NCR CORP
Form 10-K
February 26, 2010


# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

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

**For the fiscal year ended December 31, 2009**

**Commission File Number 001-00395**

# NCR CORPORATION

**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **Maryland** | **31-0387920** |
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |
| **3097 Satellite Boulevard Duluth, Georgia** | **30096** |
| **(Address of principal executive offices)** | **(Zip Code)** |

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

**Securities registered pursuant to Section 12(b) of the Act:**

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| **Common Stock, par value $.01 per share** | **New York Stock Exchange** |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES x NO ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. YES ¨ NO x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ¨ NO ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2009, was approximately $1.9 billion. As of February 16, 2010, there were approximately 159.7 million shares of common stock issued and outstanding.

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**DOCUMENTS INCORPORATED BY REFERENCE**

Part III: Portions of the Registrant s Notice of Annual Meeting of Stockholders and Proxy Statement to be filed pursuant to Regulation 14A within 120 days after Registrant s fiscal year end of December 31, 2009 are incorporated by reference.

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This Report contains trademarks, service marks, and registered marks of NCR Corporation and its subsidiaries, and other companies, as indicated.

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# PART I

## Item 1. BUSINESS

### General

NCR Corporation and its subsidiaries (NCR or the Company, also referred to as we , us or our ) provide technology and services that help businesses connect, interact and transact with their customers.

*Businesses*

NCR Corporation is a leading global technology company that provides innovative products and services to help businesses build stronger relationships with their customers. Through our presence at customer interaction points, such as automated teller machines (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, self-check-in/out systems and DVD kiosks, our solutions enable companies to address consumer demand for convenience, value and individual service. NCR also provides a complete portfolio of services to help customers design, deploy, support and manage technology solutions for our products as well as select third-party products.

*Industries Served*

NCR provides specific solutions for customers in a range of industries such as financial services, retail and hospitality, travel and gaming, healthcare, and entertainment. NCR s solutions are built on a foundation of long-established industry knowledge and consulting expertise, value-added software and hardware technology, global customer support services, and a complete line of business consumables and specialty media products.

*Company History*

NCR was originally incorporated in 1884 and was a publicly traded company on the New York Stock Exchange prior to its merger with a wholly-owned subsidiary of AT&T Corp. (AT&T) on September 19, 1991. Subsequently, on December 31, 1996, AT&T distributed all of its interest in NCR to its stockholders (the Distribution ). NCR common stock is listed on the New York Stock Exchange and trades under the symbol NCR .

On September 30, 2007, NCR completed the spin-off of its Teradata Data Warehousing business through the distribution of a tax-free stock dividend to its stockholders. NCR distributed one share of common stock of Teradata Corporation (Teradata) for each share of NCR common stock to NCR stockholders of record as of the close of business on September 14, 2007. For more information regarding the spin-off of Teradata, refer to Management s Discussion & Analysis (MD&A) in Item 7 and Note 12 of the Notes to Consolidated Financial Statements, Discontinued Operations, in Item 8 of Part II of this Form 10-K report (Report).

*Operating Segments*

Effective January 1, 2008, NCR reorganized its businesses and management thereof to a geographic model, changing from the previous model of global business units organized by product and service offering. For the year-ended December 31, 2009 and the prior periods reported in this Report, NCR categorizes its operations into three reportable segments: Americas, Europe, Middle East and Africa (EMEA) and Asia Pacific and Japan (APJ). Each of these segments derives revenue by selling products and services to the financial services, retail and hospitality, travel and gaming, healthcare, and entertainment industries. These products and services are described below.

The information required by Item 1 with respect to financial information regarding our reportable segments can be found in Item 7 of Part II of this Report under Revenue and Gross Margin by Segment as well as in Item 8 of Part II of this Report as part of Note 13 of the Notes to Consolidated Financial Statements, Segment Information and Concentrations, and is incorporated herein by reference.

**Products and Services**

We sell products and services that help businesses connect, interact and transact with their customers. Our product and service offerings fall into the following categories:

***ATMs and Financial Terminals***

We provide financial institutions, retailers and independent deployers with financial-oriented self-service technologies, such as ATMs, cash dispensers, and software solutions, including the APTRA application suite and consulting services related to ATM security, software and bank branch optimization. ATM and Financial Terminal solutions are designed to quickly and reliably process consumer transactions and incorporate advanced features such as automated check cashing/deposit, automated cash deposit, web-enablement and bill payment. These solutions help enable businesses to reduce costs and generate new revenue streams while enhancing customer loyalty.

***Self-Service Kiosks***

NCR provides self-service kiosks to the retail and hospitality, travel and gaming, healthcare and entertainment industries. NCR s versatile kiosk solutions can support numerous retail self-service functions, including self-checkout, wayfinding, bill payment and gift registries. We provide kiosk solutions to airlines that enable self check-in and to hotels/casinos that allow guests to check-in/out without assistance. These solutions create pleasant and convenient experiences for consumers and enable our customers to reduce costs. The kiosks for the hospitality industry provide consumers the ability to order and pay at restaurants while enabling our customers to streamline order processing and reduce operating costs. NCR s healthcare kiosk solutions offer wireless self-check-in for patients, integrate with existing information systems and physician practice management systems to make the check-in and check-out processes more convenient for patients and helping to reduce costs and errors for our customers. NCR Entertainment solutions allow consumers to rent movies and games at their convenience.

***Point of Sale***

We provide retail-oriented technologies such as Point of Sale (POS) terminals, bar-code scanners, software and services to companies worldwide. Combining our retail industry expertise, software and hardware technologies, implementation and store performance consulting services, our solutions are designed to enable cost reductions and improve retailer operational efficiency while increasing the satisfaction of the retailer s customers.

***Check and Document Imaging***

NCR s Check and Document Imaging offerings provide end-to-end solutions for both traditional paper-based and image-based check and item processing. These solutions utilize advanced image recognition and workflow technologies to automate item processing, helping financial institutions increase efficiency and reduce operating costs. Consisting of hardware, software, consulting and support services, our comprehensive Check and Document Imaging solutions enable check and item-based transactions to be digitally captured, processed and retained within a flexible, scalable environment.

***Services***

Services are an essential and integrated component of NCR s complete solution offerings. NCR provides maintenance and support services for all NCR product offerings described above. In addition to these maintenance and support services, NCR also provides other services including site assessment and preparation, staging, installation and implementation, systems management and complete managed services. NCR also services third-party computer hardware from select manufacturers, such as Cisco Systems, who value and leverage NCR s global service capability. However, NCR s strategy is to focus primarily on maintenance and

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support of NCR-branded products in order to capture higher margin services and significantly reduce redundant costs associated with supporting/servicing multiple third-party products.

In addition to the software solutions described previously, NCR is developing a suite of software and services such as Software as a Service, hosted services, online, mobile, transactional services and applications such as bill pay and digital signage. NCR is also focused on expanding the resale of third party networking products and related service offerings to a broader base of customers in the telecommunications and technology sectors.

***Consumables***

NCR develops, produces and markets a complete line of printer consumables for various print technologies. These products include two-sided thermal paper (2ST®), paper rolls for receipts in ATMs and POS solutions, inkjet and laser printer supplies, thermal transfer and ink ribbons, labels, laser documents, business forms, and specialty media items such as photo and presentation papers. Consumables are designed to optimize operations and improve transaction accuracy, while reducing overall costs.

**Target Markets and Distribution Channels**

NCR s ATMs and financial terminal solutions primarily serve the financial services industry with particular focus on retail banking, which includes traditional providers of consumer banking and financial services. These solutions also serve the retail markets through convenience banking products for retailers designed to complement their core businesses. Customers are located throughout the world in both established and emerging markets. NCR has historically sold most of its ATMs and financial terminal products and services through a direct sales channel, although a portion of revenues is derived through distributors and value-added resellers.

NCR provides self-service kiosk and POS solutions to retail and hospitality, travel and gaming, healthcare and entertainment industries. Retail and hospitality customers include department stores, specialty retailers, mass merchandisers, catalog stores, supermarkets, hypermarkets, grocery stores, drug stores, wholesalers, convenience stores, fast food/quick service/table service and other restaurants. The travel and gaming customers include airlines, airports, car rental, hotel/lodging and casinos. NCR s healthcare customers include hospitals, clinics and other healthcare providers. Self-service kiosk and POS solutions are sold through a direct sales force and through alliances with value-added resellers, distributors and dealers. NCR has focused its investments and resources on self-service technologies with expanded offerings to include DVD kiosks for the entertainment industry, self-ticketing for the travel industry and patient management check-in/out in the healthcare sector.

NCR s imaging solutions primarily serve the financial services industry worldwide, with the primary focus on banks. NCR has historically distributed most of its imaging products and services through a direct sales channel, although certain revenues are derived through sales by value-added resellers and distributors.

Our Consumables products are sold to the financial services and retail and hospitality industries as well as customers involved in transportation and manufacturing. While the Company has a direct sales force in approximately 28 countries for consumables, these products are also sold through various channel partners including office product retailers, contract stationers, value-added resellers, original equipment manufacturers as well as through telemarketing and the internet.

Approximately 93% of our product sales are sold by our direct sales force, with the remainder sold through indirect channels, including value-added resellers, distributors, and dealers.

NCR provides service and support for NCR s products and solutions through service contracts with our customers. NCR has also established managed service contracts with key customers and continues to pursue additional managed service relationships. Longer term managed service arrangements can help improve the efficiency and performance of the customer s business, and also increase the strategic and financial importance of its relationship with NCR. We also provide services on competing technologies for example, IBM retail

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technologies and Diebold ATMs. The primary sales channel for our services is NCR s direct sales teams, which exist in all of NCR s geographic operating segments. Our services professionals provide these services directly to end customers.

**Competition**

In the financial services industry, we compete with Diebold, Inc. and Wincor Nixdorf GmbH & Co. (Wincor), as well as many other regional firms, across all of our geographic segments. The primary factors of competition can vary, but typically include: value and quality of the solutions or products; total cost of ownership; industry knowledge of the vendor; the vendor s ability to provide and support a total end-to-end solution; the vendor s ability to integrate new and existing systems; the fit of the vendor s strategic vision with the customer s strategic direction; and the quality of the vendor s support and consulting services.

NCR faces a variety of competitors in the retail and hospitality industry in all geographic segments. The Company believes that key competitive factors can vary by geographic area but typically include: value and quality of the solutions or products; total cost of ownership; industry knowledge of the vendor; and knowledge, experience and quality of the vendor s consulting, deployment and support services. NCR s competitors vary by market segment, product, service offering and geographic area, and include IBM, Wincor, Fujitsu, Hewlett-Packard, Dell, Honeywell and Datalogic, among others.

NCR faces a diverse group of competitors in the travel and gaming and entertainment industries. Competition in the travel industry includes IBM, SITA and IER. In the gaming industry, NCR s key competitors are IBM, Wincor and Cummins. In the entertainment industry, competition comes from makers of DVD rental kiosks, including Coinstar, Inc. (through their Redbox DVD kiosk business). Competition in the entertainment industry is currently focused primarily in the United States.

NCR faces competition for services from other technology and service providers, as well as from service-only firms, in all geographies where it operates around the world. The primary services competitors are the companies identified in NCR s other solutions. Global technology providers are becoming more focused on services as a core business strategy. NCR also competes with a range of smaller regional and local service companies that differ by geography.

