 million of severance expense in the second quarter of 2004 and will have a \$21 million total incremental expense impact for the year ended December 31, 2004. The accrued postemployment liability as of June 30, 2004 and December 31, 2003 was \$102 million and \$95 million, respectively.

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 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 June 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.

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 was approximately \$78 million as of June 30, 2004 (after taking into consideration amounts expected to be recovered under an indemnity agreement discussed below). The reserve 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 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.

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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 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.

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- 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 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

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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

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 and continues to be in existence through the date of this report. The Company has a recorded reserve of \$12 million as of June 30, 2004, of which \$7 million was recorded as expense in the second quarter of 2004. The reserve as of June 30, 2004, consists of \$10 million related to past fees owed under the services agreement and \$2 million primarily related to other 2004 matters with this services partner and agreement. As a result of the settlement, a \$10 million payment was made subsequent to the quarter ended June 30, 2004, with the remaining amount expected to be utilized later in 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 June 30, 2004, the maximum future payment obligation of this guaranteed value was \$10 million and an associated liability balance of \$8 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 June 30, 2004. The Company has not recorded a liability in connection with these guarantees.

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	Six Months Ended June 30	
	2004	2003
Warranty reserve liability		
Beginning balance at January 1	\$ 18	\$ 16
Accruals for warranties issued	23	23
Settlements (in cash or in kind)	(20)	(21)
Ending balance at June 30	\$ 21	\$ 18

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 three months and six months ended June 30, 2003, as the inclusion thereof would have been antidilutive. For the three months and six months ended June 30, 2003, the fully diluted shares would have been 95.3 and 96.3 million shares, respectively.

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12. 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 June 30:

<i>In millions</i>	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Revenue by segment				
Data Warehousing				
Products	\$ 179	\$ 151	\$ 338	\$ 297
Professional and installation-related services	81	82	157	153
Data Warehousing solution	260	233	495	450
Data Warehousing support services	71	67	142	128
Total Data Warehousing revenue	331	300	637	578
Financial Self Service				
Products	262	204	460	386
Professional and installation-related services	68	56	121	100
Total Financial Self Service revenue	330	260	581	486
Retail Store Automation				
Products	156	141	271	242
Professional and installation-related services	56	63	106	111
Total Retail Store Automation revenue	212	204	377	353
Systemedia	117	122	231	234
Payment and Imaging				
Products	26	27	46	51
Professional and installation-related services	10	9	19	16
Total Payment and Imaging revenue	36	36	65	67
Customer Services				
Professional and installation-related services	84	81	156	144
Customer Service Maintenance:				
Financial Self Service	139	136	277	268
Retail Store Automation	116	118	229	237
Payment and Imaging	28	27	55	53
Other	86	101	182	209
Total Customer Services revenue	453	463	899	911
Other				
Products	21	30	43	56
Professional and installation-related services	30	26	54	48
Total Other revenue	51	56	97	104
Elimination of installation-related services included in both the Customer Services segment and other reported segments	(78)	(75)	(145)	(133)
Total Revenue	\$ 1,452	\$ 1,366	\$ 2,742	\$ 2,600

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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 June 30		Six Months Ended June 30	
	2004	2003	2004	2003
<i>In millions</i>				
Total Product Revenue	\$ 761	\$ 675	\$ 1,389	\$ 1,266
Total Services Revenue	691	691	1,353	1,334
Total Revenue	\$ 1,452	\$ 1,366	\$ 2,742	\$ 2,600

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

	Three Months Ended June 30		Six Months Ended June 30	
	2004	2003	2004	2003
Operating income (loss) by segment				
Data Warehousing	\$ 60	\$ 32	\$ 109	\$ 63
Financial Self Service	54	32	71	41
Retail Store Automation	5	—	(3)	(23)
Systemedia	1	3	3	2
Payment and Imaging	5	5	6	10
Customer Services	(8)	7	(12)	10
Other	(8)	(15)	(21)	(29)
Elimination of installation-related services operating income included in both the Customer Services segment and other reported segments	(24)	(24)	(44)	(42)
Subtotal - Segment operating income	85	40	109	32
Pension expense	(32)	(24)	(64)	(48)
Total income (loss) from operations	\$ 53	\$ 16	\$ 45	\$ (16)

