NCR CORP
Form 10-Q
July 29, 2011
Table of Contents

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

FORM 10-Q

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

For the quarterly period ended June 30, 2011
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, GA 30096
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (937) 445-5000

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data 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 x No o

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.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	£ (Do not check if a smaller reporting company)	Smaller reporting company	o

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

As of July 15, 2011, there were approximately 157.3 million shares of common stock issued and outstanding.

Table of Contents

TABLE OF CONTENTS

PART I. Financial Information

PART II. Other Information

Table of Contents

Part I. Financial Information

Item 1. FINANCIAL STATEMENTS

NCR Corporation
Condensed Consolidated Statements of Operations (Unaudited)

In millions, except per share amounts	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Product revenue	$650	$587	$1,144	$1,055
Service revenue	662	589	1,263	1,150
Total revenue	1,312	1,176	2,407	2,205
Cost of products	526	463	930	846
Cost of services	516	472	997	927
Selling, general and administrative expenses	181	171	345	341
Research and development expenses	42	39	82	78
Total operating expenses	1,265	1,145	2,354	2,192
Income from operations	47	31	53	13
Interest expense	(1)	—	(1)	(1)
Other (expense) income, net	(1)	—	5	1
Income from continuing operations before income taxes	45	31	57	13
Income tax expense	8	11	9	10
Income from continuing operations	37	20	48	3
(Loss) income from discontinued operations, net of tax	(2)	11	1	11
Net income	35	31	49	14
Net income attributable to noncontrolling interests	2	—	3	2
Net income attributable to NCR	$33	$31	$46	$12
Amounts attributable to NCR common stockholders:				
Income from continuing operations	$35	$20	$45	$1
(Loss) income from discontinued operations, net of tax	(2)	11	1	11
Net income	$33	$31	$46	$12
Income per share attributable to NCR common stockholders:				
Income per common share from continuing operations				
Basic	$0.22	$0.12	$0.28	$0.01
Diluted	$0.22	$0.12	$0.28	$0.01
Net income per common share				
Basic	$0.21	$0.19	$0.29	$0.07
Diluted	$0.21	$0.19	$0.29	$0.07
Weighted average common shares outstanding				
Basic	157.8	160.4	158.5	160.1
Diluted	160.7	161.6	161.2	161.3

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NCR Corporation
Condensed Consolidated Balance Sheets (Unaudited)

In millions, except per share amounts	June 30, 2011	December 31, 2010
Assets		
Current assets		
Cash and cash equivalents	$457	$496
Accounts receivable, net	980	928
Inventories, net	810	741
Other current assets	328	313
Total current assets	2,575	2,478
Property, plant and equipment, net	453	429
Goodwill	115	115
Prepaid pension cost	325	286
Deferred income taxes	628	630
Other assets	408	423
Total assets	$4,504	$4,361
Liabilities and stockholders' equity		
Current liabilities		
Short-term borrowings	$1	$1
Accounts payable	548	499
Payroll and benefits liabilities	171	175
Deferred service revenue and customer deposits	396	362
Other current liabilities	402	379
Total current liabilities	1,518	1,416
Long-term debt	10	10
Pension and indemnity plan liabilities	1,279	1,259
Postretirement and postemployment benefits liabilities	304	309
Income tax accruals	136	165
Environmental liabilities	221	244
Other liabilities	40	42
Total liabilities	3,508	3,445
Commitments and contingencies (Note 6)		
Stockholders' equity		
NCR stockholders' equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of June 30, 2011 and December 31, 2010	—	—
Common stock: par value $0.01 per share, 500.0 shares authorized, 157.2 and 159.7 shares issued and outstanding as of June 30, 2011 and December 31, 2010, respectively	2	2
Paid-in capital	239	281
Retained earnings	1,981	1,935
Accumulated other comprehensive loss	(1,263)	(1,335)
Total NCR stockholders' equity	959	883
Noncontrolling interests in subsidiaries	37	33
Total stockholders' equity	996	916
Total liabilities and stockholders' equity	$4,504	$4,361

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NCR Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)

In millions	Six months ended June 30	
	2011	2010
Operating activities		
Net income	$49	$14
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations	(1)	(11)
Depreciation and amortization	75	65
Stock-based compensation expense	15	9
Excess tax benefit from stock-based compensation	(1)	—
Deferred income taxes	(14)	(5)
Gain on sale of property, plant and equipment	(3)	—
Changes in operating assets and liabilities:		
Receivables	(58)	35
Inventories	(69)	(43)
Current payables and accrued expenses	49	1
Deferred service revenue and customer deposits	34	17
Employee severance and pension	54	60
Other assets and liabilities	(22)	(33)
Net cash provided by operating activities	108	109
Investing activities		
Grant reimbursements from capital expenditures	—	4
Expenditures for property, plant and equipment	(67)	(80)
Proceeds from sales of property, plant and equipment	2	—
Additions to capitalized software	(29)	(28)
Net cash used in investing activities	(94)	(104)
Financing activities		
Repurchases of Company common stock	(70)	—
Repayment of short-term borrowings	—	(4)
Repayment of long-term debt	—	(1)
Excess tax benefit from stock-based compensation	1	—
Proceeds from employee stock plans	13	3
Net cash used in financing activities	(56)	(2)
Cash flows from discontinued operations		
Net cash used in operating activities	(8)	—
Effect of exchange rate changes on cash and cash equivalents	11	(7)
Decrease in cash and cash equivalents	(39)	(4)
Cash and cash equivalents at beginning of period	496	451
Cash and cash equivalents at end of period	$457	$447

See Notes to Condensed Consolidated Financial Statements.

Table of Contents

NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)
1. BASIS OF PRESENTATION
The accompanying Condensed Consolidated Financial Statements have been prepared by NCR Corporation (NCR, the Company, we or us) without audit pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC) and, in the opinion of management, include all adjustments (consisting of normal, recurring adjustments) necessary for a fair statement of the consolidated results of operations, financial position, and cash flows for each period presented. The consolidated results for the interim periods are not necessarily indicative of results to be expected for the full year. The 2010 year-end Consolidated Balance Sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States (GAAP). These financial statements should be read in conjunction with NCR’s Form 10-K for the year ended December 31, 2010.

Effective January 1, 2011, NCR began management of its business on a line of business basis, changing from the previous model of geographic business segments. We have reclassified prior period segment disclosures to conform to the current period presentation. See Note 9, "Segment Information and Concentrations" for additional information.

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

Evaluation of Subsequent Events The Company evaluated subsequent events through the date that our Condensed Consolidated Financial Statements were issued. See Note 13, "Subsequent Events" for additional information.

Discontinued Operations (Loss) income from discontinued operations, net of tax includes activity related to environmental matters as well as the spin-off of the Teradata Data Warehousing (Teradata) and closure of NCR's EFT payment processing business in Canada.