Competition for printer consumables is significant and varies by geographic area and product group. The primary areas of competitive differentiation typically include: quality; logistics and supply chain management; and total cost of ownership. While price is always a factor, we focus on the customer s total cost of ownership for our consumables products. Total cost of ownership takes into account not only the per-unit cost, but also service, usage, reporting and support costs. NCR s competitors include, among others, RiteMade Paper and Schades.

NCR faces competition in the financial services industry for imaging solutions in all our geographic segments. The primary areas of competition can vary, but typically include: quality of the solutions or products; total cost of ownership; industry knowledge; the vendor s ability to provide and support a total end-to-end solution; the vendor s ability to integrate new and existing systems; the fit of the vendor s strategic vision with the customer s strategic direction; and the quality of the vendor s support and consulting services. NCR s competitors vary by product, service offering and geographic area, and include Metavante Corporation and Unisys Corporation, among others.

**Research and Development**

We remain focused on designing and developing products, services and solutions that anticipate our customers changing technological needs. The expenses for research and development were $141 million in 2009, $148 million in 2008, and $137 million in 2007. We anticipate that we will continue to have significant research and development expenditures in the future to provide a continuing flow of innovative, high-quality products and services to maintain and enhance our competitive position. Information regarding the accounting and costs included in research and development activities is included in Note 1 of the Notes to Consolidated Financial Statements, Description of Business and Significant Accounting Policies, in Item 8 of Part II of this Report and is incorporated herein by reference.

**Patents and Trademarks**

Our general policy is to seek patent protection for those innovations and improvements that are likely to be incorporated into our products and services, where such protection will improve our competitive position. NCR owns approximately 1,350 patents in the United States and a significant number in foreign countries. The foreign patents are generally counterparts of NCR s U.S. patents. Many of the patents owned by NCR are licensed to others and NCR is licensed to use certain patents owned by others. While NCR s portfolio of patents and patent applications in aggregate is of significant value to NCR, the Company does not believe that any particular individual patent is itself of material importance to NCR s business as a whole.

NCR has registered certain trademarks and service marks in the United States and in a number of foreign countries. NCR considers the mark NCR and many of its other trademarks and service marks to be valuable assets.

**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 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. Information regarding seasonality and its potential impact on our business is included in Item 1A of this Report under the caption, Operating Results Fluctuations, and is incorporated herein by reference.

**Manufacturing and Raw Materials**

In most cases, there are a number of vendors providing the services and producing the parts and components that we utilize. However, there are some services and components that are purchased from single sources due to price, quality, technology or other reasons. For example, we depend on computer chips and microprocessors from Intel Corporation and operating systems from Microsoft Corporation. Certain parts and components used in the manufacturing of our ATMs and the delivery of many of our retail 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.

On a global basis, NCR manufactures its ATMs in facilities located in Columbus, Georgia, USA; Manaus, Brazil; Budapest, Hungary; Beijing, China and Puducherry, India. For payment solutions, self-checkouts and certain kiosks, NCR outsources the manufacturing in all geographic regions to Flextronics International Ltd., a provider of electronics manufacturing and integrated supply-chain services. Flextronics also procures a variety of components used in the manufacturing process on our behalf. Flextronics manufactures these NCR products in Columbia, South Carolina and Plano, Texas.

Refer to Item 1A of this Report under the caption, Reliance on Third Parties for further information regarding the potential impact of these relationships on our business operations. Additional information regarding sources and availability of raw materials is also included in Item 1A of this Report under the caption Reliance on Third Parties, and is incorporated herein by reference.

**Employees**

On December 31, 2009, NCR had approximately 21,500 employees and contractors.

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**Information**

NCR makes available through its website, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, definitive proxy statements on Form 14A and Current Reports on Form 8-K, and all amendments to such reports, as soon as reasonably practicable after these reports are electronically filed or furnished to the U.S. Securities and Exchange Commission (SEC) pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934. The SEC website (www.sec.gov) contains the reports, proxy statements and information statements, and other information regarding issuers that file electronically with the SEC. Also, the public may read and copy any materials the Company files with the SEC at the SEC s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. NCR will furnish, without charge to a security holder upon written request, the Notice of Meeting and Proxy Statement for the 2010 Annual Meeting of Stockholders (the 2010 Proxy Statement), portions of which are incorporated herein by reference. NCR will furnish the Code of Conduct at no cost and any other exhibit at cost. Document requests are available by calling or writing to:

NCR Investor Relations

3097 Satellite Boulevard

Duluth, GA 30096

Phone: 800-255-5627

E-Mail: investor.relations@ncr.com

Website: http://investor.ncr.com

**Environmental Matters**

Compliance with Federal, State, and local environmental regulations relating to the protection of the environment could have a material adverse impact on our capital expenditures, earnings or competitive position. While NCR does not currently expect to incur material capital expenditures related to compliance with such laws and regulations, and while NCR believes the amounts provided in its Consolidated Financial Statements are adequate in light of the probable and estimable liabilities, there can be no assurances that there will not be a material adverse impact on capital expenditures, earnings or competitive position. A detailed discussion of the current estimated impacts of compliance issues relating to environmental regulations, particularly the Fox River matter, is reported in Item 8 of Part II of this Report as part of Note 11 of the Notes to Consolidated Financial Statements, Commitments and Contingencies, and is incorporated herein by reference.

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**Item 1A. RISK FACTORS**

This report and other documents that we file with the 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, that 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 may be negatively affected by current global economic and credit conditions.* The current economic climate could impact the ability of our customers to make capital expenditures, thereby affecting their ability to purchase our products or services. Additionally, customers in the financial services sector, which has been severely impacted by the credit crisis, have consolidated in response to the crisis and may continue to do so, which could further impact our business by reducing our customer base. Furthermore, our retail customers are operating in a challenging environment and are faced with weak consumer spending. As a result, these customers could face increased financial pressures that could impact their capital expenditures or ability to pay accounts receivable owed to NCR.

Our customers sometimes finance their purchases of our products and services through third party financing companies. Overall economic conditions may have a material effect on our customers ability to obtain such financing, which could result in an adverse effect on our operating results.

Our $500 million five-year unsecured revolving credit facility (the facility), which expires in 2012, is provided by a syndication of several banks that share the committed financing under the facility. Economic and credit market conditions have presented banks and financial institutions with significant challenges, which has led a number of such entities to seek capital from the U.S. federal government. Although we monitor the ability of the banks within the syndication to fulfill their counterparty responsibilities, future market conditions could affect the ability of one or more of these banks to provide the financing that has been committed under the facility. Additionally, the availability under the facility is determined by our compliance with certain financial debt covenants. The inability to access the full capacity of our facility, either from fulfillment of counterparty responsibilities or through our compliance with debt covenants, could have a material, adverse effect on our business, results of operations, and liquidity.

The extent of the impact of current economic conditions will depend on a number of factors, including the length and breadth of the U.S. and global recession, conditions in the global credit markets, and the effects of government actions to stimulate economic conditions.

**Competition** *If we do not compete effectively within the technology industry, we will not be successful.* 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: IBM, Hewlett-Packard Company, Diebold, Inc., Wincor, Fujitsu, Unisys Corporation and Coinstar, Inc., some of which have more widespread distribution and penetration of their platforms and service offerings. In addition, we compete with companies in specific market segments, such as entry-level ATMs, imaging solutions, and business consumables and media products. Our future competitive performance and market position depend on a number of factors, including our ability to: react to competitive product and pricing pressures (particularly in the ATM marketplace); penetrate and meet the changing competitive requirements and deliverables in developing and emerging markets, such as India and China in the ATM market; exploit opportunities in new vertical markets, such as travel and gaming, healthcare, and entertainment; 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; reduce costs without creating operating inefficiencies; maintain competitive operating margins; improve product and service delivery quality; and effectively market and sell all of our diverse solutions. Our business and operating performance could be impacted by external competitive pressures, such as increasing price erosion and the entry of new competitors. Our customers sometimes finance our product sales through third-party financing companies. In the case of customer default, these financing companies may be forced to resell this equipment at discounted prices, thus impacting our ability to sell incremental units. The impact of these product and pricing pressures could include lower customer satisfaction, decreased demand for our solutions, loss of market share and reduction of operating profits.

**Operating Results Fluctuations** *Our revenue and operating results could fluctuate for a number of reasons, including*:

*Manufacturing Insourcing* During 2009, we announced that we would begin manufacturing advanced ATMs at our new facilities in Columbus, Georgia, USA and Manaus, Brazil, transitioning from an outsourcing arrangement with Flextronics International Ltd. We began production at both ATM manufacturing facilities during the fourth quarter of 2009. However, if we develop problems with product quality or on-time delivery to customers as a result of this decision, we could experience business interruption that could negatively impact our business and operating results.

*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 manage working capital and 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. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. The effects of currency fluctuations are partially mitigated by our hedging strategy; however, certain significant currency fluctuations could adversely affect our results of operations, including sales and gross margins.

*Cost/Expense Reductions* We are actively working to reduce our costs and expenses to improve operating profitability without jeopardizing the quality of our products or the effectiveness of our operations. 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, and among other things, optimize the efficiency of our customer services resources. If we do not successfully execute on our cost reduction initiatives or if we experience delays in completing the implementation of these initiatives, our results of operations 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 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 profitability related to these contracts may be negatively impacted. In addition, if we are unable to maintain appropriate utilization rates for our consultants, we may not be able to sustain profitability on these contracts.

*Diversification* While we believe the spin-off of Teradata on September 30, 2007 was the proper strategic move for both companies, following the spin-off, the Company is less diversified than before. Consequently, we must rely primarily on our self-service and assisted-service products (along with the associated services) to drive growth and profitability. If these products or service offerings suffer a significant decrease in demand or increase in costs, our results of operations or financial condition could be adversely affected.

*Acquisitions and Divestitures* As part of our strategy, we intend 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 transactions, it could cause our operating results to fluctuate materially, depending on the size and nature of any future transactions. In addition, our operating results may be adversely affected if we are unable to properly integrate future acquisitions or if investments do not perform or meet our original expectations.

*Investment in Entertainment* As part of our strategy, we intend to expand our network of DVD-rental kiosks. Our success depends on a number of factors, including the timing of deployment of new DVD-rental kiosks to reach our roll-out target, securing new customer contracts, access to DVD inventory and average time for kiosks to reach maturity. If we do not successfully execute our strategy or if we experience unforeseen delays, our results of operations and financial condition could be adversely affected.

*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 that are subject to financial market risk. Additionally, we are required to make a number of actuarial assumptions for each plan, including the expected long-term return on plan assets and the discount rate on a country-by-country basis after consultation with independent actuarial consultants. We examine interest rate levels and trends within each country, particularly yields on high-quality long-term corporate bonds, relative to our expected future benefit payments 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.

In 2008, financial markets experienced significant volatility, with declining government bond yields and widening credit spreads on fixed income investments and poor performance in equity markets. Although the equity markets improved somewhat in 2009, we have a significant, underfunded pension obligation, which may require material increases in cash contributions in future years. Our financial position and liquidity could be materially impacted by these contributions. See Effects of Pension, Postemployment and Postretirement Benefit Plans and Financial Condition, Liquidity And Capital Resources sections of the MD&A included in Item 7 of Part II of this Report and Note 9, Employee Benefit Plans in the Notes to the Consolidated Financial Statements included in Item 8 of Part II of this Report for further information regarding the funded status of our plans and future cash contributions.