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

Overview

The second quarter of 2004 was another positive quarter as we generated 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 cost and expense reductions. Our progress with respect to our key value drivers in the second quarter of 2004 is as follows:

- **Data Warehousing revenue growth** – Data Warehousing revenue grew at a strong pace in the second quarter 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 upgrade cycle starting in the United States related to deposit-capable ATMs and strong growth in the Europe/Middle East/Africa (EMEA) region.
- **Retail Store Automation profitability** – Retail Store Automation achieved an operating profit of \$5 million in the second quarter of 2004 and is well positioned to achieve full-year profitability.
- **Customer Services performance** – 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. Also affecting this quarter's results was additional severance expense incurred due to actions we will be taking in this business to improve future performance and a settlement regarding a master agreement with a third party hardware provider.
- **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 are taking to the market are strong and we can continue to improve them. We plan to continue to make investments in areas of research and development and other value added activities in our current product offerings.
- 2) **Enhance demand creation** – We continue to make investments in the hiring of new sales people and additional training opportunities for our current sales associates. Increasing our direct sales force should drive more opportunities through our sales process, which we then need to convert into wins. The second quarter of 2004 was a successful quarter in that respect, but the timing of capital spending decisions by our customers has a large impact on this process.
- 3) **Improve performance in Customer Services** – 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, in which 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 will 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. Beyond headcount reductions, we are concentrating on increasing the maintenance capture rate of NCR products and decreasing our focus 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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- 4) **Continue to reduce our cost structure** – To improve our competitive position in the market, we continue to optimize our cost and expense structure. The actions we have taken to date have yielded positive results towards 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 the reduction of our cost structure for the long-term success of the Company.

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

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

<i>In millions</i>	Three Months Ended June 30	
	2004	2003
Consolidated revenue	\$ 1,452	\$ 1,366
Consolidated gross margin	\$ 393	\$ 359
Consolidated operating expenses:		
Selling, general and administrative expenses	281	287
Research and development expenses	59	56
Consolidated income from operations	\$ 53	\$ 16

Total Company revenue increased 6% in the second quarter of 2004 versus the same period for 2003 due to double-digit revenue growth in Financial Self Service and Data Warehousing. Consolidated revenue grew beyond the effects of foreign currency fluctuations, which provided a 3 percentage point favorable impact. While we are not considering this 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 June 30, 2004 grew to \$53 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 June 30, 2004 and 2003, were impacted by certain employee benefit plans as follows:

<i>In millions</i>	Three Months Ended June 30	
	2004	2003
Pension expense	\$ 32	\$ 24
Postemployment expense	31	21
Postretirement expense	—	6
Net expense	\$ 63	\$ 51

During the three months ended June 30, 2004, NCR incurred \$32 million of pension expense compared to \$24 million in the second 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 quarter, we made changes to our U.S. defined benefit pension plans to limit eligibility to U.S. based employees who are at least 40 years old and hired by August 31, 2004. While this change does not result in an immediate effect to 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 June 30, 2004 was \$31 million compared to \$21 million during the same period last year. The \$10 million increase for the quarter is 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. This change in estimate will also cause incremental expense of approximately \$11 million for the remainder of the year. Also during the second quarter of 2004, postretirement plan expense of an immaterial amount was substantially lower than the expense of \$6 million for the same three months 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.

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For the second quarter of 2004, gross margin rose to 27.1% as a percentage of revenue compared to 26.3% for the three months ended June 30, 2003, even with the increased pension and severance costs mentioned above. The split between product and services margin; however, shows that the services margin, which declined in the year-over-year comparison, absorbed the majority of the pension and severance expense as well as being affected by price erosion due to competition. Product gross margin increased during the quarter due to strong volumes in our three major products segments and cost reductions in all of our businesses.