The (loss) income from discontinued operations for the three and six months ended June 30 was:

In millions	Three months ended June 30, 2011		Three months ended June 30, 2010	
	Pre-Tax	Net of Tax	Pre-Tax	Net of Tax
Fox River environmental matter	$—	$—	$17	$11
Japan environmental matter	(2)	(1)	—	—
Closure of the Canadian EFT business	(2)	(1)	—	—
(Loss) income from discontinued operations	$(4)	$(2)	$17	$11

In millions	Six months ended June 30, 2011		Six months ended June 30, 2010	
	Pre-Tax	Net of Tax	Pre-Tax	Net of Tax
Fox River environmental matter	$1	$—	$17	$11
Kalamazoo environmental matter	(2)	(1)	—	—
Japan environmental matter	(2)	(1)	—	—
Spin-off of Teradata	—	4	—	—
Closure of the Canadian EFT business	(2)	(1)	—	—

(Loss) income from discontinued operations	$(5)	$1	$17	$11

Environmental Matters For the three months ended June 30, 2011, (loss) income from discontinued operations included an accrual related to a Japan environmental matter, which relates to anticipated future disposal requirements of certain materials

6

generated by a former NCR manufacturing facility in that country. For the six months ended June 30, 2011, (loss) income from discontinued operations included accruals for litigation fees related to the Kalamazoo environmental matter and for anticipated future disposal costs with respect to the Japan environmental matter discussed in the preceding sentence offset by scheduled payments from an insurer in connection with a settlement that had been agreed to in prior years related to the Fox River matter. For the three and six months ended June 30, 2010, income (loss) from discontinued operations included settlements with insurance carriers related to the Fox River matter.

For the six months ended June 30, 2011, net cash used in discontinued operations related to environmental matters was $8 million due to remediation payments offset by scheduled payments from an insurer related to the Fox River matter. Net cash provided by discontinued operations related to environmental matters for the six months ended June 30, 2010 was zero.

Spin-off of Teradata On September 30, 2007, NCR completed the spin-off of Teradata through the distribution of a tax-free stock dividend to its stockholders. The results of operations and cash flows of Teradata have been presented as a discontinued operation. There was no operating activity related to the spin-off of Teradata in 2011 and 2010. For the six months ended June 30, 2011, income from discontinued operations, net of tax, related to favorable changes in uncertain tax benefits attributable to Teradata.

Closure of the Canadian EFT Business For the three and six months ended June 30, 2011, (loss) income from discontinued operations included $2 million or $1 million, net of tax, of loss related to Canada's EFT payment processing business.

2. SUMMARY OF ACCOUNTING POLICIES

New Accounting Pronouncements In September 2009, the Financial Accounting Standards Board (FASB) ratified the final consensus reached by the Emerging Issues Task Force (EITF) that revised the authoritative guidance for revenue arrangements with multiple deliverables. The guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be allocated among the separate units of accounting. NCR adopted this guidance effective January 1, 2011 and is applying it prospectively for new or materially modified arrangements. Under the consensus adopted by the EITF, use of the residual method, which the Company previously applied to many of its customer arrangements, is no longer permitted. The new guidance requires the Company to use its best estimate of a deliverable's selling price whenever it lacks objective evidence. The result of this change is that any discount in a customer arrangement which previously was allocated to delivered items is instead now allocated on a relative fair value basis among all the deliverables. There were no significant changes to the Company's units of accounting within its multiple-element arrangements or in the pattern or timing of revenue recognition for the six months ended June 30, 2011 as a result of the adoption of this update.

In September 2009, the FASB also ratified the final consensus reached by the EITF that modifies the scope of the software revenue recognition guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the tangible product's essential functionality. NCR adopted this guidance effective January 1, 2011 and is applying it prospectively for new or materially modified arrangements. There were no significant changes to the pattern or timing of revenue recognition for the six months ended June 30, 2011 as a result of the adoption of this update.

In May 2011, the FASB issued updated guidance related to fair value measurements and disclosures, including (a) the application of the highest and best use valuation premise concepts, (b) measuring the fair value of an instrument classified in a reporting entity's stockholders' equity, and (c) quantitative information required for fair value measurements categorized within Level 3. Additionally, disclosure requirements have been expanded to include additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. The guidance applies prospectively, and is effective for the Company beginning January 1, 2012. The Company is in the process of evaluating the effects, if any, the adoption of this guidance will have on its consolidated financial statements.

In June 2011, the FASB issued updated guidance related to the presentation of other comprehensive income, offering two alternatives for presentation, including (a) a single continuous statement of comprehensive income or (b) two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. The guidance applies retrospectively, and is effective for the Company beginning January 1, 2012. The Company is in the process of evaluating the effects, if any, the adoption of this guidance will have on its consolidated financial statements.

Table of Contents
NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

Revenue Recognition The Company's significant accounting policies as reported in NCR's Form 10-K for the year ended December 31, 2010 were amended in the first quarter of 2011 upon the adoption of the new revenue recognition accounting pronouncements discussed above. While the adoption of the new accounting pronouncements had no material impact on the Company's Condensed Consolidated Financial Statements for the six months ended June 30, 2011, the Company's previously disclosed revenue recognition policy related to multiple-element arrangements and software was updated, and is presented below as revised.
NCR frequently enters into multiple-element arrangements with its customers including hardware, software, professional consulting services and maintenance support services. 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; and (b) 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.
For arrangements entered into or materially modified after January 1, 2011, consideration is allocated to each unit of accounting based on the unit's relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to each deliverable: (i) vendor-specific objective evidence of selling price (VSOE), (ii) third-party evidence of selling price (TPE), and (iii) best estimate of selling price (BESP). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. VSOE is established for our software maintenance services and we use TPE to establish selling prices for our non-software related services, which include hardware maintenance, non-software related professional services, and transaction services. The Company uses BESP to allocate revenue when we are unable to establish VSOE or TPE of selling price. BESP is primarily used for elements such as hardware and software that are not consistently priced within a narrow range. The Company determines BESP for a deliverable by considering multiple factors including product class, geography, average discount, and management's historical pricing practices. Amounts allocated to the delivered hardware and software elements are recognized at the time of sale provided the other conditions for revenue recognition have been met. Amounts allocated to the undelivered maintenance and other services elements are recognized as the services are provided or on a straight-line basis over the service period. In certain instances, customer acceptance is required prior to the passage of title and risk of loss of the delivered products. In such cases, revenue is not recognized until the customer acceptance is obtained. Delivery and acceptance generally occur in the same reporting period.

For arrangements entered into prior to January 1, 2011, the Company has not applied BESP. In such arrangements, if the Company has the requisite evidence of selling price for the undelivered elements but not for the delivered elements, the Company applies the residual method to allocate arrangement consideration.

