

NCR CORP
Form 10-Q
November 03, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2006

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)

1700 South Patterson Blvd.

Dayton, Ohio 45479

(Address of principal executive offices) (Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

Number of shares of common stock, \$0.01 par value per share, outstanding as of October 31, 2006, was approximately 178.2 million.

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Table of Contents**Part I. Financial Information****Item 1. Financial Statements****Condensed Consolidated Statements of Operations (Unaudited)**

In millions, except per share amounts	Three Months Ended September 30		Nine Months Ended September 30	
	2006	2005	2006	2005
Product revenue	\$ 795	\$ 806	\$ 2,237	\$ 2,246
Service revenue	722	692	2,094	2,065
Total revenue	1,517	1,498	4,331	4,311
Cost of products	512	512	1,448	1,445
Cost of services	565	550	1,666	1,663
Selling, general and administrative expenses	267	267	776	790
Research and development expenses	55	57	173	174
Total operating expenses	1,399	1,386	4,063	4,072
Income from operations	118	112	268	239
Interest expense	6	5	18	17
Other income, net	(8)	(3)	(22)	(7)
Income before income taxes	120	110	272	229
Income tax expense (benefit)	31	(112)	64	(150)
Net income	\$ 89	\$ 222	\$ 208	\$ 379
Net income per common share				
Basic	\$ 0.50	\$ 1.20	\$ 1.15	\$ 2.04
Diluted	\$ 0.49	\$ 1.18	\$ 1.13	\$ 1.99
Weighted average common shares outstanding				
Basic	178.7	184.9	180.5	185.8
Diluted	181.4	188.7	183.5	190.1

See Notes to Condensed Consolidated Financial Statements.

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

In millions, except per share amounts	September 30, 2006	December 31, 2005
Assets		
Current assets		
Cash and cash equivalents	\$ 761	\$ 810
Accounts receivable, net	1,306	1,305
Inventories, net	708	595
Other current assets	265	217
Total current assets	3,040	2,927
Property, plant and equipment, net	376	378
Goodwill	150	129
Prepaid pension cost	1,324	976
Deferred income taxes	391	522
Other assets	380	355
Total assets	\$ 5,661	\$ 5,287
Liabilities and stockholders equity		
Current liabilities		
Short-term borrowings	\$ 5	\$ 2
Accounts payable	514	490
Payroll and benefits liabilities	282	292
Deferred service revenue and customer deposits	468	444
Other current liabilities	438	417
Total current liabilities	1,707	1,645
Long-term debt	306	305
Pension and indemnity plan liabilities	497	557
Postretirement and postemployment benefits liabilities	264	259
Deferred income taxes	134	140
Income tax accruals	199	167
Other liabilities	141	158
Minority interests	20	21
Total liabilities	3,268	3,252
Commitments and contingencies (Note 8)		
Stockholders equity		
Preferred stock: par value \$0.01 per share, 100.0 shares authorized, no shares issued and outstanding at September 30, 2006 and December 31, 2005 respectively		
Common stock: par value \$0.01 per share, 500.0 shares authorized, 177.8 and 181.7 shares issued and outstanding at September 30, 2006 and December 31, 2005 respectively	2	2
Paid-in capital	625	794
Retained earnings	1,725	1,518
Accumulated other comprehensive income (loss)	41	(279)
Total stockholders equity	2,393	2,035

Total liabilities and stockholders equity	\$	5,661	\$	5,287
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See Notes to Condensed Consolidated Financial Statements.

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

In millions	Nine Months Ended September 30	
	2006	2005
Operating activities		
Net Income	\$ 208	\$ 379
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	118	127
Stock-based compensation expense	22	3
Excess tax benefit from stock-based compensation	(13)	
Deferred income taxes	40	24
Non-cash income tax adjustment		(201)
Other adjustments to income, net	(5)	(2)
Changes in assets and liabilities:		
Receivables	1	39
Inventories	(114)	(43)
Current payables and accrued expenses	17	(44)
Deferred service revenue and customer deposits	23	23
Employee severance and pension	44	46
Other assets and liabilities	(53)	(48)
Net cash provided by operating activities	288	303
Investing activities		
Expenditures for property, plant and equipment	(65)	(51)
Proceeds from sales of property, plant and equipment	13	7
Additions to capitalized software	(69)	(57)
Other investing activities, business acquisitions and divestitures, net	(24)	2
Net cash used in investing activities	(145)	(99)
Financing activities		
Purchases of Company common stock	(280)	(320)
Excess tax benefit from stock-based compensation	13	
Short-term borrowings, additions	3	
Long-term debt, additions	1	
Proceeds from employee stock plans	68	117
Other financing activities, net	(3)	
Net cash used in financing activities	(198)	(203)
Effect of exchange rate changes on cash and cash equivalents	6	(11)
Decrease in cash and cash equivalents	(49)	(10)
Cash and cash equivalents at beginning of period	810	750
Cash and cash equivalents at end of period	\$ 761	\$ 740

See Notes to Condensed Consolidated Financial Statements.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND ACCOUNTING CHANGE

The accompanying Condensed Consolidated Financial Statements have been prepared by NCR Corporation (NCR, the Company, we or us) without audit pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments, except for the accounting change described below) necessary for a fair statement of the consolidated results of operations, financial position, and cash flows for each period presented. The unaudited Condensed Consolidated Balance Sheet as of December 31, 2005 and the unaudited Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2005 have been retrospectively adjusted for the accounting change described below. The consolidated results for the interim periods are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with NCR's Form 10-K for the year ended December 31, 2005.

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

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

As a result of applying the accounting change retrospectively, net reworkable service parts of \$234 million as of December 31, 2005, are now included in inventories in the accompanying unaudited Condensed Consolidated Balance Sheet as service parts inventory. Prior to the accounting change, this amount was reported as a separate caption under long-term assets. In addition, expenditures, net of proceeds, for reworkable service parts for the nine months ended September 30, 2005 of \$65 million, which was part of investing activities, is now reflected in the accompanying unaudited Condensed Consolidated Statement of Cash Flows as a component of operating activities. The impact of the accounting change on previously reported income from operations, net income and earnings per share of each prior period was not material. Accordingly, the cumulative effect of the change in accounting method of approximately \$0.2 million was recorded as a decrease in cost of services in the accompanying unaudited Condensed Consolidated Statements of Operations for the nine months ended September 30, 2006.

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

Table of Contents**2. SUPPLEMENTAL FINANCIAL INFORMATION**

In millions	Three Months Ended		Nine Months Ended	
	September 30		September 30	
	2006	2005	2006	2005
Comprehensive Income				
Net income	\$ 89	\$ 222	\$ 208	\$ 379
Other comprehensive income, net of tax:				
Unrealized (loss) gain on securities		(1		