Our future financial results could be materially impacted by further volatility in the performance of financial markets, changes in regulations regarding funding requirements, and changes in the actuarial assumptions, including those described in our Critical Accounting Policies and Estimates section of the MD&A included in Item 7 of Part II of this Report.

*Stock-based Compensation* Similar to other companies, we use stock awards as a form of compensation for certain employees. All stock-based payments to employees, including grants of employee stock options, are required to be recognized in the financial statements based on their fair values. The amount recognized for stock compensation expense could vary depending on a number of assumptions or changes that may occur. For example, assumptions such as the risk-free rate, expected holding period and expected volatility that drive our valuation model could change. Other examples that could have an impact include changes in the mix and type of awards, changes in our compensation plans or tax rate, changes in our forfeiture rate, differences in actual results compared to management s estimates for performance-based awards or an unusually high amount of expirations of stock options.

*Income Taxes* We are subject to income taxes in the United States and a number of foreign jurisdictions. We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. Significant judgment is required in determining our provision for income taxes. 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. As a result of the significant declines in the value of pension plan assets and increases in the actuarially valued pension benefit obligations, our deferred tax assets increased significantly in 2008 and totaled $736 million at December 31, 2009. If we are unable to generate sufficient future taxable income, if there is a material change in the actual effective tax rates, if 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, which could result in a material increase in our effective tax rate. Additionally, we are subject to ongoing tax audits in various jurisdictions both in the U.S. and internationally, the outcomes of which could result in the assessment of additional taxes. Our effective tax rate in the future could be adversely affected by changes in the mix of earnings in countries with differing statutory tax rates, the changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations, and management s assessment in regards to repatriation of earnings.

*Real Estate* Our strategy over the past several years with respect to owned and leased real estate has been to reduce our holdings of excess real estate. In line with this strategy, the exit of facilities may affect net income, and current and future real estate market conditions could impede our ability to reduce the size of our real estate portfolio or affect the amount of consideration received in any transactions.

**Multinational Operations** *Our multinational operations expose us to business and legal risk in the various countries where we do business.* For the years ended December 31, 2009 and 2008, the percentage of revenues from outside of the United States was 65% and 67%, respectively. 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, deteriorating economic environments or business disruptions due to economic or political uncertainties). However, our ability to manufacture and sell our solutions domestically in the United States and internationally is subject to risks, which include among others: the impact of the global economic and credit crises on the stability of national economies, including those of countries where we have operations; political conditions in each country that could adversely affect demand for our solutions in these markets; the impact of a continued downturn in the global economy on demand for our products in these countries; currency exchange rate fluctuations that 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 that may increase our cost of doing business in these markets or otherwise prevent us from effectively competing in these markets; changing competitive requirements and deliverables in developing and emerging 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** *If we do not swiftly and successfully develop and introduce new solutions in the competitive, rapidly changing environment in which we do business, our business results will be impacted.* The development process for our solutions requires high levels of innovation from both our product development team 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 the operability and specifications of new technologies, and our results could be impacted if we are unable to deliver such technologies as planned. Also, if we cannot successfully market and sell both existing and newly developed solutions, our business and operating results could be impacted. Our hardware and software-based solutions may contain known, as well as undetected errors, which may be found after the product introductions and shipments. 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, each of which would impact our business and operating results.

**Reliance on Third Parties** *If third-party suppliers upon which we rely are not available, our ability to bring our products to market in a timely fashion could be affected.* In most cases, there are a number of vendors providing the services and producing the parts and components that we utilize. However, there are some services and components that are purchased from single sources due to price, quality, technology or other reasons. For example, we depend on transaction processing services from Accenture, computer chips and microprocessors from Intel Corporation, contract manufacturing from Flextronics International Ltd. and operating systems from Microsoft Corporation. Certain parts and components used in the manufacturing of our ATMs and the delivery of

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many of our retail 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 services, including contract manufacturing, parts, components or products from a particular vendor, and we had to find an alternative supplier, our new and existing product shipments and solution 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 nonperformance 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, and manual processes and data integrity issues of smaller suppliers can also create product time delays, inventory and invoicing problems, 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** *Our continuing ability to be a leading technology and services solutions provider could be negatively affected if we do not develop and protect intellectual property that drives innovation.* To that end, it is critical that we continue to develop leading technologies 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 we are not successful, our business could be adversely impacted. Also, many of our offerings rely on technologies developed by others, and if we are unable to continue to obtain licenses for such technologies, our business would be impacted. Over the last several years, there has been an 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, or 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** *Our restructuring and re-engineering initiatives could negatively impact productivity and business results.* As part of our ongoing efforts to optimize our cost structure, from time to time, we shift and realign our employee resources, which could temporarily result in reduced productivity levels. In addition to reducing costs and expenses, we have 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 typically have many initiatives underway. If we are not successful in managing our various restructuring and re-engineering initiatives, our business and operating results could be negatively impacted. On June 2, 2009, we announced the relocation of our world headquarters from Dayton, Ohio to Duluth, Georgia. If we do not effectively transition our workforce by identifying and relocating key positions, hiring qualified candidates in Georgia to fill the remaining positions, and ensuring uninterrupted handoffs of responsibilities from departing NCR associates to new associates, we could experience business disruption due to a loss of historical knowledge and a lack of business continuity that could negatively affect our operating results. If we are not successful in managing our other initiatives and minimizing any resulting loss in productivity, our business and operating results similarly could be negatively impacted.

*If we do not attract and retain quality employees, we may not be able to meet our business objectives.* 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. If we are unable 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 negatively impacted.

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*If we do not maintain effective internal controls, accounting policies, practices, and information systems necessary to ensure reliable reporting of our results, our ability to comply with our legal obligations could be negatively affected.* 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 applicable accounting standards, laws and regulations, taxation requirements and federal securities laws and regulations. Our internal controls and policies are being closely monitored by management as we continue to implement a worldwide Enterprise Resource Planning (ERP) system. While we believe these controls, policies, practices and systems are adequate to ensure data integrity, unanticipated and unauthorized actions of employees or contractors (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, results of operations, or compliance with legal obligations. Moreover, while management has concluded that the Company s internal control over financial reporting was effective as of December 31, 2009 (as set forth in Management s Report on Internal Control over Financial Reporting included in Item 9A of this Report), due to their inherent limitations, such controls may not prevent or detect misstatements in our reported financial statements. Such limitations include, among other things, the potential for human error or circumvention of controls. Further, the Company s internal control over financial reporting is subject to the risk that controls may become inadequate because of a failure to remediate control deficiencies, changes in conditions or a deterioration of the degree of compliance with established policies and procedures.

*Our ability to effectively manage our business could be negatively impacted if we do not invest in and maintain reliable 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, results of operations, or ability to comply with legal and regulatory reporting obligations, may be impacted.

**Acquisitions and Alliances** *If we do not successfully integrate acquisitions or effectively manage alliance activities, we may not drive future growth.* As part of our overall solutions strategy, we intend to make investments in companies, products, services and technologies, either through acquisitions, investments, 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. Further, we make acquisitions and investments in order to acquire or obtain access to new technology or products that expand our offerings to new industry verticals, such as the entertainment industry. There is risk that the new technology or products may not perform as anticipated or that the new industry verticals may not meet estimated growth projections or expectations, in which case we may not be able to fully realize the benefit of our investments. An acquisition 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, which may lead to additional costs not anticipated at the time of acquisition.

**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. In addition, our products are subject to environmental laws in certain jurisdictions. 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 11 of the Notes to Consolidated Financial Statements, Commitments and Contingencies, included in Item 8 of Part II of this Report; in Environmental Matters within Item 1 of Part I of this Report; and in Environmental and Legal Contingencies within the Critical Accounting Policies and Estimates section of the MD&A included in Item 7 of Part II of this Report, and we incorporate such disclosures by reference and make them a part of this discussion of risk factors. As described in more detail in such disclosures, we maintain an accrual for our potential liability relating to the Fox River matter that represents certain critical estimates and judgments made by us regarding our potential liability. NCR shares the future clean-up costs with Appleton Papers Inc. (API) based upon an agreement and an arbitration award (along with API, B.A.T. Industries p.l.c. is jointly and severally liable to NCR under the same agreement and award; also, Arjo Wiggins Appleton Ltd. indemnifies API for the Fox River matter, and NCR benefits indirectly from that obligation). Additionally, certain parties are responsible for indemnifying NCR for a portion of the amounts paid by NCR over a certain threshold. The ultimate costs associated with the Fox River matter, our share of those costs and any amounts received from insurers or those parties that owe an indemnification or cost-sharing obligation to NCR, including API, B.A.T. Industries p.l.c., Arjo Wiggins Appleton Ltd, AT&T and Alcatel/Lucent, are subject to a wide range of factors outside of our control, including such companies ability to pay on their obligations, which could impact our future operating results and the amount of the accrued liability.

**Contingencies** *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, data privacy and other regulatory compliance and general matters. Because such matters are subject to many uncertainties, their outcomes are not predictable and we must make certain estimates in our financial statements. While we believe that amounts provided in our Consolidated Financial Statements are currently adequate in light of the probable and estimable liabilities, there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results. Additionally, we are subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, which are rapidly changing and subject to many possible changes in the future. Although we do not believe that recent regulatory and legal initiatives will result in significant changes to our internal practices or our operations, changes in accounting standards, taxation requirements, and federal securities laws and regulations, among others, may substantially increase costs to our organization or could have an impact on our future operating results.

**Item 1B. UNRESOLVED STAFF COMMENTS**

None.

**Item 2. PROPERTIES**

As of January 1, 2010, NCR operated 214 facilities consisting of approximately 6.8 million square feet throughout the world. On a square footage basis, 40% of these facilities are owned and 60% are leased. Within the total facility portfolio, NCR operates 28 research and development and manufacturing facilities totaling 2.5 million square feet, 100% of which is leased. The remaining 6.1 million square feet of space includes office, repair, warehouse and other miscellaneous sites, and is 44% owned. NCR maintains facilities in 59 countries. NCR believes its plants and facilities are suitable and adequate, and have sufficient production capacity to meet its current needs.

NCR is headquartered in Duluth, Georgia.

**Item 3. LEGAL PROCEEDINGS**

Information regarding legal proceedings is included in Item 8 of Part II of this Report as part of Note 11 of the Notes to Consolidated Financial Statements, Commitments and Contingencies, and is incorporated herein by reference.

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

None.

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## PART II

### Item 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

NCR common stock is listed on the New York Stock Exchange and trades under the symbol NCR. There were approximately 128,375 holders of NCR common stock as of February 16, 2010. The following table presents the high and low per share prices for NCR common stock for each quarter of 2009 and 2008.

| | 2009 | | | 2008 | |
|---|---|---|---|---|---|
| | **High** | **Low** | | **High** | **Low** |
| 1st Quarter | **$ 15.24** | **$ 6.62** | 1st Quarter | $ 25.08 | $ 19.25 |
| 2nd Quarter | **$ 13.02** | **$ 7.75** | 2nd Quarter | $ 27.69 | $ 22.85 |
| 3rd Quarter | **$ 14.35** | **$ 10.65** | 3rd Quarter | $ 28.09 | $ 20.50 |
| 4th Quarter | **$ 13.83** | **$ 9.18** | 4th Quarter | $ 22.14 | $ 12.23 |

Although historically NCR has not paid cash dividends and does not anticipate the payment of cash dividends on NCR common stock in the immediate future, the declaration of dividends would be subject to the discretion of NCR s Board of Directors.

