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

FORM 10-Q

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

For the quarterly period ended September 30, 1999

Commission File Number 001-00395

NCR CORPORATION
(Exact name of registrant as specified in its charter)

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

1700 South Patterson Blvd.
Dayton, Ohio 45479
(Address of principal executive offices) (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No______

Number of shares of common stock, $.01 par value per share, outstanding as of October 31, 1999 was 96,561,969.

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Part I. Financial Information

Item 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
In millions, except per share amounts

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Revenue | | | | |
| Products | $ 808 | $ 866 | $ 2,325 | $ 2,409 |
| Services | 722 | 689 | 2,110 | 2,029 |
| Total Revenue | 1,530 | 1,555 | 4,435 | 4,438 |
| Operating Expenses | | | | |
| Cost of products | 513 | 562 | 1,485 | 1,594 |
| Cost of services | 554 | 532 | 1,607 | 1,557 |
| Selling, general and administrative expenses | 329 | 341 | 992 | 1,006 |
| Research and development expenses | 82 | 87 | 246 | 259 |
| Total Operating Expenses | 1,478 | 1,522 | 4,330 | 4,416 |
| Income from Operations | 52 | 33 | 105 | 22 |
| Interest expense | (3) | (1) | (8) | (8) |
| Other income, net | 37 | 10 | 68 | 120 |
| Income Before Income Taxes | 86 | 42 | 165 | 134 |
| Income tax expense | 33 | 17 | 63 | 61 |
| Net Income | $ 53 | $ 25 | $ 102 | $ 73 |
| Net Income per Common Share | | | | |
| Basic | $ 0.54 | $ 0.25 | $ 1.04 | $ 0.72 |
| Diluted | $ 0.53 | $ 0.25 | $ 1.00 | $ 0.71 |
| Weighted Average Common Shares Outstanding | | | | |
| Basic | 97.6 | 99.9 | 98.3 | 101.9 |
| Diluted | 101.1 | 100.7 | 102.0 | 102.9 |

See accompanying notes.

CONDENSED CONSOLIDATED BALANCE SHEETS
In millions, except per share amounts

| | September 30 1999 (Unaudited) | December 31 1998 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and short-term investments | $ 595 | $ 514 |
| Accounts receivable, net | 1,291 | 1,556 |
| Inventories | 392 | 384 |
| Other current assets | 157 | 178 |
| Total Current Assets | 2,435 | 2,632 |
| Reworkable service parts, net | 219 | 232 |
| Property, plant and equipment, net | 863 | 872 |
| Other assets | 1,266 | 1,156 |
| Total Assets | $ 4,783 | $4,892 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities | | |
| Short-term borrowings | $ 63 | $ 50 |
| Accounts payable | 321 | 376 |
| Payroll and benefits liabilities | 287 | 303 |
| Customer deposits and deferred service revenue | 364 | 352 |
| Other current liabilities | 603 | 619 |
| Total Current Liabilities | 1,638 | 1,700 |
| Long-term debt | 32 | 33 |
| Pension and indemnity liabilities | 411 | 420 |
| Postretirement and postemployment benefits liabilities | 590 | 655 |
| Other long-term liabilities | 603 | 593 |
| Minority interests | 48 | 44 |
| Total Liabilities | 3,322 | 3,445 |
| Commitments and contingencies | | |
| Stockholders' Equity | | |
| Preferred stock: par value $.01 per share, 100.0 shares authorized, no shares issued or outstanding | - | - |
| Common stock: par value $.01 per share, 500.0 shares authorized; 104.5 and 105.0 shares issued at September 30, 1999 and December 31, 1998, respectively; 96.3 and 98.7 shares outstanding at September 30, 1999 and December 31, 1998, respectively | 1 | 1 |
| Retained earnings and paid-in capital | 1,426 | 1,429 |
| Other | 34 | 17 |
| Total Stockholders' Equity | 1,461 | 1,447 |
| Total Liabilities and Stockholders' Equity | $ 4,783 | $4,892 |