Total operating expenses, characterized as “selling, general and administrative expenses” and “research and development expenses” in the Condensed Consolidated Statement of Operations, were \$340 million compared to \$343 million during the three months ended June 30, 2004 and 2003, respectively. Although total operating expenses did not decrease as significantly as past periods, as a percentage of revenue, total operating expenses improved to 23.4% from 25.1% for the respective periods. We continue to curtail our overall spending while reallocating some of these funds to value added activities, such as demand creation and research and development 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 12 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 second quarter of 2004.

Data Warehousing: Data Warehousing revenue increased 10% during the second quarter of 2004 to \$331 million from \$300 million in the second quarter of 2003. We were very successful in closing many of our open opportunities this quarter due to the strong value propositions our Data Warehousing solutions provide; however, we may not be able to maintain this high level of closing success in the remainder of the year. These volume increases in our products provided the majority of the growth for this segment. Foreign currency fluctuations provided a 3 percentage point benefit to the current period revenue. Due to the large volume increases and cost and expense reductions, operating income increased to \$60 million for the three months ended June 30, 2004, from \$32 million for the second quarter of 2003.

Financial Self Service: Financial Self Service revenue grew to \$330 million in the second quarter of 2004 from \$260 million for the same period in 2003, representing a 27% increase. Foreign currency fluctuations provided a 4 percentage point benefit to revenue in the second quarter of 2004. This revenue growth was driven by growth in the Americas region, as we benefited from an upgrade cycle in the United States due to regulatory changes. Also, we had several key wins in the EMEA region due to financial institutions replacing older units and growth in key areas such as Eastern Europe. Operating income also improved significantly to \$54 million from \$32 million for the respective periods. This growth was driven by the volume increases mentioned above along with the benefits of ongoing cost and expense reductions.

Retail Store Automation: For the second quarter of 2004, Retail Store Automation revenue grew 4% to \$212 million from \$204 million in the second quarter of 2003. The increase in revenue was driven by volume increases, as customers update their point-of-sale and scanner technology and continue to make investments in self-checkout, and changes in foreign currency

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rates. Foreign currency fluctuations provided a 3 percentage point benefit to second quarter 2004 revenue. Also during the quarter, Retail Store Automation experienced an increase in operating income to \$5 million compared to breakeven performance for the same period of 2003. The increase in operating income was due to continuing success with the volume expansion mentioned above, expense reductions, and foreign currency fluctuations.

Systemedia: Systemedia experienced a 4% decline in revenue during the second quarter of 2004 as compared to the second quarter of 2003. Lower volumes in our non-U.S. markets combined with price erosion in our traditional product lines due to softness in the market caused the decline during the quarter. Foreign currency provided a 3 percentage point benefit to revenues during the quarter. Operating income decreased \$2 million for the same reasons as revenue, but was offset partially by cost and expense reductions.

Payment and Imaging: Payment and Imaging revenue and operating income were flat for the second quarter of 2004 at \$36 million and \$5 million, respectively, compared to the same period for 2003. Foreign currency changes provided a 1 percentage point benefit to second quarter 2004 revenue. Financial institutions continue to shift to digital imaging products and away from traditional check processing equipment due to regulatory changes. As this shift continues, we expect growth in our imaging business to be more than offset by declines in our traditional check processing equipment business.

Customer Services: Revenue for Customer Services decreased 2% during the second quarter of 2004 to \$453 million while operating results decreased to a loss of \$8 million from income of \$7 million for the three months ended June 30, 2004 and 2003, respectively. Foreign currency changes provided a 3 percentage point benefit to revenues for the second quarter of 2004. The financial results of this business continued 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. During the quarter, we recognized an incremental \$9 million of severance expense as we increased our accruals for estimate changes in anticipation of actions we will take in future periods to reorganize this business and position it for future success. We also finalized a settlement agreement with a services partner relating to an agreement entered into in 2002. Due to this settlement, which was paid in July 2004, we recorded \$7 million of incremental accruals in the second quarter. This was in addition to the \$4 million recorded in the first quarter of 2004. This settlement resolves and clarifies the terms of the master agreement requirements.