The following graph compares the relative investment performance of NCR stock, the Standard & Poor s MidCap 400 Stock Index, Standard & Poor s 500 Information Technology Sector and the Standard & Poor s 500 Stock Index. This graph covers the five-year period from December 31, 2004 through December 31, 2009.

| Company / Index | 2005 | 2006 | 2007 | 2008 | 2009 |
|---|---|---|---|---|---|
| NCR Corporation(2) | $ 98 | $ 124 | $ 153 | $ 86 | $ 68 |
| S&P 500 Stock Index | $ 105 | $ 121 | $ 128 | $ 81 | $ 102 |
| S&P 500 Information Technology Sector | $ 101 | $ 109 | $ 127 | $ 72 | $ 117 |
| S&P MidCap 400 Stock Index | $ 113 | $ 124 | $ 134 | $ 86 | $ 117 |

(1) In each case, assumes a $100 investment on December 31, 2004, and reinvestment of all dividends, if any.

(2) For the year ended December 31, 2007, includes a dividend of $26.45 per share based on the opening stock price of Teradata Corporation on October 1, 2007.

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**Purchase of Company Common Stock** The 1999 Board of Directors authorization permits the Company to repurchase shares of outstanding common stock. On October 31, 2007, the NCR Board of Directors authorized an additional $250 million for stock repurchases under this program. The 2000 Board of Directors share repurchase program authorized the Company to purchase NCR common stock to the extent of cash received from the exercise of stock options and the purchase of shares under the NCR Employee Stock Purchase Plan (ESPP).

For the year ended December 31, 2009, there were no executed trades for shares of its common stock under the 1999 and 2000 Board of Directors share repurchase programs. As of December 31, 2009, the Company had a total remaining authorization of $37 million to repurchase outstanding shares of NCR common stock under the share repurchase programs.

In addition to those share purchases, the Company occasionally purchases vested restricted stock or exercised stock option shares from Section 16 officers, at the current market price to cover their withholding taxes. For 2009, the total of these purchases was 66,120 shares at an average price of $9.43 per share.

## Item 6. SELECTED FINANCIAL DATA

| **In millions, except per share and employee and contractor amounts**<br>**For the years ended December 31** | **2009** | **2008** | **2007** | **2006** | **2005** |
|---|---|---|---|---|---|
| Continuing Operations [a] | | | | | |
| Revenue | **$ 4,612** | $ 5,315 | $ 4,970 | $ 4,582 | $ 4,561 |
| Income from operations | **$ 97** | $ 322 | $ 219 | $ 154 | $ 120 |
| Other expense (income), net | **$ 184** | $ 34 | $ (13) | $ (5) | $ 14 |
| Income tax (benefit) expense | **$ (57)** | $ 58 | $ 61 | $ 8 | $ (210) |
| (Loss) income from continuing operations [c] | **$ (30)** | $ 230 | $ 171 | $ 151 | $ 316 |
| (Loss) income from discontinued operations, net of tax | **$** | $ (3) | $ 103 | $ 231 | $ 213 |
| Basic earnings (loss) per common share attributable to NCR common shareholders: | | | | | |
| From continuing operations [a,c] | **$ (0.21)** | $ 1.40 | $ 0.95 | $ 0.84 | $ 1.71 |
| From discontinued operations | **$** | $ (0.02) | $ 0.57 | $ 1.28 | $ 1.15 |
| Total basic earnings (loss) per common share | **$ (0.21)** | $ 1.38 | $ 1.52 | $ 2.12 | $ 2.86 |
| Diluted earnings (loss) per common share attributable to NCR common shareholders: | | | | | |
| From continuing operations [a,c] | **$ (0.21)** | $ 1.38 | $ 0.94 | $ 0.83 | $ 1.67 |
| From discontinued operations | **$** | $ (0.02) | $ 0.56 | $ 1.26 | $ 1.13 |
| Total diluted earnings (loss) per common share | **$ (0.21)** | $ 1.36 | $ 1.50 | $ 2.09 | $ 2.80 |
| Cash dividends per share | **$** | $ | $ | $ | $ |
| As of December 31 | | | | | |
| Total assets | **$ 4,094** | $ 4,255 | $ 4,780(b) | $ 5,227 | $ 5,287 |
| Total debt | **$ 15** | $ 308 | $ 308(b) | $ 307 | $ 307 |
| Total NCR stockholders equity | **$ 564** | $ 440 | $ 1,757(b) | $ 1,881 | $ 2,035 |
| Number of employees and contractors | **21,500** | 22,400 | 23,200(b) | 28,900 | 28,200 |

(a) Continuing operations exclude the results of the Teradata Data Warehousing business which was spun-off through a tax free distribution to the Company s stockholders on September 30, 2007.

(b) Reflects NCR s assets, debt, stockholders equity and number of employees and contractors from continuing operations following the spin-off of Teradata on September 30, 2007.

(c) The following income (expense) amounts are included in income from continuing operations for the years ended December 31:

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| In millions | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Reserve for legal matters | **$ (4)** | $ (8) | $ | $ | $ |
| Organizational realignment initiative | | (45) | | | |
| Manufacturing realignment initiative | | | (38) | | |
| Japan realignment initiative | | | (18) | | |
| Costs related to Teradata spin-off | | | (12) | | |
| Costs associated with the Fox River environmental matter, net of insurance recoveries | **(91)** | (18) | (9) | | |
| Tax adjustments | | | (10) | | 9 |
| Pension expense associated with early retirement programs | | | | (7) | (14) |
| Reductions of prior year accruals | | | | | 4 |
| Net gains from sales of real estate | | 13 | | | 11 |
| Contribution to NCR charitable foundation | | | | | (5) |
| Write-down of equity investments and related assets | **(30)** | | | | (10) |
| Settlements of prior year tax audits | | | | | 181 |
| Incremental costs directly related to the relocation of the worldwide headquarters | **(4)** | | | | |
| **TOTAL** | **$ (129)** | $ (58) | $ (87) | $ (7) | $ 176 |

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**Item 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)**

**BUSINESS OVERVIEW**

NCR Corporation is a leading global technology company that provides innovative products and services to help businesses connect, interact and transact with their customers. Through our presence at customer interaction points, such as automated teller machines (ATMs), retail point-of-sale (POS) workstations, self-service kiosks, and self-check-in/out systems, our solutions enable companies to address consumer demand for convenience, value and individual service. We also provide support services for NCR s solutions as well as select third-party products.

We deliver our products and solutions to many industries on a global basis, including: financial services; retail and hospitality; travel and gaming; healthcare; and entertainment. Starting January 1, 2008, NCR began management of its businesses on a geographic basis made up of three business segments: the Americas; Europe, Middle East, and Africa (EMEA); and Asia Pacific and Japan (APJ).

Our solutions are based on a foundation of long-established industry knowledge and consulting expertise, value-added software, hardware technology, global customer support services, and a complete line of business consumables and specialty media products.

NCR s reputation has been built upon 125 years of providing quality products, services and solutions to our customers. At the heart of our customer and other business relationships is a commitment to acting responsibly, ethically and with the highest level of integrity. This commitment is reflected in NCR s Code of Conduct, available on the corporate governance page of our website.

**Spin-off of Teradata Data Warehousing Business** On September 30, 2007, NCR completed the spin-off of its Teradata Data Warehousing business through the distribution of a tax-free dividend to its stockholders. NCR distributed one share of common stock of Teradata Corporation (Teradata) for each share of NCR common stock to NCR stockholders of record as of the close of business on September 14, 2007. Upon the distribution of Teradata, NCR stockholders received 100% (approximately 181 million shares) of the common stock of Teradata, which is now an independent public company trading under the symbol TDC on the New York Stock Exchange.

The results of operations and cash flows of Teradata have been presented as a discontinued operation for all periods presented in this Report. See Note 12, Discontinued Operations, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report for a further discussion of the spin-off of Teradata. Unless otherwise noted, this MD&A excludes information related to the Teradata Data Warehousing business.

**2009 FINANCIAL OVERVIEW**

As more fully discussed in later sections of this MD&A, the following were significant themes and events for 2009:

- Significant investment in the entertainment kiosk strategy with the roll-out of DVD kiosks on track
- Investment in global manufacturing and sourcing infrastructure with manufacturing facilities in Columbus, Georgia, USA and Manuas, Brazil opened during the fourth quarter of 2009
- Announcement of the move of the worldwide headquarters to Duluth, Georgia, USA
- Sales declines across all geographic segments

In 2009, we continued our focus on strategic initiatives to provide maximum value to our stakeholders. The initiatives and the results were as follows:

1) **Gain profitable share** We continue to optimize our investments in demand creation to increase NCR s market share in areas with the greatest potential for profitable growth, which include

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opportunities in self-service technologies with our core financial services and retail customers. We intend to expand and strengthen our geographic presence and sales coverage in addition to penetrating adjacent single and multi-channel self-service solution segments.

2) **Expand into emerging growth industry segments** The Company continues to focus on broadening the scope of our self-service solutions from our existing customers to expand these solution offerings to customers in newer industry-vertical markets including, travel and gaming, healthcare, and entertainment. We expect to grow our business in these industries through integrated service offerings in addition to targeted acquisitions and strategic partnerships. Our continued investment in our entertainment business, which enabled us to exceed our goal to roll-out our first 2,500 DVD-rental kiosks by the end of 2009, is one example of these efforts.

3) **Build the lowest cost structure in our industry** The Company continues to focus on increasing the efficiency and effectiveness of our core functions and the productivity of our employees. We continued to make progress in this regard during 2009 with the opening of two new ATM manufacturing facilities located in Columbus, Georgia, USA and Manaus, Brazil, which began shipping product in the fourth quarter of 2009. NCR expects both plants to improve product margins as compared to our previous contract-based manufacturing of ATMs in the Americas.

4) **Enhance our global service capability** The Company continues to execute various initiatives to enhance its global service capability. We continue to focus on improving our service positioning, increasing customer service attach rates for our products and continue to improve profitability in our services business. Our service capability can provide us a competitive advantage in winning customers and it provides NCR with an attractive and stable revenue source.

5) **Focus on working capital and balance sheet** In 2009, we continued to focus on further improvement of our working capital position. The Company will continue to make investments in areas that generate maximum growth, such as self-service research and development and demand creation.

**STRATEGY OVERVIEW**

Our strategic initiatives for 2010 include:

1) *Gain profitable share.* We expect to continue to optimize our investments to increase NCR s market share in areas with the greatest potential for profitable revenue growth, which include opportunities in self-service technologies with our core financial services and retail customers. We intend to expand and strengthen our geographic presence and sales coverage in addition to penetrating adjacent single and converged multi-channel self-service solution segments.

2) *Expand into emerging growth industry segments.* The Company expects to continue to focus on broadening the scope of our self-service solutions from our existing customers to expand these solution offerings to customers in newer industry-vertical markets including: entertainment, travel and gaming, and healthcare. We expect to grow our business in these industries through integrated service offerings in addition to targeted acquisitions and strategic partnerships. Additionally, we expect to continue the expansion of our network of DVD-rental kiosks to achieve our roll-out targets, and expand into the emerging entertainment segment of digital media download at kiosks.