See accompanying notes.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
In millions

| | Nine Months Ended September 30 | |
|---|---|---|
| | 1999 | 1998 |
| Operating Activities | | |
| Net income | $ 102 | $ 73 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 278 | 274 |
| Net gain on sales of assets | (35) | (55) |
| Changes in operating assets and liabilities: | | |
| Receivables | 266 | (6) |
| Inventories | (9) | (56) |
| Current payables | (50) | (43) |
| Deferred revenue and customer deposits | 12 | 53 |
| Timing of disbursements for employee severance and pension | (158) | (153) |
| Other assets and liabilities | (52) | (213) |
| Net Cash Provided by (Used in) Operating Activities | 354 | (126) |
| Investing Activities | | |
| Short-term investments, net | (93) | 150 |
| Expenditures for service parts and property, plant and equipment | (251) | (244) |
| Acquisition of minority interest in subsidiary | - | (271) |
| Proceeds from sales of facilities and other assets | 130 | 268 |
| Other investing activities | (68) | (70) |
| Net Cash Used in Investing Activities | (282) | (167) |
| Financing Activities | | |
| Purchase of Company common stock | (161) | (200) |
| Short-term borrowings, net | 13 | 16 |
| Long-term debt | (1) | (2) |
| Other financing activities | 71 | 44 |
| Net Cash Used in Financing Activities | (78) | (142) |
| Effect of exchange rate changes on cash and cash equivalents | (6) | (8) |
| Decrease in Cash and Cash Equivalents | (12) | (443) |
| Cash and Cash Equivalents at Beginning of Period | 488 | 886 |
| Cash and Cash Equivalents at End of Period | $ 476 | $ 443 |

See accompanying notes.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

## 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by NCR Corporation (NCR or the Company) without audit pursuant to the rules and regulations of the Securities and Exchange Commission and, in the opinion of management, include all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the consolidated results of operations, financial position, and cash flows for each period presented. The consolidated results for interim periods are not necessarily indicative of results to be expected for the full year. These financial statements should be read in conjunction with NCR's 1998 Annual Report to Stockholders, Form 10-K for the year ended December 31, 1998 and Form 10-Q for the quarters ended March 31, 1999 and June 30, 1999.

Certain prior years amounts have been reclassified to conform to the 1999 presentation.

## 2. SUPPLEMENTAL FINANCIAL INFORMATION (in millions)

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| Comprehensive Income | 1999 | 1998 | 1999 | 1998 |
| Net income | $ 53 | $ 25 | $ 102 | $ 73 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Additional minimum pension liability and other | 0 | (1) | 8 | 15 |
| Currency translation adjustments | 54 | 23 | 9 | (18) |
| Total comprehensive income | $ 107 | $ 47 | $ 119 | $ 70 |

| | September 30 1999 | December 31 1998 |
|---|---|---|
| Cash and Short-Term Investments | | |
| Cash and cash equivalents | $ 476 | $ 488 |
| Short-term investments | 119 | 26 |
| Total cash and short-term investments | $ 595 | $ 514 |
| Inventories | | |
| Finished goods | $ 326 | $ 324 |
| Work in process and raw materials | 66 | 60 |
| Total inventories | $ 392 | $ 384 |

## 3. SEGMENT INFORMATION

NCR assesses performance and allocates resources based principally on the customers served and the industries in which such customers operate. Accordingly, NCR categorizes its operations into four strategic segments: Retail, Financial, National Accounts and Systemedia.

The following tables present data for revenue and operating income by industry operating segments (in millions):

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Revenue | | | | |
| Retail | $ 396 | $ 348 | $ 1,127 | $ 970 |
| Financial | 623 | 697 | 1,828 | 1,953 |
| National Accounts | 383 | 359 | 1,064 | 1,032 |
| Systemedia | 120 | 120 | 352 | 358 |
| All other segments | 8 | 31 | 64 | 125 |
| Consolidated revenue | $ 1,530 | $ 1,555 | $ 4,435 | $ 4,438 |

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|---|---|---|---|---|
| | 1999 | 1998 | 1999 | 1998 |
| Operating Income | | | | |
| Retail | $ 35 | $ 3 | $ 90 | $ 0 |
| Financial | 64 | 65 | 174 | 158 |
| National Accounts | 39 | 4 | 83 | 14 |
| Systemedia | 8 | 7 | 25 | 26 |
| Unallocated corporate expenses and other segments | (94) | (46) | (267) | (176) |
| Consolidated operating income | $ 52 | $ 33 | $ 105 | $ 22 |

## 4. CONTINGENCIES

In the normal course of business, NCR is subject to various regulations, proceedings, lawsuits, claims and other matters, including actions under laws and regulations related to the environment and health and safety, among others. NCR believes the amounts provided in its consolidated financial statements, as prescribed by generally accepted accounting principles, are adequate in light of the probable and estimable liabilities. However, there can be no assurances that the actual amounts required to discharge alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including the Fox River matter discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR's consolidated financial statements or will not have a material adverse effect on its consolidated results of operations, financial condition or cash flows. Any amounts of costs that may be incurred in excess of those amounts provided as of September 30, 1999 cannot currently be determined.