Other: Revenue for the Other segment decreased 9% to \$51 million in the three months ended June 30, 2004 from \$56 million during the same period for 2003 as we continue to de-emphasize third-party product sales. Operating loss decreased to \$8 million in the second quarter of 2004 from \$15 million in the second quarter of 2003. The lower operating loss in 2004 is reflective of higher services revenue, which typically carries a higher margin than the third-party product sales.

Revenue by Region

Regional revenue for the three months ended June 30, 2004, compared to the same period for 2003 increased 7% in the Americas, 4% in EMEA, 1% in Asia/Pacific and declined 3% in Japan. Changes in foreign currency rates provided a 7 percentage point, a 5 percentage point, and a 4 percentage point benefit to second quarter 2004 revenue in the Japan, EMEA, 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 and Asia/Pacific regions was mainly due to foreign currency fluctuations and increased volumes in Financial Self Service. Finally, in our Japan region, a decline in Retail Store Automation's regional revenue led to the overall decrease.

The Americas region comprised 50% of our total revenue in the second quarter of 2004, while the EMEA region comprised 31%, Asia/Pacific region comprised 11%, and Japan comprised 8%.

Interest expense and other income

Interest expense held steady at \$6 million for the quarter ended June 30, 2004, as compared to the second quarter of 2003. Although the interest rate swap we entered into in the fourth quarter of 2003 is still lower than our fixed rate debt, additional interest expense from the \$50 million of cash received from a real estate transaction in the first quarter of 2004, which is currently being treated as a financing, has offset some of the swap's benefits in the second quarter of 2004.

Other income, net, for the second quarter of 2004 was \$4 million compared to \$33 million of expenses for the second quarter of 2003. The 2004 amount includes the \$3 million acquisition break-up fee received from Optimal Robotics, and the three months ended June 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.

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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 second quarter of 2004 tax rate of -139% includes a significant infrequent item of \$85 million of tax accrual reversals due to the settlement of tax audits for the period in which NCR was a subsidiary of AT&T Corp. (AT&T). This item provided a 166 percentage point benefit to the effective tax rate of 27% for the second quarter of 2004. These accruals were created for identified tax issues while NCR was an AT&T subsidiary during the early to mid 1990s, and remained on NCR's balance sheet after the spin-off. AT&T closed these audits with the United States Internal Revenue Service.

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 June 30, 2004, to the extent that additional tax benefits result from such resolutions, it would impact the tax provision in the period in which such resolution is reached.

The tax rate for the second quarter 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 quarter.

Results of Operations for Six Months Ended June 30, 2004 Compared to Six Months Ended June 30, 2003

<i>In millions</i>	2004	2003
Consolidated revenue	\$2,742	\$2,600
Consolidated gross margin	\$ 715	\$ 666
Consolidated operating expenses:		
Selling, general and administrative expenses	554	567
Research and development expenses	116	115
Consolidated income (loss) from operations	\$ 45	\$ (16)

NCR's revenue of \$2,742 million for the six months ended June 30, 2004 was a 5% 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 and Data Warehousing segments mainly due to higher product volumes along with additional growth in our Retail Store Automation business. Income from operations for the first six months of 2004 was positively impacted from our cost and expense reductions, increases in volume for our three main product segments, 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 six months ended June 30, 2004 and 2003, were impacted by certain employee benefit plans as follows:

<i>In millions</i>	Six Months Ended June 30	
	2004	2003
Pension expense	\$ 64	\$ 48
Postemployment expense	52	42
Postretirement expense	1	12
Net expense	\$117	\$102

For the six months ended June 30, 2004, NCR incurred \$64 million of pension expense compared to \$48 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

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pension expense in 2004. Also during 2004, we made changes to our U.S. defined benefit pension plans in order to limit to U.S. based employees who are at least 40 years old and hired by August 31, 2004. While this change does not result in an immediate effect to pension expense, we believe it will reduce pension expense related to the U.S. plans for future periods.