In situations where NCR's solutions contain software that is more than incidental, revenue related to the software and software-related elements is recognized in accordance with authoritative guidance on software revenue recognition. For the software and software-related elements of such transactions, revenue is allocated based on the relative fair value of each element, and fair value is determined by VSOE. If the Company cannot objectively determine the fair value of any undelivered element included in such multiple-element arrangements, the Company defers revenue until all elements are delivered and services have been performed, or until fair value can objectively be determined for any remaining undelivered elements. When the fair value of a delivered element has not been established, but fair value exists for the undelivered elements, the Company uses the residual method to recognize revenue. Under the residual method, the fair value of the undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and is recognized as revenue.

3. SUPPLEMENTAL FINANCIAL INFORMATION

The following table provides a reconciliation of total stockholders' equity, stockholders' equity attributable to NCR, and noncontrolling interests in subsidiaries for the six months ended June 30, 2011 and June 30, 2010:

Table of Contents
NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

In millions	Total Stockholders' Equity	Stockholders' Equity Attributable to NCR	Noncontrolling Interests in Subsidiaries
December 31, 2009	$592	$564	$28
Net income	14	12	2
Other comprehensive income, net of tax:			
Currency translation adjustments	13	12	1
Benefit plans, net	73	73	—
Unrealized gain on derivatives	5	5	—
Comprehensive income	105	102	3
Employee stock purchase and stock compensation plans	12	12	—
June 30, 2010	$709	$678	$31
December 31, 2010	$916	$883	$33
Net income	49	46	3
Other comprehensive income, net of tax:			
Currency translation adjustments	9	8	1
Unrealized loss on securities	(1)	(1)	—
Unrealized loss on derivatives	(8)	(8)	—
Benefit plans, net	73	73	—
Comprehensive income	122	118	4
Employee stock purchase and stock compensation plans	28	28	—
Repurchase of Company common stock	(70)	(70)	—
June 30, 2011	$996	$959	$37

The components of accumulated other comprehensive loss (AOCI), net of tax, are summarized as follows:

In millions	June 30, 2011	December 31, 2010
Unrealized gain on securities	$1	$2
Unrealized (loss) gain on derivatives	(3)	5
Unamortized costs associated with pension, postemployment and postretirement benefits	(1,215)	(1,288)
Currency translation adjustments	(46)	(54)
Accumulated other comprehensive loss	$(1,263)	$(1,335)

The components of inventory are summarized as follows:

In millions	June 30, 2011	December 31, 2010
Inventories, net		
Work in process and raw materials	$156	$143
Finished goods	231	180
Service parts	423	418
Total inventories, net	$810	$741

4. STOCK COMPENSATION PLANS

As of June 30, 2011, the Company's primary types of stock-based compensation were stock options and restricted stock. Stock-based compensation expense for the following periods was:

In millions	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Stock options	$2	$2	$3	$2
Restricted stock	6	5	12	7
Total stock-based compensation (pre-tax)	8	7	15	9
Tax benefit	(3)	(2)	(5)	(3)
Total stock-based compensation (net of tax)	$5	$5	$10	$6

Stock-based compensation expense is recognized in the financial statements based upon fair value. Stock-based compensation expense was higher in the six months ended June 30, 2011, as compared to the six months ended June 30, 2010, due to changes in the quantity and value of awards granted.

The weighted average fair value of option grants was estimated based on the below weighted average assumptions and was $7.38 and $5.49 for the six months ended June 30, 2011 and 2010, respectively.

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Dividend yield	—	—	—	—
Risk-free interest rate	1.95%	2.43%	2.04%	2.35%
Expected volatility	40.0%	44.0%	40.4%	47.1%
Expected holding period (years)	5.1	4.8	5.1	4.8

Expected volatility incorporates a blend of both historical volatility of the Company's stock over a period equal to the expected term of the options and implied volatility from traded options on the Company's stock, as management believes this is more representative of prospective trends. The Company uses historical data to estimate option exercise and employee terminations within the valuation model. The expected holding period represents the period of time that options are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the five-year U.S. Treasury yield curve in effect at the time of grant.

As of June 30, 2011, the total unrecognized compensation cost of $9 million related to unvested stock option grants is expected to be recognized over a weighted average period of approximately 2.0 years. As of June 30, 2011, the total unrecognized compensation cost of $52 million related to unvested restricted stock grants is expected to be recognized over a weighted average period of approximately 1.9 years.

Table of Contents
NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

5. EMPLOYEE BENEFIT PLANS
Components of net periodic benefit cost for the three months ended June 30 were as follows:

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2011	2010	2011	2010	2011	2010
Net service cost	$—	$—	$4	$3	$4	$3
Interest cost	46	47	23	22	69	69
Expected return on plan assets	(39)	(42)	(28)	(26)	(67)	(68)
Settlement charge	—	—	1	—	1	—
Amortization of:						
Prior service cost	—	—	1	—	1	—
Actuarial loss	29	30	16	16	45	46
Net benefit cost	$36	$35	$17	$15	$53	$50

Components of net periodic benefit cost for the six months ended June 30 were as follows:

In millions	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2011	2010	2011	2010	2011	2010
Net service cost	$—	$—	$8	$7	$8	$7
Interest cost	91	94	45	45	136	139
Expected return on plan assets	(78)	(83)	(55)	(55)	(133)	(138)
Settlement charge	—	—	1	6	1	6
Amortization of:						
Prior service cost	—	—	2	—	2	—
Actuarial loss	58	60	32	32	90	92
Net benefit cost	$71	$71	$33	$35	$104	$106

The income from the postretirement plan for the three and six months ended June 30 was:

In millions	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Interest cost	$1	$2	$1	$3
Amortization of:				
Prior service benefit	(5)	(4)	(9)	(7)
Actuarial loss	1	1	2	2
Net postretirement income	$(3)	$(1)	$(6)	$(2)

The cost of the postemployment plan for the three and six months ended June 30 was:

In millions	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Net service cost	$7	$7	$13	$13
Interest cost	2	3	5	6
Amortization of:				
Prior service cost	(7)	—	(7)	—
Actuarial loss	4	3	7	6
Total postemployment cost	$6	$13	$18	$25

During the second quarter of 2011, NCR announced a change in the long term disability benefits provided to former employees, effective July 1, 2011. This action reduced the actuarial liability associated with this benefit by approximately $6 million in the second quarter of 2011.

Table of Contents
NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

Employer Contributions
Pension - For the three months ended June 30, 2011, NCR contributed approximately $22 million to its international pension plans and $2 million to its executive pension plan. For the six months ended June 30, 2011, NCR contributed approximately $40 million to its international pension plans and $4 million to its executive pension plan. NCR anticipates contributing an additional $75 million to its international pension plans for a total of $115 million and an additional $6 million to its executive pension plan for a total of $10 million in 2011. NCR does not anticipate making cash contributions to its U.S. qualified pension plan in 2011.
Postretirement - For the three and six months ended June 30, 2011, NCR made $3 million and $6 million, respectively, in contributions to its U.S. postretirement plan. NCR anticipates contributing an additional $4 million to its U.S. postretirement plan for a total of $10 million in 2011.
Postemployment - For the three and six months ended June 30, 2011, NCR contributed approximately $8 million and $12 million, respectively, to its postemployment plans. NCR anticipates contributing an additional $38 million to its postemployment plans in 2011 for a total of $50 million.