3) *Build the lowest cost structure and highest quality platforms in our industry.* The Company is focusing on business process innovation by increasing the efficiency and effectiveness of our core functions and the productivity of our employees. While we made progress in this regard during 2008 and 2009, we expect that our execution in 2010 will continue to allow us to capture efficiencies and intended quality improvements and cost savings.

4) *Enhance our global service capability.* The Company continues to execute various initiatives to enhance its global service capability. We will continue to focus on improving our service positioning, increasing our service attach rates for our products, build new service offers, and continue to improve profitability in our services business. Our service capability can provide us a competitive advantage in winning customers and it provides NCR with an ever-more attractive and stable revenue source.

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5) *Innovation and our people.* NCR is committed to solution innovation across all customer industries. Our focus on innovation will be enabled by the integration of NCR Services into the customer industry solutions, as well as a model to apply best practices across all industries though one centralized research development organization and one business decision support function. Innovation is also driven through investments in training and developing our employees by taking advantage of our new world-class training centers. We expect that these steps and investments will accelerate the delivery of new innovative solutions focused on the needs of our customers and changes in consumer behavior.

**FUTURE TRENDS**

Deteriorating macroeconomic conditions impacted NCR starting in the fourth quarter of 2008 and continued into 2009, especially in the financial services and retail industries. We expect that our performance in 2010 will continue to be challenged by these conditions. We are projecting that our capital spending in 2010 will be higher than what was experienced in 2009 due to our investment in the entertainment industry. We are forecasting 2010 revenue to be slightly higher than 2009. During this difficult economic environment, we will manage our costs effectively and balance our investments in areas that generate high returns.

We see the following as the most significant risks to the execution of our initiatives:

- Global economic and credit environment and its effect on the capital spending by our customers
- Competition that can drive further price erosion and potential loss of market share
- Introduction of products in new self-service markets

**RESULTS FROM CONTINUING OPERATIONS**

The following table shows our results for the years ended December 31:

| **In millions** | **2009** | **2008** | **2007** |
|---|---|---|---|
| Revenue | **$ 4,612** | $ 5,315 | $ 4,970 |
| Gross margin | **$ 883** | $ 1,183 | $ 1,040 |
| Gross margin as a percentage of revenue | **19.1%** | 22.3% | 20.9% |
| Operating expenses | | | |
| Selling, general, and administrative expenses | **$ 645** | $ 713 | $ 684 |
| Research and development expenses | **141** | 148 | 137 |
| Income from operations | **$ 97** | $ 322 | $ 219 |

The following table shows our revenues and gross margins from products and services, respectively, for the years ended December 31:

| **In millions** | **2009** | **2008** | **2007** |
|---|---|---|---|
| Product revenue | **$ 2,234** | $ 2,861 | $ 2,693 |
| Cost of products | **1,811** | 2,113 | 2,035 |
| Product gross margin | **$ 423** | $ 748 | $ 658 |
| Product gross margin as a percentage of revenue | **18.9%** | 26.1% | 24.4% |

| | | | |
|---|---|---|---|
| Services revenue | **$ 2,378** | $ 2,454 | $ 2,277 |
| Cost of services | **1,918** | 2,019 | 1,895 |
| Services gross margin | **$ 460** | $ 435 | $ 382 |
| Services gross margin as a percentage of revenue | **19.3%** | 17.7% | 16.8% |

**2009 compared to 2008 results discussion**

***Revenue***

Revenue decreased 13% in 2009 from 2008 due to the continued recessionary economic environment, which has negatively impacted sales volumes for both products and services. Foreign currency fluctuations provided a negative impact of 1%. For the year ended December 31, 2009, our product revenue decreased 22% and services revenue decreased 3% compared to the year ended December 31, 2008. The decrease in our product revenue was due to declines across all of our geographic segments. This was primarily attributable to the overall market and economic conditions and their effect on our customers capital spending, especially customers in our primary industry verticals financial services and retail and hospitality. Product revenue from the financial services industry decreased across all segments, while the retail and hospitality industry was challenging in the Americas and Europe, Middle East and Africa (EMEA) segments. The decrease in services revenue was primarily attributable to the impact of negative foreign currency fluctuations and declines in professional and installation related services, which are typically tied to new product sales and installations. Maintenance services declined slightly in comparison to the prior year which reflects the stable nature of recurring, maintenance based services despite an adverse market for new product sales.

***Gross Margin***

Gross margin as a percentage of revenue was 19.1% in 2009 compared to 22.3% in 2008. Product gross margin decreased 7.2 percentage points to 18.9% in 2009 compared to 26.1% in 2008. During 2009, product gross margin was adversely affected by approximately $22 million for the write-off of assets and the accrual of purchase commitments related to an equity investment. After considering this item, the decline in product gross margin was due to a change in product mix, decrease in volumes and continued pricing pressures which more than offset the cost savings achieved through our manufacturing realignment and continued focus on cost reduction actions.

Services gross margin increased 1.6 percentage points to 19.3% in 2009 compared to 17.7% in 2008. In 2009, services gross margin was negatively impacted by $77 million in higher pension expense, or 3.2% as a percentage of service revenue. In 2008, services gross margin was negatively impacted by $31 million of organizational realignment costs, or 1.3% as a percentage of service revenue. After considering these items, the services gross margin improvement is primarily due to lower labor and service delivery costs as a result of headcount reductions. These reductions were completed as part of our past organizational realignment efforts and have resulted in more efficient and lower cost service delivery in comparison to the prior year.

**2008 compared to 2007 results discussion**

***Revenue***

Revenue increased 7% in 2008 from 2007 due to growth in sales volume for both our products and services. The effects of foreign currency fluctuations provided a favorable impact to revenue of 2% in 2008. In 2008, our product revenue increased 6% and services revenue increased 8% as compared to 2007. The increase in revenues in both products and services was primarily attributable to sales growth across all of our geographic segments, although we experienced lower revenue in the fourth quarter of 2008 as compared to the fourth quarter of 2007. This was attributed to the overall market and economic conditions and its effect on capital spending, especially on customers in the retail and hospitality industry. During 2008, we experienced significant sales growth to customers in the financial services industry across most of our major geographic regions as customers continued to focus on customer interaction and deposit growth.

***Gross Margin***

Gross margin as a percentage of revenue increased to 22.3% in 2008 from 20.9% in 2007.

Product gross margin was 26.1% in 2008 compared to 24.4% in 2007. The increase in product gross margin is primarily attributed to the reduction in realignment costs incurred in 2008 as compared to 2007. In 2008, NCR incurred organizational realignment costs totaling $5 million, while we incurred approximately $48 million of manufacturing realignment costs in 2007. After considering the impact of these costs, 2008 product gross margin was comparable to 2007.

Services gross margin was 17.7% in 2008 compared to 16.8% in 2007. Organizational realignment costs negatively impacted gross margin by $31 million or approximately 1% in 2008, while 2007 gross margin was negatively impacted by Japan realignment costs of $19 million or approximately 1%. After considering the impact of these costs, services gross margin improved by 1% in 2008 as compared to 2007. The increase in gross margin was due to productivity improvements, focus on maintenance of NCR-branded products as well as reductions in the overall service delivery cost.

**Restructuring and Re-engineering**

***Organizational Realignment*** On January 1, 2008, NCR began management of its business on a geographic basis, changing from a previous model of global business units organized by product and service offering. As a result, in the second quarter of 2008, NCR commenced a global realignment initiative to reduce redundancies and process inefficiencies to become more customer-focused and market-driven. This initiative is addressing legacy process inefficiencies and unbalanced resource allocation by focusing on organizational design, process re-engineering and business process outsourcing. The initiative has resulted in reductions in employment and productivity improvements, while freeing up funds to invest in growth programs such as sales, engineering, and market development.

As a result of this initiative, the Company recorded a total of $57 million in employee severance and other termination costs in 2008. Of these costs, $5 million was recorded as cost of products, $31 million was recorded as cost of services, $16 million was recorded as selling, general and administrative expense and the remaining $5 million was recorded as research and development expense. Of the $57 million total expense recognized in 2008, $40 million was recorded as a discrete postemployment benefit cost.

The realignment activities and the associated costs recognized during 2008 for approximately 900 employee terminations related to each of our reportable segments of Americas, EMEA and APJ.

The Company made $20 million in severance payments during 2009. As of December 31, 2009, there is a remaining accrued liability balance of $1 million, including immaterial effects from foreign currency translation. This liability is recorded in the Consolidated Balance Sheet in other current liabilities as the Company expects that payment of the remaining obligation will occur in first quarter 2010.

The actions taken to date generated annualized savings of approximately $40 million. The Company continues to identify additional opportunities focusing on organizational design, process re-engineering and business process outsourcing and therefore, expects additional realignment activities through 2010 as a result of this initiative. The costs and related savings from these additional activities are not reasonably estimable at this time as we are in the process of defining the scope of the activities and quantifying the impacts thereof.

The costs of these realignment initiatives are not expected to have a significant impact on the Company s financial position, revenues, liquidity or sources and uses of capital resources. The realignment costs are expected to be funded by the Company s cash on hand and cash flows from operations, and although this will result in short-term cash outflows, the Company expects future cost savings and no adverse impact to revenue as a result of these changes.

***Manufacturing Realignment*** In the first quarter of 2007, the Company initiated a manufacturing realignment initiative primarily related to its ATM products, which included outsourcing certain manufacturing activities in the Americas region and shifting other manufacturing activities from high cost to low cost geographies in the EMEA region as well as the APJ region. This realignment resulted in approximately 1,100 employee terminations and, as expected, improved productivity and freed capital in order to invest the related cost savings in revenue-generating programs such as sales, engineering and market development. As a result of this realignment, in 2007, the Company recorded realignment costs of $40 million, in cost of products, related to employee severance and other termination benefits of which $32 million was recorded as a discrete post employment benefit cost. In addition, the Company incurred costs of $8 million associated with training, travel and professional services during the year ended December 31, 2007, which were directly related to this realignment initiative and were expensed as incurred. The remaining reserve balance of approximately $1 million as of December 31, 2008 was reversed in 2009.

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***Japan Realignment*** In the third quarter of 2007, NCR commenced a realignment program in Japan, which was primarily focused on its customer services. The realignment program, which resulted in approximately 130 employee terminations, included actions to improve operating efficiency and strengthen the Company s competitive position in Japan. As a result of this realignment program, in 2007, the Company recorded $28 million as a discrete postemployment benefit cost for employee severance ($19 million in cost of services and $9 million in selling, general and administrative expense). The reserve for this initiative was fully utilized during the year ended December 31, 2008. The actions taken to date generated annualized savings of approximately $10 to $12 million.

***Real estate consolidation and restructuring*** One of the elements of our re-engineering initiatives is our real estate consolidation and restructuring plan where we continue to evaluate our real estate portfolio of owned and leased properties in order to lower our overall facility costs. During 2009, we sold 6 properties which was offset by leases for our new manufacturing facilities and office space obtained through our 2009 acquisitions. During 2008, we sold 8 properties, representing approximately 2% reduction in total properties from 2007. During 2007, we sold 7 properties, representing approximately a 3% reduction in total properties from 2006. In 2007, we also distributed 21 properties to Teradata in connection with its spin-off.