Postemployment plan expense during the six months ended June 30, 2004 was \$52 million compared to \$42 million during the same period last year. The \$10 million increase is 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. This change in estimate will cause approximately \$11 million of incremental expense for the remainder of the year. Also, postretirement plan expense of \$1 million was substantially lower than the expense of \$12 million for the six 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 an increase in gross margin for the six months ended June 30, 2004 from the same period for 2003 to 26.1% from 25.6%. The gross margin increase of 0.5 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 15.8% for the first six months of 2004 from 17.0% for the same period of 2003 as continued price erosion due to the competitive market and incremental operational costs affected this business.

Total operating expenses, characterized as “selling, general and administrative expenses” and “research and development expenses” in the Condensed Consolidated Statement of Operations, were \$670 million compared to \$682 million during the six months ended June 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 June 30, 2004, compared to the three months ended June 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 six months ended June 30, 2004.

Data Warehousing: Revenue growth of 10% for Data Warehousing for the six months ended June 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 six 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. Due to the fluctuations we have seen in the information technology environment in the past, our outlook remains relatively positive, although we expect to see revenue growth at a smaller level in the second half of 2004. Operating income for the six months ended June 30, 2004 and 2003, was \$109 million and \$63 million, respectively. The increase in operating income reflects the expanded volumes we experienced and the benefits of cost and expense reductions implemented by this business.

Financial Self Service: Revenue for Financial Self Service grew 20% to \$581 million in the first six months of 2004. This increase was the result of growth in the Americas region as financial institutions in the United States upgrade their networks to meet recent regulatory changes and growth in the EMEA region from new order growth attributable to replacements of NCR and non-NCR equipment. The impact of foreign currency fluctuations provided a benefit of 6 percentage points to Financial Self Service revenue for the first six months of 2004. Operating income also grew significantly to \$71 million from \$41 million for the six months ended June 30, 2004 and 2003, respectively. Operating income improvements were driven by the increased volumes as well as cost and expense reductions.

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Retail Store Automation: Retail Store Automation revenue grew 7% to \$377 million from \$353 million in the first six 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 loss decrease of \$20 million to \$3 million for the six months ended June 30, 2004, is the result of cost and expense reductions, higher volumes mentioned above, and favorable foreign currency fluctuations.

Systemedia: Revenue for Systemedia declined 1% to \$231 million during the first six 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 six months of 2004. Operating income was \$3 million compared to \$2 million for the six months ended June 30, 2004, respectively. This business continues to see heavy competition for traditional media products which affects both pricing and volumes. Operating income was positively affected by cost and expense reductions and foreign currency fluctuations.

Payment and Imaging: Revenue declined to \$65 million from \$67 million, or 3%, for Payment and Imaging in the six months ended June 30, 2004 and 2003, respectively. Foreign currency fluctuations provided a 2 percentage point benefit to the 2004 six month period revenue amount. Operating income decreased to \$6 million in the first six months of 2004 from \$10 million for the six month period ended June 30, 2003. As we have seen in the first six 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 \$899 million during the first six 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. This revenue portfolio continues to decline as contracts expire and we have not been able to replace it with the same quality of contracts. Operating income also continues to decline as we take actions to correct the operating trends of this business. One of these actions is planned headcount reductions, which resulted in higher severance expense for the six month 2004 period. Also, we finalized a settlement agreement with a services partner for fees owed from an agreement entered into in 2002. Due to this settlement, which was paid in July 2004, we recorded \$11 million of expense for the six months ended June 30, 2004. This settlement resolves and clarifies the terms of the master agreement requirements.

Other: Revenue for this segment decreased 7% to \$97 million in the first six months of 2004 from \$104 million during the same period for 2003. Operating loss was \$21 million in the first six months of 2004 compared to \$29 million in the first six months of 2003. The decline in revenue for the period was due to a continued de-emphasis of low-margin third-party product sales. This was somewhat offset by higher services revenue as we concentrate on increasing this revenue base, which typically carries higher margins. The operating loss for this segment has decreased due to the higher services revenue contribution and cost and expense reductions.