6. COMMITMENTS AND CONTINGENCIES
In the normal course of business, NCR is subject to various proceedings, lawsuits, claims and other matters, including, for example, those that relate to the environment and health and safety, employee benefits, import/export compliance, intellectual property, data privacy, product liability, commercial disputes and regulatory compliance, among others. Additionally, NCR is subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, environmental safety and the discharge of materials into the environment, product safety, import and export compliance, data privacy and security, antitrust and competition, government contracting, anti-corruption, and labor and human resources, which are rapidly changing and subject to many possible changes in the future. Compliance with these laws and regulations, including changes in accounting standards, taxation requirements, and federal securities laws among others, may create a substantial burden on, and substantially increase costs to NCR or could have an impact on NCR's future operating results. NCR believes the amounts provided in its Condensed Consolidated Financial Statements, as prescribed by GAAP, are currently adequate in light of the probable and estimable liabilities with respect to such matters, but there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results. Other than as stated below, the Company does not currently expect to incur material capital expenditures related to such matters. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including, but not limited to the Fox River environmental matter and other matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR’s Condensed Consolidated Financial Statements or will not have a material adverse effect on its consolidated results of operations, capital expenditures, competitive position, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of June 30, 2011 cannot currently be reasonably determined.
The United States Department of Justice is conducting an investigation regarding the propriety of the Company’s former Teradata Data Warehousing business’s arrangements and understandings with others in connection with certain federal contracts. In connection with the spin-off of Teradata on September 30, 2007, the responsibility for this matter, together with the related reserve, was distributed to Teradata Corporation. While the Company may be subject to ostensible exposure inasmuch as it was the contracting party in the matter at issue, Teradata Corporation is generally obligated to indemnify the Company for any losses arising out of this matter.
A separate portion of the government’s investigation relates to the adequacy of pricing disclosures made to the government in connection with negotiation of the Company’s General Services Administration Federal Supply Schedule and to whether certain subsequent price reductions were properly passed on to the government. Both Teradata Corporation and the Company are participating in this aspect of the investigation, with respect to certain products and services of each of them, and each will assume financial responsibility for its own exposures, if any, without indemnification from the other. At this time, the Company is unable to determine whether it has probable

liability with respect to this aspect of the investigation.
In August 2009, a federal court in Ohio granted motions for summary judgment against NCR in two companion class actions brought on behalf of certain unionized retirees, who claimed that the Company’s 2003 decision to terminate certain benefits payable on death violated collective bargaining agreements and other rights. The Company appealed the decision to the Sixth Circuit Court of Appeals and created an accrual of approximately $6 million for the potential liability, which NCR recognized as other expense during 2009. While the appeal was pending, the Company reached a settlement of approximately $3 million which received final approval from the federal district court in March 2011. The settlement payment was made during the three months ended June 30, 2011; the balance of the accrual was released to other income during the three months ended March 31,

2011 as a result of the federal district court's March 2011 ruling.

In December 2010, a jury in a New York federal court awarded approximately $8 million, which NCR recognized as selling, general and administrative expense during 2010, to a plaintiff in a suit over a commission arrangement purportedly entered into by the Company's consumables business in 2003. The Company has filed an appeal.

In relation to a patent infringement case filed by a company known as Automated Transactions, Limited (ATL) the Company agreed to defend and indemnify its customers, 7-Eleven and Cardtronics. On behalf of those customers, the Company won summary judgment in the case in March 2011. ATL is expected to seek appellate review. ATL contends that Vcom terminals sold by the Company to 7-Eleven (Cardtronics ultimately purchased the business from 7-Eleven) infringe certain ATL patents that purport to relate to the combination of an ATM with an Internet kiosk, in which a retail transaction can be realized over an Internet connection provided by the kiosk. Independent of the litigation, the U.S. Patent and Trademark Office (USPTO) rejected the parent patent as invalid in view of certain prior art, although related continuation patents were not reexamined by the USPTO. ATL filed a second suit against the same companies with respect to a broader range of ATMs, based on the same patents plus a more recently issued patent; that suit is currently subject to a stay pending resolution of the case in which summary judgment was granted. While the Company does not believe that ATL's patent claims are meritorious, if ATL's claims are successful potential royalties or damages could cause the Company to incur liability that could be material to it, and such royalties or damages could adversely impact its ATM business.

Environmental Matters NCR’s facilities and operations are subject to a wide range of environmental protection laws, and NCR has investigatory and remedial activities underway at a number of facilities that it currently owns or operates, or formerly owned or operated, to comply, or to determine compliance, with such laws. Also, NCR has been identified, either by a government agency or by a private party seeking contribution to site clean-up costs, as a potentially responsible party (PRP) at a number of sites pursuant to various state and federal laws, including the Federal Water Pollution Control Act, the Comprehensive Environmental Response, Compensation and Liability Act (CERCLA) and comparable state statutes. Other than the Fox River matter detailed below, we currently do not anticipate material expenses and liabilities from these environmental matters.

NCR is one of eight entities that were formally notified by governmental and other entities (such as local Native American tribes) that they are PRPs for environmental claims under CERCLA and other statutes arising out of the presence of polychlorinated biphenyls (PCBs) in sediments in the lower Fox River and in the Bay of Green Bay in Wisconsin. NCR was identified as a PRP because of alleged PCB discharges from two carbonless copy paper manufacturing facilities it previously owned, which were located along the Fox River. Some parties contend that NCR is also responsible for PCB discharges from paper mills owned by other companies because carbonless paper manufactured by NCR was allegedly purchased by those mills as a raw material for their paper making processes. NCR sold its facilities in 1978 to Appleton Papers Inc. (API), which has also been identified as a PRP. The other Fox River PRPs that received notices are P.H. Glatfelter Company, Georgia-Pacific Consumer Products LP (GP, successor to Fort James Operating Company), WTM I Co. (formerly Wisconsin Tissue Mills, now owned by Chesapeake Corporation), CBC Corporation (formerly Riverside Paper Corporation), U.S. Paper Mills Corp. (owned by Sonoco Products Company), and Menasha Corporation.

In the October 2010 lawsuit discussed below, the federal and state governments assert certain claims against the eight parties referenced above as well as four other entities. These claims, filed under CERCLA and other statutes, relate to the presence of PCBs at the Fox River site, and as a result the four newly named parties are also properly viewed as PRPs with respect to the site. Those entities are NewPage Wisconsin Systems, Inc., Neenah-Menasha Sewerage Commission, Kimberly-Clark Corporation, and the City of Appleton, Wisconsin.