**Effects of Pension, Postemployment and Postretirement Benefit Plans**

NCR s income from continuing operations for the years ended December 31 were impacted by certain employee benefit plans as shown below:

| In millions | 2009 | 2008 | 2007 |
|---|---|---|---|
| Pension expense | **$ 159** | $ 25 | $ 38 |
| Postemployment expense | **49** | 91 | 114 |
| Postretirement benefit | **(3)** | (2) | (1) |
| Total Expense | **$ 205** | $ 114 | $ 151 |

In 2009, pension expense increased to $159 million compared to $25 million in 2008 primarily due to the loss on invested plan assets that we experienced in 2008, which caused higher actuarial loss amortization and a lower expected return on plan assets. In 2009, approximately 44% of the pension expense was included in selling, general and administrative and research and development expenses, with the remaining 56% included in cost of products and services. In 2008, the decrease in pension expense from 2007 was primarily due to a reduction in actuarial loss amortization resulting from higher discount rates and the benefit of strong actual returns on plan assets in prior years. We currently expect pension expense of approximately $215 million in 2010. The expected increase in pension expense in 2010 is due to the ongoing amortization of actuarial losses that were driven by significant declines in asset values during 2008 as well as low global interest rates as of the end of 2009.

During 2009, NCR closed its United Kingdom-based manufacturing operation, resulting in a significant reduction in the number of employees enrolled in one of our defined benefit plans. The workforce reduction was accounted for as a curtailment and therefore, the actuarial liability associated with the plan was re-measured as of July 1, 2009. As a result, the pension liability and accumulated other comprehensive loss balances were increased by $35 million. This curtailment did not have a material impact on net loss for 2009.

In May of 2009, NCR completed the consultation process with employee representatives, which was required to freeze the benefits in one of our United Kingdom defined benefit plans, effective July 1, 2009. This action was accounted for as a curtailment and therefore, the actuarial liability associated with the plan was re-measured as of May 31, 2009. As a result, the prepaid pension asset and accumulated other comprehensive loss balances were reduced by $85 million. This curtailment did not have a material impact on net loss for 2009.

Postemployment expense (severance and disability medical) decreased to $49 million in 2009 compared to $91 million in 2008. This decrease was primarily driven by a discrete cost of $40 million related to the organizational realignment initiative recorded during 2008. In 2009, approximately 84% of total postemployment expense was included in cost of products and services, with the balance included in selling, general and administrative and research and development expenses. Postemployment expense decreased to $91 million in 2008 compared to $114 million in 2007, primarily driven by the reduced realignment activity in 2008. The realignment initiatives are described in more detail in the Restructuring and Re-engineering section of this MD&A and Note 3, Restructuring and Real Estate Transactions, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report.

Postretirement plans provided a $3 million benefit in 2009, a $2 million benefit in 2008 and a $1 million benefit in 2007, primarily due to favorable claims experience in each of the years.

**Selling, General and Administrative Expenses**

Selling, general, and administrative expenses decreased $68 million to $645 million in 2009 from $713 million in 2008. In 2009, selling, general and administrative expenses included $53 million of pension costs as well as $6 million of incremental expenses directly related to the relocation of the worldwide headquarters. In 2008, selling, general and administrative expenses included $5 million of pension costs as well as $16 million of organizational realignment costs, $12 million of costs associated with legal matters offset by $23 million in gains from the sale of two properties in Canada. After considering these items, selling, general and administrative expenses decreased as a percentage of revenues from 13.2% in 2008 to 12.7% in 2009 primarily due to the continued cost reduction actions focused on limiting discretionary spending and the benefit of cost savings from the organizational realignment initiated in the prior year as well as reductions in incentive and stock-based compensation expense.

Selling, general, and administrative expenses increased $29 million to $713 million in 2008 from $684 million in 2007. In 2008, selling, general and administrative expenses included $5 million of pension costs as well as $16 million of organizational realignment costs, $12 million of costs associated with legal matters offset by $23 million in gains from the sale of two properties in Canada. In 2007, selling, general, and administrative expenses included $23 million of expenses related to the Japan realignment and the spin-off of Teradata. After considering these items, selling, general and administrative expenses remained relatively consistent as a percentage of revenues of 13.2% in 2008 compared to 13.3% in 2007.

**Research and Development Expenses**

Research and development expenses decreased by $7 million to $141 million in 2009 compared to $148 million in 2008. In 2009, research and development expenses included $17 million of pension costs. In 2008, research and development expenses included $9 million of pension costs and $5 million of organizational realignment costs. After considering these items, research and development expenses increased slightly as a percentage of revenues from 2.5% in 2008 to 2.7% in 2009 as we continue to invest in broadening our self-service solutions and are in line with management expectations. The decrease in expenses in 2009 is due to the focus on cost reductions including limits on discretionary spending, headcount reductions and the elimination of incentive compensation.

Research and development expenses increased by $11 million to $148 million in 2008 compared to $137 million in 2007. In 2008, research and development expenses included $5 million of organizational realignment costs. The remaining increase in expense in 2008 was due to new product introductions, including the NCR SelfServ family of ATMs, FastLane self check-out, XpressPort, and RealPOS 70XRT.

**Interest and Other Income Items**

Interest expense decreased to $10 million in 2009 compared to $22 million in 2008 and $24 million in 2007 primarily due to the repayment of the senior unsecured notes in June 2009.

Other expense, net was $174 million in 2009 compared to other expense, net of $12 million in 2008 and other income, net of $37 million in 2007. Other expense (income) includes items such as gains or losses on

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equity investments, costs and recoveries related to environmental matters that relate to businesses previously disposed of, and interest income. Interest income was $6 million in 2009, $23 million in 2008, and $55 million in 2007. The decrease in interest income in 2009 compared to 2008 and to 2007 is due to a combination of declining interest rates and lower invested cash balances throughout the years mainly due to the repayment of senior unsecured notes in 2009, share repurchases in 2008 and the distribution of cash related to the Teradata spin-off in 2007. Other expense, net included $142 million, $28 million and $14 million in 2009, 2008 and 2007, respectively, for net increases to the reserve related to the Fox River environmental matter. The 2009 net increase to the Fox River reserve was due to a $156 million net charge for a change in estimate associated with a fourth quarter court decision, partially offset by the receipt of $14 million of net insurance recoveries. Additionally, in 2009, other expense included $24 million related to the impairment of equity investments and related assets.

**Income Taxes**

The effective tax rate was 66% in 2009, 20% in 2008, and 26% in 2007. The 2009 tax benefit was favorably impacted by the non-proportional benefit of the significant environmental and impairment charges incurred in the United States and by the mix of taxable profits and losses by country. During 2008, we favorably settled examinations with the Internal Revenue Service (IRS) for the tax years of 2000 through 2006 that resulted in a $19 million tax benefit. In addition, the effective tax rate was benefited in 2008 by $26 million from the repatriation of earnings from international subsidiaries at an effective tax rate lower than previously estimated. These favorable items were partially offset by an unfavorable mix of taxable profits and losses by country. The tax rate in 2007 was unfavorably impacted by a $10 million net adjustment to increase tax expense. See Note 1, Description of Business and Significant Accounting Policies, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report for additional information on the net adjustment. We anticipate that our effective tax rate will be approximately 27% in 2010. However, changes in profit mix or other events, such as tax audit settlements or changes in our valuation allowances, could impact this anticipated rate.

During the fourth quarter of 2009, the Internal Revenue Service commenced an examination of our 2007 and 2008 income tax returns. While we are subject to numerous federal, state, and foreign tax audits, we believe that the appropriate reserves exist for issues that might arise from these audits. Should these audits be settled, the resulting tax effect could impact the tax provision and cash flows in future periods. At this time, the Company does not expect any significant changes in unrecognized tax benefits in 2010.

**Results of Discontinued Operations**

| For the years ended December 31<br>In millions | 2008 | 2007 (1) |
|---|---|---|
| **Total revenue** | **$** | $ 1,223 |
| **Total operating expenses** | **4** | 1,046 |
| **Pretax (loss) income from discontinued operations** | **(4)** | 177 |
| Income tax (benefit) expense | **(1)** | 74 |
| **(Loss) income from discontinued operations** | **$ (3)** | $ 103 |

(1) NCR completed the spin-off of the Teradata Data Warehousing business on September 30, 2007.

Due to the spin-off, the Teradata Data Warehousing business has been classified as a discontinued operation in the Company s consolidated financial statements for all periods presented. There was no operating activity related to the discontinued operation in 2009. For the year ended December 31, 2008, the expense related to discontinued operations was primarily due to professional and consulting fees. Income from discontinued operations for the year ended December 31, 2007 includes nine months of operations in 2007 as well as approximately $55 million of spin-related costs that were non-recurring and directly related to the spin-off transaction on September 30, 2007. These non-recurring costs were primarily for investment banking, legal, tax, accounting, and other professional and consulting fees. See Note 12, Discontinued Operations of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report for additional information related to the Teradata spin-off.

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**Revenue and Gross Margin by Segment**

NCR s products, services, and solutions enable our customers to connect, interact and transact with their customers and include: ATM hardware and software; traditional point-of-sale (POS) and self checkout solutions; self-service kiosk solutions; business consumables; solutions that digitally capture, process and retain item-based transactions; maintenance of NCR solutions; consulting, installation, implementation, and customer support services; as well as the maintenance and sale of third-party products and services. On January 1, 2008, we reorganized our business and the management thereof to a functional geographic model, changing from the previous model of global business units organized by product and service offering. In order to align the Company s external reporting of its financial results with this organizational change, the Company modified its segment reporting. The Company now reports on three segments:

- Americas;
- Europe, Middle East and Africa (EMEA); and
- Asia Pacific and Japan (APJ).

Each of these segments derives its revenues by selling products and services to the financial services, retail and hospitality, travel and gaming, healthcare, entertainment and software and technology services industries. In addition, each segment sells products and services across the entire NCR product and service portfolio within their geography. We have reclassified prior period segment information presented to conform to the current period presentation.

Segments are measured for profitability by the Company s chief operating decision maker based on revenue and segment gross margin. For purposes of discussing our results by segment, we exclude the impact of certain items from segment gross margin, consistent with the manner by which management views each segment and reports our operating segment results. 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.

Certain amounts have been excluded from segment gross margin for each reporting segment presented below as follows:

- In 2009, pension expense of $89 million and $22 million of cost for the impairment of assets and accrual of purchase commitments related to an equity investment
- In 2008, pension expense of $11 million and $36 million related to organizational realignment and legal costs
- In 2007, pension expense of $24 million, $48 million related to manufacturing realignment costs and $19 million related to Japan realignment costs.

Our segment results are reconciled to total income from operations reported under accounting principles generally accepted in the United States of America (otherwise known as GAAP) in Note 13, Segment Information and Concentrations, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report.

***Americas Segment***

The following table presents the Americas revenue and segment gross margin for the years ended December 31:

| Americas<br>In millions | 2009 | 2008 | 2007 |
|---|---|---|---|
| Revenue | **$ 2,022** | $ 2,269 | $ 2,148 |
| Gross margin | **$ 386** | $ 437 | $ 432 |
| Gross margin as a percentage of revenue | **19.1%** | 19.3% | 20.1% |

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Americas revenue decreased 11% in 2009 compared to 2008 primarily due to a decline in product sales volumes in the United States (U.S.) and Latin America to customers in the financial services and retail and hospitality industries, which offset gains in emerging customer verticals such as entertainment and travel and gaming. While large financial institutions continue a deposit automation upgrade cycle, sales to mid-sized financial services institutions have been negatively impacted by the overall market conditions. In the U.S., customers in the retail and hospitality industry have been negatively impacted by continued decline in consumer spending and high unemployment rates. As a result, U.S. retailers have reduced capital spending and new store growth has been significantly curtailed. In Latin America, NCR achieved significant sales volume to a financial services customer in 2008 that was not repeated in 2009. Finally, recurring maintenance services decreased only slightly in 2009 as compared to 2008. This trend reflects the stable nature of recurring, maintenance-based services despite an adverse market for new product sales.