Revenue by Region

Revenue in the first six months of 2004 compared to the first half of 2003 increased 5% in EMEA, increased 4% in the Americas, increased 3% in Japan, and increased 1% in the Asia-Pacific region. Changes in foreign currency rates provided a 9 percentage point, an 8 percentage point, and a 6 percentage point benefit to the 2004 period revenue in the EMEA, Japan, and Asia/Pacific regions, respectively. In the Americas region, the revenue growth was attributable to strong volumes in both our Financial Self Service, Data Warehousing, and Retail Store Automation segments. The growth in our EMEA region was primarily due to changes in foreign currency rates and increased volumes in Financial Self Service. In Japan and Asia/Pacific, foreign currency changes primarily drove the revenue growth, but we did see certain segments, such as Data Warehousing, grow beyond the currency impact.

The Americas region comprised 50% of our total revenue in the first six months of 2004, the EMEA region comprised 33%, the Asia Pacific region comprised 10%, and Japan comprised 7%.

Interest expense and other income

For the six months ended June 30, 2004, interest expense decreased \$2 million to \$11 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.

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Other income, net, for the first six months of 2004 was \$11 million compared to \$31 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. The six months ended June 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 six months ended June 30, 2004 tax rate of -160% includes a 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. This item provided a 187 percentage point benefit to the effective tax rate of 27% for the first six months of 2004 and is discussed in greater detail in the "Provision for Income Taxes" section of the "Results of Operations for Three Months Ended June 30, 2004 Compared to Three Months Ended June 30, 2003" section of this Form 10-Q.

The tax rate for the first six 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 second 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 second 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. For example, during the second quarter, we announced actions, to be 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 the Austria, Germany, and Switzerland during the second quarter of 2004 along with certain applications deployed to our operations in Canada. We have already made significant progress in the third quarter of 2004 taking ERP live in additional EMEA countries. For the remainder of the year, we will continue to deploy key ERP applications to certain business functions worldwide.

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. We will continue this transition of more of our complex transaction processes in the third quarter of 2004.

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 six months ended June 30, 2004, NCR utilized \$2 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.

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.

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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.

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

<i>In millions</i>	Six Months Ended June 30	
	2004	2003
Net cash provided by operating activities	\$ 90	\$200
Less: Net expenditures for reworkable service parts	39	45
Less: Expenditures for property, plant and equipment	33	29
Less: Additions to capitalized software	40	33
Free cash flow	<u>\$(22)</u>	<u>\$ 93</u>

Our free cash flow for the six months ended June 30, 2004, compared to the six months ended June 30, 2003, decreased \$115 million primarily due to a decrease in our cash provided by operating activities. Accounts receivable decreased \$35 million during the first six months of 2004 compared to a \$72 million decrease during the first six months of 2003. Higher revenue in the first and second quarters of 2004 as compared to the same periods for 2003 combined with a slower pace of receivables collections led to the lower year to date decrease for 2004. Also contributing to the decline in free cash flow was inventory levels being higher in the first six months of 2004 as compared to the same period of 2003. Inventories have continued to increase in Retail Store Automation with the aggressive conversion to a new configure-to-order model, which drives shorter lead times. Although we expected increases in Retail Store Automation's inventories due to the configure-to-order model, the inventory levels are too high 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 affecting the free cash flow amount 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.

Cash proceeds from real estate transactions and sales of property, plant, and equipment provided \$57 million of cash during the six months ended June 30, 2004, as we continue to reduce our real estate holdings. Also during that period, we purchased \$182 million of our common stock under our share purchase plans authorized by the Board of Directors (see Note 7 of Notes to Condensed Consolidated Financial Statements for details). Partially offsetting this cash outflow was \$108 million from cash received from stock compensation exercises, which were higher than last year due to the higher stock price in the first quarter of 2004 as compared to 2003. The cash received from stock compensation exercises is used to purchase our common stock to help offset the dilutive effects of the exercises.