During the past several years, the United States Environmental Protection Agency (USEPA) and Wisconsin Department of Natural Resources (WDNR) (together, the Governments) assessed and developed clean-up plans for the upper and lower parts of the Fox River and for portions of the Bay of Green Bay, contained in various Records of Decisions (RODs) issued in January 2003, July 2003 and June 2007 (the last is referred to as the Amended ROD). In general, the clean-up plan or remedy calls for a combination of dredging and capping to remediate the sediments in the river, and for monitored natural attenuation in the Bay of Green Bay. Since 2004, the Company has been involved in certain aspects of the clean-up project, including performance, with GP, of engineering design work for the clean-up under an Administrative Order on Consent (AOC) entered into with the Governments. In addition, the Company, with U.S. Paper Mills, performed specific remedial action involving an area of elevated PCB incidence downriver of the De Pere Dam (Phase 1 work), pursuant to a consent decree with the Governments that was approved in November 2006.

On November 13, 2007, the Governments issued a unilateral administrative order (Order) under Section 106 of CERCLA to all eight of the original PRPs identified above. The Order requires these PRPs to implement the remedial work in the lower river in accordance with the requirements of the Amended ROD. NCR and API have been working with the Governments to implement certain provisions of the Order. In-water work began on schedule in April 2009, following construction of a facility to house the remediation operations in Green Bay, Wisconsin.

In April 2009, the NCR Board of Directors approved the terms of a contract with Tetra Tech, an environmental remediation contractor, to perform the remediation work at the Fox River consistent with the requirements of the Amended ROD. Also in April 2009, the Board of Directors approved the formation of a limited liability company (LLC), which NCR and API formed on April 27, 2009. The LLC entered into a remediation contract with Tetra Tech on April 27, 2009, and in-water dredging and remediation by Tetra Tech commenced thereafter. The Company and API fund the LLC's operations on a regular basis tied to the remediation schedule, consistent with the Company's Fox River reserve, discussed below. The Tetra Tech contract also requires that the LLC members provide promissory notes to provide Tetra Tech financial assurance against the prospect that the LLC will terminate the contract before completion of the remediation for reasons other than "cause." The current maximum obligation under the Company's note, originally $20 million, is now approximately $16 million; the amount will vary based on a formula tied to conditions set forth in the contract, and generally is expected to decrease over time.

NCR and API share a portion of the cost of the Fox River clean-up and natural resource damages based upon an agreement and an arbitration award, both arising out of the previously referenced 1978 sale of certain facilities located on the Fox River. The agreement and award result in a 45% share for NCR of the first $75 million of such costs—a threshold that was reached in 2008—and a 40% share for amounts in excess of $75 million.

In 2008, NCR and API filed a lawsuit in federal court in Green Bay, Wisconsin, seeking a judicial ruling determining the allocable responsibility of several PRPs for the cost of performing the remedial work at the Fox River (the "allocation litigation"). A number of counterclaims seeking contribution under CERCLA and under various state law theories were filed against NCR and API. On September 23, 2008, the court issued a Case Management Decision and Scheduling Order setting a "Phase I trial" limited to the questions of (i) when each party knew or should have known that recycling NCR-brand carbonless copy paper would result in the discharge of PCBs to a waterbody, thereby risking environmental damage; and (ii) what, if any, actions each party took upon acquiring such knowledge to avoid the risk of further PCB contamination. The court's order also limited initial discovery proceedings to the same questions.

On December 16, 2009, the court issued a ruling canceling the Phase I trial and granting motions for summary judgment filed by certain of the defendants with respect to NCR's and API's claims. The court held that NCR and API could not recover from these defendants any costs that NCR and API have incurred in the Fox River cleanup (the ruling does not affect the Governments' potential claims against such parties). In a further ruling dated February 28, 2011, the court granted partial summary judgment to the defendants on certain of their contribution counterclaims against NCR and API, with respect to certain Fox River response costs incurred by them. The Company intends to appeal both rulings to the United States Court of Appeals for the Seventh Circuit, and has filed a request, which is currently pending, that it be allowed to pursue an immediate appeal. Otherwise, the Company currently does not expect to be able to prosecute an appeal on either ruling until the remaining claims in the litigation are resolved, which is expected to occur in a trial now scheduled for February 2012.

In 2009, the Governments filed a separate action in the Wisconsin federal court to lodge and seek approval of two consent decrees involving twelve of the defendants in the allocation litigation (none of whom are recipients of the Order). The consent decrees require a total payment from the settling parties of approximately $2 million and in exchange provide protection against claims for contribution under Section 113 of CERCLA (including claims by NCR/API). NCR/API intervened in this action and formally opposed entry of the consent decrees, principally on the ground that insufficient investigation had been performed by the Governments to determine whether the proposed settlements were fair, reasonable and adequate under CERCLA. On December 16, 2009 and April 20, 2010, the judge presiding over the allocation litigation approved the consent decrees. NCR/API appealed both of these rulings to the United States Court of Appeals for the Seventh Circuit, which affirmed the decisions in the quarter ending June 30, 2011.

On October 14, 2010, the Governments filed a lawsuit in federal court in Wisconsin against twelve parties, including the companies named in the 2007 Order mandating the cleanup (i.e., the eight original PRPs), and NewPage Wisconsin Systems, Inc., Neenah-Menasha Sewerage Commission, Kimberly-Clark Corporation, and the City of Appleton, Wisconsin (the four additional PRPs), with respect to the presence of PCBs at the Fox River. The Government suit seeks payment of the Governments' unreimbursed response costs in connection with the Fox River matter as well as compensation for natural resource damages. The Governments also request a judicial declaration that the eight Order recipients are required to comply with its provisions. With respect to NCR, there are no claims asserted against the Company in this new lawsuit that were not previously contemplated in the Company's Fox River reserve, as discussed herein.

In the quarter ended December 31, 2010, the Governments publicly announced proposed monetary settlements of Fox River - related claims with four entities: GP, Brown County (Wisconsin), the City of Green Bay, and the United States itself (with respect to potential liabilities asserted against the Army Corps of Engineers for certain dredging and disposal activities, and

Table of Contents
NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

against other federal agencies for certain carbonless copy paper recycling activities). All of those entities are defendants in the allocation litigation case described above. The GP settlement, if finally approved, would release GP from liability for, and provide contribution protection for claims relating to government oversight costs and claims relating to clean-up actions upriver of GP's facilities (it does not affect claims for clean-up actions in that portion of the river near those facilities). The settlement with Brown County, the City of Green Bay and the United States would release those entities and provide contribution protection for all claims relating to the Fox River site. The Company filed administrative objections to the proposed settlement with GP, and with respect to the settlement with the United States and Brown County and the City of Green Bay. In April 2011, the Wisconsin federal court approved the GP consent decree over the Company's objection.

In March 2011, the federal government filed a motion for a preliminary injunction against NCR and API in its October 2010 suit. The motion sought an injunction ordering the two companies, through the LLC, to perform particular aspects of a remediation work plan in 2011 as set forth by the Governments.