Gross margin as a percentage of revenue decreased 0.2 percentage points in 2009 compared to 2008 due to the focus on cost containment both for product and services revenue streams.

Americas revenue increased 6% in 2008 compared to 2007 due to higher sales volume from both products and services. Foreign currency fluctuations provided a minimal benefit to the year-over-year revenue comparison. The revenue increase was driven by growth in the United States and Caribbean and Latin America countries primarily in the financial services and software and technology industries, partially offset by declines in the retail and hospitality industries.

Gross margin as a percentage of revenue decreased 0.8 percentage points in 2008 as compared to 2007. This decrease in gross margin percentage was due to the unfavorable revenue mix in comparison to the prior year, primarily attributable to roll outs to large customers in the financial services and retail and hospitality industries at lower margins in 2008.

***Europe, Middle East & Africa (EMEA) Segment***

The following table presents EMEA revenue and segment gross margin for the years ended December 31:

| **EMEA**<br>**In millions** | **2009** | **2008** | **2007** |
|---|---|---|---|
| Revenue | **$ 1,649** | $ 2,066 | $ 1,906 |
| Gross margin | **$ 401** | $ 556 | $ 485 |
| Gross margin as a percentage of revenue | **24.3%** | 26.9% | 25.4% |

EMEA revenue decreased 20% in 2009 compared to 2008. Foreign currency fluctuations negatively impacted the year-over-year comparison by 3%. The decrease in revenue was primarily driven by a reduction in product sales to customers in the financial services industry across Europe, the Middle East and Africa. Product sales to financial services customers in Turkey, Eastern Europe and Africa continue to be challenging due to market conditions. Product sales to the retail and hospitality industry were also lower across EMEA. Finally, after taking into account foreign currency fluctuations, recurring maintenance services increased slightly in 2009 as compared to 2008 primarily due to increases in the UK, Middle East and Africa. This trend reflects the stable nature of recurring, maintenance-based services despite an adverse market for new product sales.

Gross margin as a percentage of revenue decreased 2.6 percentage points in 2009 compared to 2008 which was primarily impacted by lower sales volumes coupled with a negative sales mix mainly seen in Germany, Italy and Eastern Europe which more than offset the impact of cost reductions from the lower manufacturing and service delivery costs as a result of the realignment initiatives.

EMEA revenue increased 8% in 2008 compared to 2007. Foreign currency fluctuations provided 2% of benefit to the year-over-year revenue comparison. The revenue increase was driven by strong demand and higher volume of sales for our products and services in Middle Eastern and African countries to financial services and retail and hospitality customers. In addition, the Eastern European countries also experienced significant revenue growth.

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Gross margin as a percentage of revenue increased 1.5 percentage points in 2008 as compared to 2007. The gross margin percentage increased as we continued to realize the benefits of lower manufacturing and service delivery costs as a result of the realignment initiatives.

***Asia Pacific & Japan (APJ) Segment***

The following table presents APJ s revenue and segment gross margin for the years ended December 31:

| APJ<br>In millions | 2009 | 2008 | 2007 |
|---|---|---|---|
| Revenue | **$ 941** | $ 980 | $ 916 |
| Gross margin | **$ 207** | $ 237 | $ 216 |
| Gross margin as a percentage of revenue | **22.0%** | 24.2% | 23.6% |

APJ revenue decreased 4% in 2009 compared to 2008. Foreign currency fluctuations provided a 1% benefit to the year-over-year comparison. The decrease in revenue was primarily driven by a reduction in product sales to financial services and retail and hospitality industry customers in Asia and Australia. The decline in revenue in Japan was primarily driven by a reduction in product sales to retail and hospitality industry customers. Finally, after taking into account foreign currency fluctuations, recurring maintenance-based revenue increased slightly in 2009 as compared to 2008. This trend reflects the stable nature of recurring, maintenance-based services despite an adverse market for new product sales.

Gross margin as a percentage of revenue decreased 2.2 percentage points in 2009 compared to 2008. During 2009, the Company recorded adjustments to decrease product revenue by $10 million and cost of products by $7 million, which resulted in a net decrease in gross margin of $3 million. The adjustments related to revenues incorrectly recognized during 2008 by the Company s Japanese subsidiary. See Note 1, Description of Business and Significant Accounting Policies, of the Notes to the Consolidated Financial Statements included in Item 8 of Part II of this Report for additional information on these adjustments. Excluding the effect of this item, gross margin as a percentage of revenue decreased 2.1 percentage points which was primarily due to lower sales volumes coupled with a negative sales mix.

APJ revenue increased 7% in 2008 compared to 2007. Foreign currency fluctuations provided a 6% benefit to the year-over-year revenue comparison. Revenue increased in the APJ segment due to volume growth in both services and product sales primarily in China, Japan and Australia in the retail and hospitality and financial services industries.

Gross margin as a percentage of revenue increased 0.6 percentage points in 2008 as compared to 2007 as cost savings from prior realignment activities more than offset an unfavorable geographic and revenue mix.

**FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

For 2009, cash provided by operating activities decreased $192 million, which was largely attributable to the decrease in income compared to the prior year. Additionally, working capital improvements provided a more significant positive impact to NCR s working capital position in 2008, which included reductions in receivables and inventory of $249 million and $25 million, respectively.

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, and additions to capitalized software, to assess the financial performance of the Company. Free cash flow does not have a uniform definition under GAAP; therefore, NCR s definition may differ from other companies definitions of this measure. The components used to calculate free cash flow are GAAP measures taken directly from the 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 business, strategic acquisitions, repurchase of NCR stock and repayment of debt obligations. Free cash flow does not represent the residual cash flow available for discretionary expenditures since there may be other non-discretionary expenditures that are not deducted from the measure. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP. The table below shows the changes in net cash provided by operating activities and capital expenditures for the years ended December 31:

| In millions | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cash provided by operating activities | **$ 223** | $ 415 | $ 151 |
| Less: Expenditures for property, plant and equipment, net of grant reimbursements | **(112)** | (75) | (64) |
| Less: Additions to capitalized software | **(61)** | (63) | (48) |
| Free cash flow | **$ 50** | $ 277 | $ 39 |

In 2009, cash provided by operating activities decreased $192 million, net capital expenditures increased $37 million, and capitalized software additions decreased $2 million, which contributed to a net decrease in free cash flow of $227 million in comparison to 2008. Capital expenditures were higher mainly due to planned expenditures related to investments in the entertainment industry. We expect free cash flow to be lower in 2010 than in 2009 due to additional capital investment in the entertainment industry, along with pension cash funding and severance payments.

For 2008, cash provided by operating activities increased $264 million, capital expenditures increased $11 million and additions to capitalized software increased $15 million, resulting in a net increase in free cash flow of $238 million compared to 2007. The increase in cash provided by operating activities was primarily driven by significant working capital improvements during 2008. Capital expenditures were higher in 2008 due to certain planned expenditures related to significant, new product roll outs in 2008 and investments in information technology.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. During 2009, these other investing activities included net proceeds of $11 million from the sale of property and $41 million of expenditures related to acquisition and equity investment activity. Our financing activities in 2009 primarily consisted of the repayment of our $300 million senior unsecured notes. During 2008, other investing activities included net proceeds of $59 million from the sale of property and $65 million of expenditures related to acquisitions and equity investments. Our financing activities in 2008 primarily consisted of cash outflows for our share repurchase program, which totaled $494 million, offset by proceeds of $17 million from employee stock plans. The net impact of our share purchases and issuances in 2008 was a reduction of approximately 20.6 million shares outstanding as compared to 2007. The decline in inflows from stock plans was primarily due to fewer option exercises caused by market conditions and the decline in our stock price since 2008.

The share repurchases are part of a program authorized by NCR s Board of Directors. Going forward, the amount of share repurchases may vary from past years depending on several factors, including the level of employee equity compensation awards, the level of stock option exercises, the level of activity related to the employee stock purchase plan, and additional authorizations by NCR s Board of Directors, if any, to repurchase shares.

In 2009, there was no cash used or provided by discontinued operations. Net cash of $19 million was used by discontinued operations in 2008 and net cash provided by discontinued operations was $154 million in 2007. NCR completed the spin-off of Teradata on September 30, 2007 and activity in 2008 related solely to payments for activities and costs associated with the transaction, including the payment of amounts accrued for as of December 31, 2007.

Our cash and cash equivalents totaled $451 million as of December 31, 2009. We believe our cash flows from operations, the credit facilities we currently have in place, 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 at least the next twelve months. Our ability to generate future positive cash flows from operations is dependent on general economic conditions, competitive pressures and other business and risk factors described in Part I, Item IA of this Report. If we are unable to generate sufficient cash flows from operations, or otherwise comply with the terms of our credit facility, we may be required to seek additional financing alternatives. Also, as described below and in Note 9, Employee Benefit Plans, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, we expect to make pension, postemployment, and postretirement plan contributions of approximately $172 million in 2010. Additionally, during 2010 we expect to make approximately $47 million of remediation and other payments related to the Fox River environmental matter which we expect will be partially offset by insurance recoveries. We believe that we currently have sufficient cash flows from operations and existing financing to meet our operating requirements, pension, postemployment, and postretirement plan contributions and remediation payments related to the Fox River environmental matter.

**Contractual Obligations** In the normal course of business, we enter into various contractual obligations that impact, or could impact, the liquidity of our operations. The following table and discussion outlines our material obligations as of December 31, 2009, with projected cash payments in the years shown:

| In millions | Total Amounts | 2010 | 2011-2012 | 2013-2014 | 2015 and thereafter | All Other |
|---|---|---|---|---|---|---|
| Debt obligations | $ 15 | $ 4 | $ | $ | $ 11 | $ |
| Interest on debt obligations | 6 | 1 | 1 | 1 | 3 | |
| Estimated environmental liability payments | 322 | 47 | 68 | 75 | 132 | |
| Lease obligations | 243 | 53 | 84 | 64 | 42 | |
| Uncertain tax positions | 181 | | | | | 181 |
| Purchase obligations | 827 | 697 | 63 | 67 | | |
| **Total obligations** | **$ 1,594** | **$ 802** | **$ 216** | **$ 207** | **$ 188** | **$ 181** |

As of December 31, 2009, we have short- and long-term debt totaling $15 million.

The estimated environmental liability payments included in the table of contractual obligations shown above are related to the Fox River environmental matter. The amounts shown are on a gross basis and do not include an estimate for payments to be received from insurers or indemnification parties. For additional information, refer to Note 11, Commitments and Contingencies, included in Item 8 of Part II of this Report.

Our lease obligations are primarily for certain sales and manufacturing facilities in various domestic and international locations. Purchase obligations represent committed purchase orders and other contractual commitments for goods or services. The purchase obligation amounts were determined through information in our procurement systems and payment schedules for significant contracts. Included in the amounts are committed payments in relation to the long-term service agreement with Accenture under which NCR s transaction processing activities and functions are performed.