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. Also, our guarantees and product warranties are discussed in Note 10 of Notes to Condensed Consolidated Financial Statements.

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.

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 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.

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.

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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 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 7 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 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.

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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.

Multinational Operations *Generating substantial revenues from our multinational operations helps to balance our risks and meet our strategic goals.* In the second quarter of 2004, our percentage of revenues from outside of the United States was 56%. 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

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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.

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.*

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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.

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

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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, 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 and second 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 second quarter of 2004 as compared to the second 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.

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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 June 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 \$12 million increase or a \$15 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 \$12 million decrease or a \$15 million decrease in the fair value of the hedge portfolio as of June 30, 2004 and 2003, respectively.

The interest rate risk associated with our borrowing and investing activities at June 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.

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 June 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 second 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 in which many of NCR’s key transaction processing activities will eventually be performed by Accenture LLP (Accenture). As of June 30, 2004, 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, except for Data Warehousing and Systemedia whose order to revenue process is not being transitioned to Accenture, and was responsible for approximately one-third of these transactions for June. 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 occur in the remainder of 2004.

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 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

We have included the Board of Directors' authorized share purchase information required by this item in the material under Note 8 of Notes to Condensed Consolidated Financial Statements of this quarterly report and is incorporated in this Item 2 by reference and made part hereof. In addition to those share purchases, the Company occasionally purchases vested restricted stock shares from Section 16 officers to cover withholding taxes. For the six months ended June 30, 2004, the total of these purchases were 877 shares at an average price of \$47.24 per share.

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

NCR's Annual Meeting of Stockholders was held on April 28, 2004. At the Annual Meeting, stockholders voted on three matters: a proposal to elect Edward P. Boykin, Linda Fayne Levinson, and Victor L. Lund as Class B directors, and James M. Ringler as a Class A director, a proposal to approve the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for 2004, and a stockholder proposal regarding auditor fees. The number of shares voted with respect to each matter required to be reported herein are as follows:

1. Election of Class B Directors:

Edward P. Boykin	For: 71,534,663	Withheld: 4,478,274
Linda Fayne Levinson	For: 72,421,393	Withheld: 3,591,544
Victor L. Lund	For: 72,645,714	Withheld: 3,367,223

Election of Class A Director:

James M. Ringler	For: 73,125,196	Withheld: 2,887,741
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Directors whose term of office continued after the meeting:

Mark P. Frissora
Mark V. Hurd
Lars Nyberg
C.K. Prahalad
William S. Stavropoulos

2. Approve appointment of PricewaterhouseCoopers LLP as independent auditors for 2004.

For:	72,079,527
Against:	3,416,186
Abstain:	517,211

3. Stockholder proposal regarding auditor fees.

For:	7,513,231
Against:	57,157,550
Abstain:	930,328

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) 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 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 August 6, 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 August 6, 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 August 6, 2004.

(b) Reports on Form 8-K

During the quarter ended June 30, 2004, NCR filed or furnished the following Form 8-K reports with the SEC. See below for a description of those reports.

NCR furnished a Current Report on Form 8-K, dated April 8, 2004, which reported under Item 12 of such form the Press Release announcing its expected first-quarter 2004 revenue and earnings per share amounts.

NCR furnished a Current Report on Form 8-K, dated April 29, 2004, which reported under Item 12 of such report the Press Release announcing its first-quarter 2004 revenue, operating loss and loss per share amounts.

NCR filed a Current Report on Form 8-K, dated May 26, 2004, which reported under Item 9 of such form changes to its U.S. defined benefit pension plans.

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.

NCR CORPORATION

Date: August 6, 2004

By: /s/ Peter Bocian

Peter Bocian, Vice President, Finance
and Interim 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: August 6, 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 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: August 6, 2004

/s/ Peter Bocian

Peter Bocian
Vice President, Finance and
Interim 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 June 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: August 6, 2004

/s/ Mark Hurd

Mark Hurd
President and Chief Executive Officer

Dated: August 6, 2004

/s/ Peter Bocian

Peter Bocian
Vice President, Finance and
Interim 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.