The extent of NCR's potential liability remains subject to many uncertainties. NCR's eventual remediation liability—which is expected to be paid out over a period extending through approximately 2017, followed by long-term monitoring for several decades—will depend on a number of factors. In general, the most significant factors include: (1) the total clean-up costs for each of the segments of the river; (2) the total natural resource damages for the site; (3) the shares NCR and API will jointly bear of future clean-up costs and natural resource damages; (4) the share NCR will bear of the joint NCR/API payments for such clean-up costs and natural resource damages; and (5) NCR's transaction and litigation costs to defend itself in this matter, including participation in the allocation litigation and the October 2010 litigation filed by the Governments. In establishing the reserve, NCR attempts to estimate a range of reasonably possible outcomes for each of these factors, although each range is itself highly uncertain. NCR uses its best estimate within the range, if that is possible. Where there is a range of equally possible outcomes, and there is no amount within that range that is considered to be a better estimate than any other amount, NCR uses the low end of the range. These factors are discussed below.

For the first factor described above, NCR utilizes a best estimate of $930 million as the total of the clean-up costs for the segments of the river. The estimated total cost amount of $930 million includes estimates for the Operable Unit (OU) 1 through OU 5 work, including the remaining amount of work to be performed under the April 2009 Tetra Tech remediation contract, the Phase 1 work and the remedial design work. It adds to these estimates a 15% contingency for probable cost overruns based on historical experience; an estimate for the Governments' future oversight costs; an amount for the Governments' past oversight costs; an estimate for long-term monitoring extending over several decades; and an estimate for value engineering savings (potential projects intended to reduce the cost of the remediation) and the NCR-API share of estimated natural resource damages. There can be no assurances that this estimated total cost amount will not be significantly higher as remediation work progresses. A range of reasonably possible outcomes with respect to total cost is difficult to state, but if the portion of the cost estimate relating to the contingency for cost overruns and unexpected expenses were twice our estimate, the total cost would increase to approximately $986 million.

Second, for total natural resource damages (NRD), NCR uses a best estimate of $76 million. NCR believes the range of reasonably possible outcomes for NRD, if it were to be litigated, is between zero and $246 million. The federal government indicated, in a 2009 filing in a PRP's bankruptcy proceeding, that claims for NRD could be as high as $382 million. The litigation filed in October 2010 does not set forth a particular amount for the NRD claim.

Third, for the NCR/API share of NRD, which is discussed above, NCR uses a best estimate. The joint NCR/API share of future clean-up costs is expected to be determined in the allocation litigation or possibly in or as a result of the Government litigation filed in October 2010. NCR has modified the basis previously used for this component of the reserve (in the past, the Company used the low end of a range of outcomes, based primarily on the proximity of areas to be remediated to the locations at which PCBs were released into the river). In light of the Wisconsin federal court's December 16, 2009 and February 28, 2011 rulings described above, NCR's reserve at June 30, 2011 assumed that NCR and API will be responsible for the full extent of the cleanup activities they are undertaking, which the Company considers a best estimate, and for a substantial portion of the counterclaims filed against NCR and API, as to which the Company employs assumptions based on the court's February 28, 2011 ruling. If the Company is subsequently ruled liable for remaining claims in the allocation litigation, the Company estimates that its reserve could increase by approximately an additional $17 million. The Company will seek to overturn the trial court's rulings on appeal, and believes that the NCR/API allocable share of total site costs is less than 100%, based on equitable factors, principles of divisibility as developed under applicable law, and/or an apportionment of the claimed harm. Until such time, if any, that such a result is achieved, the Company assumes in its reserve that NCR and API will pay for the full extent of the cleanup. NCR’s reserve does not at present assume any payments or reduction of exposure based either on the appeal or on Government enforcement against the other Order recipients or defendants.

Fourth, for the NCR share of the joint NCR/API payments, as discussed above, NCR’s percentage share is set by an agreement between NCR and API and a subsequent arbitration award, both of which arise out of certain agreements entered into in connection with the Company's 1978 sale of the facilities on the Fox River to API. NCR's analysis of this factor assumes that API pays its percentage share of the NCR/API joint share. Additionally, the API obligation to NCR is shared on a joint and several basis by a third party, B.A.T. Industries p.l.c., which, by virtue of various prior indemnification and other agreements not specifically directed to the Fox River matter, is a co-party to the same agreement and arbitration award. This analysis also assumes that B.A.T. Industries p.l.c. would be financially viable and willing to pay the joint and several obligation if API does not. As a result of unrelated prior corporate transactions, API itself is indemnified by another company, Arjo Wiggins Appleton Ltd., which has funded and managed API's liability to date.

Finally, NCR estimated the transaction costs it is likely to incur to defend this matter through approximately 2017, the time period NCR's engineering consultants believe it will take to implement the remedy for the river. This estimate is based on an analysis of NCR's costs since this matter first arose in 1995 and estimates of what NCR's defense and transaction costs will be in the future. NCR expects that the bulk of these transaction costs have been and will be incurred in the 2008-2013 time period. The costs incurred and expected to be incurred during that period include, in particular, transaction costs and fees related to completion of the design work, equipment purchases, commencement and continuation of clean-up activities in the river, and the allocation litigation and October 2010 litigation filed by the Governments discussed above.

In light of several factors—among them, the remedial design work conducted by NCR and GP; settlement possibilities; the efforts to implement the Order for clean-up of the lower river; the pending allocation litigation and the prospective appeals, whether there will be judicial recognition of allocable harm at the Fox River site and thus of divisible shares of liability among the various parties; the extent to which the Governments press claims against the parties in the Governments' October 2010 litigation or otherwise for NRD, government oversight costs and remediation liability; change orders or cost overruns that may result from the ongoing remediation efforts; the continued viability and willingness to pay of NCR's various indemnitors and co-obligors; and the subsequent value engineering efforts designed to make the cleanup more efficient and less costly—calculation of the Company's Fox River reserve has become subject to added layers of complexities, and it is possible there could be additional changes to some elements of the reserve over upcoming periods, although we are unable to predict or estimate such changes at this time. There can be no assurance that the clean-up and related expenditures will not have a material effect on NCR's capital expenditures, earnings, financial condition, cash flows, or competitive position.

As of June 30, 2011, the net reserve for the Fox River matter was approximately $191 million, compared to $199 million as of December 31, 2010. This decrease in the reserve is due to payments for clean-up activities and legal fees offset by a decrease in the indemnification asset discussed below. NCR regularly re-evaluates the assumptions used in determining the appropriate reserve for the Fox River matter as additional information becomes available and, when warranted, makes appropriate adjustments. NCR contributes to the LLC in order to fund remediation activities and generally, by contract, funds three months' worth of remediation activities in advance. As of June 30, 2011 and December 31, 2010, approximately $12 million and $5 million, respectively, remained from this funding and was recorded in other current assets in the Condensed Consolidated Balance Sheet. NCR's reserve for the Fox River matter is reduced as the LLC makes payments to Tetra Tech and other vendors with respect to remediation activities.