We have a $181 million liability related to our uncertain tax positions. Due to the nature of the underlying liabilities and the extended time often needed to resolve income tax uncertainties, we cannot make reliable estimates of the amount or timing of cash payments that may be required to settle these liabilities. For additional information, refer to Note 7, Income Taxes, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report.

We also have product warranties that may affect future cash flows. These items are not included in the table of obligations shown above, but are described in detail in Note 11 of the Notes to Consolidated Financial Statements, Commitments and Contingencies, included in Item 8 of Part II of this Report.

Our U.S. and international employee benefit plans, which are described in Note 9 of the Notes to Consolidated Financial Statements, Employee Benefit Plans, included in Item 8 of Part II of this Report, could require significant future cash payments. The funded status of NCR s U.S. pension plans is an underfunded position of $822 million as of December 31, 2009 compared to an underfunded position of $1,019 million as of

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December 31, 2008. The improvement in our funded status is primarily attributable to the impact of the positive market environment on the fair value of plan assets in 2009 offset somewhat by an increase in the liability due to a decrease in the discount rate. The funded status of our international retirement plans declined from an underfunded position of $178 million as of December 31, 2008 to an underfunded position of $226 million as of December 31, 2009. Increases in the plan liabilities driven by decreases in discount rates were the main drivers of this change. The Company did not make any contributions to its U.S. qualified pension plan in 2009, and we do not expect to be required to make any contributions in 2010. Contributions to international and executive pension plans are expected to increase from $83 million in 2009 to approximately $110 million in 2010.

On August 6, 2007, the Company amended and renewed its $500 million, five-year unsecured revolving credit facility to update certain terms and conditions. This replacement credit facility contains certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. The key financial covenants include a total debt to consolidated EBITDA requirement for the period of four consecutive fiscal quarters not to exceed 3.00 to 1.00 and a minimum cash interest coverage ratio for the period of four consecutive fiscal quarters of not less than 4.00 to 1.00. The credit facility provides a grid-based interest rate that determines the margin charged in addition to the London Interbank Offered Rate (LIBOR) on borrowings. The rate is based on several factors including the credit rating of the Company and the amount of the Company s aggregate borrowings under the facility. Additionally, the facility allows a portion of the availability to be used for outstanding letters of credits. As of December 31, 2009, no amount was outstanding under the facility; however the maximum borrowing available was reduced by $21 million for NCR s usage of letters of credit.

**Off-Balance Sheet Arrangements** We have no significant contractual obligations not fully recorded on our consolidated balance sheets or fully disclosed in the notes to our consolidated financial statements. We have no material off-balance sheet arrangements as defined by SEC Regulation S-K 303 (a) (4) (ii).

See Note 11, Commitments and Contingencies, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report for additional information on guarantees associated with NCR s business activities.

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## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Our consolidated financial statements are prepared in accordance with GAAP. In connection with the preparation of these financial statements, we are required to make assumptions, estimates and judgments that affect the reported amounts of assets, liabilities, revenues, expenses and the related disclosure of contingent liabilities. These assumptions, estimates and judgments are based on historical experience and assumptions that are believed to be reasonable at the time. However, because future events and their effects cannot be determined with certainty, the determination of estimates requires the exercise of judgment. Our critical accounting policies are those that require assumptions to be made about matters that are highly uncertain. Different estimates could have a material impact on our financial results. Judgments and uncertainties affecting the application of these policies and estimates may result in materially different amounts being reported under different conditions or circumstances. Our management continually reviews these estimates and assumptions to ensure that our financial statements are presented fairly and are materially correct.

In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP and does not require significant management judgment in its application. There are also areas in which management s judgment in selecting among available alternatives would not produce a materially different result. The significant accounting policies and estimates that we believe are the most critical to aid in fully understanding and evaluating our reported financial results are discussed in the paragraphs below. Our senior management has reviewed these critical accounting policies and related disclosures with our independent registered public accounting firm and the Audit Committee of our Board of Directors (see Note 1, Description of Business and Significant Accounting Policies, of the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, which contains additional information regarding our accounting policies and other disclosures required by GAAP).

**Revenue Recognition** Product revenue includes sales of hardware equipment and software licenses for ATMs and financial terminals, self-service kiosks, POS terminals, check and document imaging products and consumables. Service revenue includes revenue from services and maintenance, installation, implementation, professional consulting, and complete systems management for all NCR product offerings noted above as well as for third-party products. NCR records revenue when it is realized, or realizable, and earned. NCR considers these criteria met when: (a) persuasive evidence of an arrangement exists; (b) the products or services have been delivered to the customer; (c) the sales price is fixed or determinable and free of contingencies or significant uncertainties; and (d) collectibility is reasonably assured. For product sales, delivery is deemed to occur when the customer has assumed risk of loss of the goods sold and all performance obligations are complete. For service sales, revenue is recognized either as the services are provided or, if applicable, after customer acceptance of the services.

NCR s solution offerings typically include hardware, software, professional consulting services and maintenance support services, and as a result, the Company frequently enters into sales arrangements with customers that contain multiple elements or deliverables. For arrangements involving multiple deliverables, when deliverables include software and non-software products and services, NCR evaluates and separates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (a) the delivered item has value to the customer on a stand-alone basis; (b) there is objective and reliable evidence of the fair value of the undelivered items; and (c) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered items is considered probable and substantially in the control of NCR. Each unit of accounting is then accounted for under the applicable revenue recognition guidance.

In situations where NCR s solutions contain software that is more than incidental to the hardware and services, revenue related to software and software-related elements is recognized in accordance with authoritative guidance on software revenue recognition. Revenue for non-software elements, for which software is not essential to the functionality, is recognized in accordance with other relevant guidance on revenue recognition including the four criteria above. In situations when there is appropriate evidence of fair value for all undelivered elements, but not for delivered elements, the residual method is used to allocate the arrangement s consideration. Under the residual method, the fair value of undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and recognized as revenue. Revenue for maintenance support services is recognized on a straight-line basis over the term of the service contract. In certain instances, customer acceptance is required prior to the passage of title and risk of loss of the delivered products. In such cases, no revenue is recognized until the customer acceptance is obtained. Delivery and acceptance generally occur in the same reporting period.

Revenue recognition for complex contractual arrangements, especially those with multiple elements, requires a significant level of judgment and is based upon a review of specific contracts, past experience, the selling price of undelivered elements when sold separately, creditworthiness of customers, international laws and other factors. Changes in judgments about these factors could impact the timing and amount of revenue recognized between periods.

**Allowance for Doubtful Accounts** We evaluate the collectibility of our accounts receivable based on a number of factors. We establish provisions for doubtful accounts using percentages of our accounts receivable balances as an overall proxy to reflect historical average credit losses and specific provisions for known issues. The percentages are applied to aged accounts receivable balances. Aged accounts are determined based on the number of days the receivable is outstanding, measured from the date of the invoice, or from the date of revenue recognition. As the age of the receivable increases, the provision percentage also increases. This policy is applied consistently among all of our operating segments.

Based on the factors below, we periodically review customer account activity in order to assess the adequacy of the allowances provided for potential losses. Factors include economic conditions and judgments regarding collectibility of account balances, each customer s payment history and creditworthiness.

The allowance for doubtful accounts was $24 million as of December 31, 2009, $15 million as of December 31, 2008, and $19 million as of December 31, 2007. These allowances represent, as a percent of gross receivables, 2.6% in 2009, 1.6% in 2008, and 1.6% in 2007.

Given our experience, the reserves for potential losses are considered adequate, but if one or more of our larger customers were to default on its obligations, we could be exposed to potentially significant losses in excess of the provisions established. We continually evaluate our reserves for doubtful accounts and continued economic deterioration could lead to the need to increase our reserves.

**Inventory Valuation** Inventories are stated at the lower of cost or market, using the average cost method. Each quarter, we reassess raw materials, work-in-process, parts and finished equipment inventory costs to identify purchase or usage variances from standards, and valuation adjustments are made. Additionally, to properly provide for potential exposure due to slow-moving, excess, obsolete or unusable inventory, a reserve against inventory is established. This reserve is established based on forecasted usage, orders, technological obsolescence and inventory aging. These factors are impacted by market conditions, technology changes and changes in strategic direction, and require estimates and management judgment that may include elements that are uncertain. On a quarterly basis, we review the current market value of inventory and adjust for any inventory exposure due to age or excess of cost over market value.

We have inventory in more than 40 countries around the world. We purchase inventory from third party suppliers and manufacture inventory at our plants. This inventory is transferred to our distribution and sales organizations at cost plus mark-up. This mark-up is referred to as inter-company profit. Each quarter, we review our inventory levels and analyze our inter-company profit to determine the correct amount of inter-company profit to eliminate. Key assumptions are made to estimate product gross margins, the product mix of existing inventory balances and current period shipments. Over time, we refine these estimates as facts and circumstances change. If our estimates require refinement, our results could be impacted.

Our excess and obsolete reserves were $100 million as of December 31, 2009, $111 million as of December 31, 2008, and $147 million as of December 31, 2007. These reserves represent, as a percent of gross inventory, 12.7% in 2009, 13.8% in 2008, and 17.0% in 2007. The decrease in the excess and obsolete reserve in

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2009 was due to the scrapping of fully reserved spare parts inventory as well as improved inventory management and utilization. Although we strive to achieve a balance between market demands and risk of inventory obsolescence or excess quantities caused by these factors, it is possible that, should conditions change, additional reserves may be needed. Any changes in reserves will impact operating income during a given period. The policies described are consistently applied among all of our operating segments.

**Warranty Reserves** One of our key objectives is to provide superior quality products and services. To that end, we provide a standard manufacturer s warranty extending up to 12 months, allowing our customers to seek repair of products under warranty at no additional cost. A corresponding estimated liability for potential warranty costs is also recorded at the time of the sale. We sometimes offer extended warranties in the form of product maintenance services to our customers for purchase. We defer the fair value of these revenues and recognize revenue over the life of the extended warranty period. Refer to Note 1 Description of Business and Significant Accounting Policies in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report for further information regarding our accounting for extended warranties.

Future warranty obligation costs are based upon historical factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. When a sale is consummated, the total customer revenue is recognized and the associated warranty liability is recorded based upon the estimated cost to provide the service over the warranty period.

Total warranty costs were $47 million in 2009, $51 million in 2008, and $41 million in 2007. Warranty costs as a percent of total product revenues were 2.1% in 2009, 1.8% in 2008, and 1.5% in 2007. Historically, the principal factor used to estimate our warranty costs has been service calls per machine. Significant changes in this factor could result in actual warranty costs differing from accrued estimates. Although no near-term changes in our estimated warranty reserves are currently anticipated, in the unlikely event of a significant increase in warranty claims by one or more of our larger customers, costs to fulfill warranty obligations would be higher than provisioned, thereby impacting results.

**Goodwill** Goodwill is not amortized; instead, it is tested for impairment annually (in the fourth quarter) or more frequently if indicators of impairment exist or if a decision is made to sell a business. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a decline in expected cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, or slower growth rates, among others.

Goodwill is allocated among and evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. NCR has three reporting units, which are Americas, EMEA and APJ. Total goodwill is allocated among the reporting units as follows: $47 million related to Americas, $28 million related to EMEA and $25 million related to APJ.

The evaluation of impairment involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. NCR uses a discounted cash flow model (DCF model) to estimate the current f