Under a 1996 agreement, AT&T and Alcatel-Lucent are responsible severally (not jointly) for indemnifying NCR for certain portions of the amounts paid by NCR for the Fox River matter over a defined threshold. (The agreement governs certain aspects of AT&T Corp.'s divestiture of NCR, then known as AT&T Global Information Solutions Company, and of what was formerly known as Lucent Technologies, and specifically relates to shared contingent gains and liabilities of the former constituent companies within AT&T.) NCR's estimate of what AT&T and Alcatel-Lucent will pay under the indemnity is recorded as a long-term asset of approximately $85 million as of June 30, 2011 and $86 million as of December 31, 2010, and is deducted in determining the net reserve discussed above. The asset balance can fluctuate not only with respect to total clean-up and other costs, but also with respect to insurance recoveries and certain tax impacts as measured by a contractual formula using prior-year effective tax rates. Such insurance recoveries and tax impacts are netted against the asset in proportions specified under the indemnity agreement (i.e., they typically decrease its amount). Insurance recoveries, whether by judgment or settlement, are the subjects of ongoing litigation, which is now nearly concluded, and have the effect of reducing the Company's expected receipts under the indemnity, and therefore insurance recoveries are not expected to materially reduce the Company's aggregate expenditures for the Fox River matter. The tax impact within the indemnity calculation is subject to substantial volatility regarding the Company's effective tax rate from year to year, rendering the future tax impacts highly uncertain. When actual payments, net of insurance recoveries and tax impacts, reach the indemnity threshold, the Company expects to commence collection of the related portions of the asset. The Company currently does not expect to achieve the threshold before late 2011 or 2012.

In connection with the Fox River and other matters, through June 30, 2011, NCR has received a combined total of approximately $158 million in connection with settlements reached with its principal insurance carriers; an additional $4 million is expected to be received in the future under the contractual terms of one settlement. Portions of most of these settlements are payable to a law firm that litigated the claims on the Company’s behalf. Some of the settlements cover not only the Fox River, but also other environmental sites. Of the total amount collected to date, $9 million is subject to competing claims by another party, and NCR and the other party have agreed that these funds will be used for Fox River costs and will be shared on an agreed-upon basis (subject to reallocation at a later date). NCR’s agreed-upon share of the $9 million is estimated to be $4 million.

As of June 30, 2011, NCR had reached settlement with all but one of the insurance companies against which it had advanced claims with respect to the Fox River. That remaining company entered into certain stipulations which obviated the need for a trial and caused judgment to be entered against it in the amount of $5 million; an appeal is pending.

In November 2010, the United States Environmental Protection Agency (EPA) issued a "general notice letter" to NCR with respect to the Allied Paper, Inc./Portage Creek/Kalamazoo River Superfund Site (Kalamazoo River Site) in Michigan. Three other parties - International Paper, Mead Corporation, and Consumers Energy - also received general notice letters at or about the same time. The EPA asserts that the site is contaminated by various substances, primarily PCBs as a result of discharges by various paper mills located along the river. The EPA does not claim that the Company made direct discharges into the Kalamazoo River, but indicated that "NCR may be liable under Section 107 of CERCLA ... as an arranger, who by contract or agreement, arranged for the disposal, treatment and/or transportation of hazardous substances at the Site." The EPA stated that it "may issue special notice letters to [NCR] and other PRPs for future RI/FS [remedial investigation / feasibility studies] and RD/RA [remedial design / remedial action] negotiations." The Company disagrees that it may have liability at the Kalamazoo River Site, and will dispute such claims if formally asserted by the EPA.

Also in connection with the Kalamazoo River Site, in December 2010 the Company was sued in Wisconsin federal court by three GP entities in a contribution and cost recovery action for alleged pollution at the site. As of June 30, 2011, there are a total of three defendants in the case. The suit asks that the Company pay a "fair portion" of the GP entities' costs, which are represented as $79 million to date; various removal and remedial actions remain to be performed at the Kalamazoo site. The suit alleges that the Company is liable as an "arranger" under CERCLA and under other theories. The suit does not allege that the Company has made direct discharges into the Kalamazoo River. Substantial litigation over the Kalamazoo River Site took place several years ago in federal courts in Michigan. The Company was not a party to that litigation, and filed a motion to transfer the case to the Michigan federal court; that motion was granted in the quarter ended June 30, 2011, and the Michigan federal court has set the case for trial in February 2013. The Company expects to contest the allegations in the GP suit vigorously.

It is difficult to estimate the future financial impact of environmental laws, including potential liabilities. NCR records environmental provisions when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. Provisions for estimated losses from environmental restoration and remediation are, depending on the site, based primarily on internal and third-party environmental studies (except for the Fox River site, where the estimated costs and natural resource damages are estimated as described above), estimates as to the number and participation level of any other PRPs, the extent of the contamination, estimated amounts for attorney and other fees and the nature of required clean-up and restoration actions. Reserves are adjusted as further information develops or circumstances change. Management expects that the amounts reserved from time to time will be paid out over the period of investigation, negotiation, remediation and restoration for the applicable sites. The amounts provided for environmental matters in NCR’s Condensed Consolidated Financial Statements are the estimated gross undiscounted amounts of such liabilities, without deductions for insurance, third-party indemnity claims or recoveries from the other PRPs, except as qualified in the following sentences. Except for the sharing agreement with API described above with respect to the Fox River site, in those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectibility of such amounts is probable, the amounts are recorded in the Condensed Consolidated Financial Statements. For the Fox River site, as described above, an asset relating to the AT&T and Alcatel-Lucent indemnity is recorded because payment is considered probable and is supported by contractual agreements.

Guarantees and Product Warranties Guarantees associated with NCR's business activities are reviewed for appropriateness and impact to the Company's financial statements. As of June 30, 2011 and December 31, 2010, NCR had no obligations related to such guarantees, and therefore its financial statements do not have any associated liability balance.

NCR provides its customers a standard manufacturer's warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon 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 using pre-established warranty percentages for the respective product classes. From time to time, product design or quality corrections are accomplished through modification programs. When identified, associated costs of labor and parts for such programs are estimated and accrued as part of the warranty reserve.

Table of Contents
NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

The Company recorded the activity related to the warranty reserve for the six months ended June 30 as follows:

In millions	2011	2010
Warranty reserve liability		
Beginning balance as of January 1	$24	$25
Accruals for warranties issued	18	21
Settlements (in cash or in kind)	(22)	(24)
Ending balance as of June 30	$20	$22

In addition, NCR provides its customers with certain indemnification rights. In general, NCR agrees to indemnify the customer if a third party asserts patent or other infringement on the part of its customers for its use of the Company's products subject to certain conditions that are generally standard within the Company's industries. Additionally, on limited occasions the Company will undertake non-contractual indemnification for business reasons. From time to time, NCR also enters into agreements in connection with its acquisition and divestiture activities that include indemnification obligations by the Company. The fair value of these indemnification obligations is not readily determinable due to the conditional nature of the Company's potential obligations and the specific facts and circumstances involved with each particular agreement. The Company has not recorded a liability in connection with these indemnifications, and no current indemnification instance is material to the Company's financial position. Historically, payments made by the Company under these types of agreements have not had a material effect on the Company's condensed consolidated financial condition, results of operations or cash flows.

7. INCOME TAXES

Income tax provisions for interim (quarterly) periods are based on estimated annual income taxes calculated separately from the effect of significant infrequent or unusual items. Income tax represented expense of $8 million for the three months ended June 30, 2011 compared to an expense of $11 million for the three months ended June 30, 2010. The decrease in the income tax expense in the three months ended June 30, 2011 as compared to the prior period was primarily due to net favorable adjustments to uncertain tax positions, partially offset by tax expense attributable to increased pre-tax income over the prior year, the mix of jurisdictions with income and losses, as well as adjustments to increase certain provisions related to the 2010 tax year, which management deemed immaterial. Income tax represented expense of $9 million for the six months ended June 30, 2011 compared to an expense of $10 million for the six months ended June 30, 2010. The decrease in the income tax expense in the six months ended June 30, 2011 as compared to the prior period was primarily due to net favorable adjustments to uncertain tax positions, partially offset by tax expense attributable to increased pre-tax income over the prior year, and the mix of jurisdictions with income and losses.

8. EARNINGS PER SHARE AND SHARE REPURCHASES

Basic earnings per share is calculated by dividing net income or loss attributable to NCR by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic earnings per share, except that the weighted average number of shares outstanding includes the dilution from potential shares added from stock options and unvested restricted stock awards. The holders of unvested restricted stock awards do not have nonforfeitable rights to dividends or dividend equivalents and therefore, such unvested awards do not qualify as participating securities.
The components of basic and diluted earnings per share are as follows:

Table of Contents
NCR Corporation
Notes to Condensed Consolidated Financial Statements (Unaudited)—(Continued)

In millions, except per share amounts	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Amounts attributable to NCR common stockholders:				
Income from continuing operations	$35	$20	$45	$1
(Loss) income from discontinued operations, net of tax	(2)	11	1	11
Net income applicable to common shares	33	31	46	12
Weighted average outstanding shares of common stock	157.8	160.4	158.5	160.1
Dilutive effect of employee stock options and restricted stock	2.9	1.2	2.7	1.2
Common stock and common stock equivalents	160.7	161.6	161.2	161.3
Earnings (loss) per share attributable to NCR common stockholders:				
Basic earnings (loss) per share:				
From continuing operations	$0.22	$0.12	$0.28	$0.01
From discontinued operations	$(0.01)	$0.07	$0.01	$0.06
Net earnings per share (Basic)	$0.21	$0.19	$0.29	$0.07
Diluted earnings (loss) per share:				
From continuing operations	$0.22	$0.12	$0.28	$0.01
From discontinued operations	$(0.01)	$0.07	$0.01	$0.06
Net earnings per share (Diluted)	$0.21	$0.19	$0.29	$0.07

Options to purchase approximately 2.5 million and 6.2 million shares of common stock for the three months ended June 30, 2011 and 2010, respectively, as well as 2.5 million and 6.3 million for the six months ended June 30, 2011 and 2010, respectively, were outstanding but were not included in the diluted share count because the options' exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

For the three months ended June 30, 2011, the Company repurchased approximately 1.8 million shares of its common stock for $35 million. For the six months ended June 30, 2011, the Company repurchased approximately 3.6 million shares of its common stock for $70 million. Upon repurchase, shares are retired. The Company did not repurchase shares during the three and six months ended June 30, 2010.

9. SEGMENT INFORMATION AND CONCENTRATIONS

Effective January 1, 2011, NCR reorganized its businesses and management thereof to a line of business model, changing from the previous functional geographic model. 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 manages and reports its businesses in the following four segments:

- Financial Services - We offer solutions to enable customers in the financial services industry to reduce costs, generate new revenue streams and enhance customer loyalty. These solutions include a comprehensive line of ATM and payment processing hardware and software, and related installation, maintenance and managed and professional services. We also offer a complete line of printer consumables.
- Retail and Hospitality - We offer solutions to customers in the retail and hospitality industries designed to improve selling productivity and checkout processes as well as increase service levels. These solutions primarily include retail-oriented technologies, such as Point of Sale (POS) terminals and bar-code scanners as well as innovative self-service kiosks, such as self-checkout. We also offer installation, maintenance, and managed and professional services and a complete line of printer consumables.
- Entertainment - We offer solutions that are dedicated to providing the consumer the ability to rent or buy movies at their convenience through the use of self-service kiosks which we own and operate. This segment operates primarily

in North America.

- Emerging Industries - We offer maintenance and managed and professional services for third-party computer hardware provided to select manufacturers, primarily in the telecommunications industry, who value and leverage our global service capability. Also included in our Emerging Industries segment are solutions designed to enhance the customer experience which include self-service kiosks to the travel and gaming and healthcare industries, as well as related installation, maintenance, and managed and professional services.

These segments represent components of the Company for which separate financial information is available that is utilized on a

19

regular basis by the chief operating decision maker in assessing segment performance and in allocating the Company's resources. Management evaluates the performance of the segments based on revenue and segment operating income. Assets are not allocated to segments, and thus are not included in the assessment of segment performance, and consequently, we do not disclose total assets by reportable segment.

We have reclassified our prior period segment information to conform to the current period presentation. The accounting policies used to determine the results of the operating segments are the same as those utilized for the consolidated financial statements as a whole. Intersegment sales and transfers are not material.

In recognition of the volatility of the effects of pension expense on our segment results, and to maintain operating focus on business performance, pension expense, as well as other significant, non-recurring items are excluded from the segment operating results utilized by our chief operating decision maker in evaluating segment performance and are separately delineated to reconcile back to total reported income from operations.

The following table presents revenue and operating income by segment:

In millions	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Revenue by segment				
Financial Services	$729	$632	$1,321	$1,205
Retail and Hospitality	449	438	825	796
Entertainment	38	23	75	41
Emerging Industries	96	83	186	163
Consolidated revenue	1,312	1,176	2,407	2,205
Operating income (loss) by segment				
Financial Services	77	75	124	108
Retail and Hospitality	22	15	33	20
Entertainment	(17)	(10)	(32)	(22)
Emerging Industries	19	8	33	25
Subtotal - segment operating income	101	88	158	131
Pension expense	53	50	104	106
Other adjustments[1]	1	7	1	12
Income from operations	$47	$31	$53	$13