### Environmental Matters

NCR's facilities and operations are subject to a wide range of environmental protection laws and 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. NCR has been identified, either by a government agency or by a private party seeking contribution to site cleanup costs, as a potentially responsible party (PRP) at a number of sites pursuant to various state and federal laws, including the Federal Water Pollution Control Act (FWPCA) and comparable state statutes, and the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended (CERCLA), and comparable state statutes.

Various federal agencies, Native American tribes and the State of Wisconsin ("Claimants") consider NCR to be a PRP under the FWPCA and CERCLA for alleged natural resource damages ("NRD") and remediation liability with respect to the Fox River and related Green Bay environment ("Fox River System") due to, among other things, sediment contamination in the Fox River System allegedly resulting in part from NCR's former carbonless paper manufacturing in Wisconsin. Claimants have also notified a number of other paper manufacturing companies of their status as PRPs resulting from their ongoing or former paper manufacturing operations in the Fox River Valley, and Claimants have entered into a Memorandum of Agreement among themselves to coordinate their actions, including the assertion of claims against the PRPs. Additionally, the federal NRD Claimants have notified NCR and the other PRPs of their intent to commence a NRD lawsuit, but have not as yet instituted litigation. In addition, one of the Claimants, the United States Environmental Protection Agency ("USEPA"), has formally proposed the Fox River for inclusion on the CERCLA National Priorities List. In February 1999, the State of Wisconsin made available for public review a draft remedial investigation and feasibility study ("RI/FS"), which outlines a variety of alternatives for addressing the Fox River sediments. While the draft RI/FS did not advocate any specific alternative or combination of alternatives, the estimated total costs provided in the draft RI/FS ranged from $0 for no action (which appears to be an unlikely choice) to between $143 and $721 million depending on the alternative selected. NCR, in conjunction with the other PRPs, has developed a substantial body of evidence which it believes should demonstrate that selection of alternatives involving river-wide restoration/remediation, particularly massive dredging, would be inappropriate and unnecessary. However, because there is ongoing debate within the scientific, regulatory, legal, public policy and legislative communities over how to manage properly large areas of contaminated sediments, NCR believes there is a high degree of uncertainty about the appropriate scope of alternatives that may ultimately be required by the Claimants. An accurate estimate of NCR's ultimate share of restoration/remediation and damages liability cannot be made at this time due to uncertainties with respect to: the scope and cost of the potential alternatives; the outcome of the federal and state NRD assessments; the amount of NCR's share of such restoration/remediation expenses; the timing of any restoration/remediation; the evolving nature of restoration/remediation technologies and governmental policies; the contributions from other parties; and the recoveries from insurance carriers and other indemnitors. NCR believes the other currently named PRPs would be required and able to pay substantial shares toward restoration and remediation, and that there are additional parties, some of which have substantial resources, that may also be liable. Further, in 1978 NCR sold the business to which the claims apply, and NCR and the buyer have reached an interim settlement agreement under which the parties are sharing both defense and liability costs.

It is difficult to estimate the future financial impact of environmental laws, including potential liabilities. NCR accrues 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, estimates as to the number and participation level of any other PRPs, the extent of the contamination, and the nature of required remedial and restoration actions. Accruals are adjusted as further information develops or circumstances change. Management expects that the amounts accrued from time to time will be paid out over the period of investigation, negotiation, remediation and restoration for the applicable sites, which may as to the Fox River site be 10 to 20 years or more. The amounts provided for environmental matters in NCR's consolidated financial statements are the estimated gross undiscounted amount of such liabilities, without deductions for insurance or third-party indemnity claims. Except for the sharing arrangement described above with respect to the Fox River, 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 reflected as receivables in the consolidated financial statements.

Legal Proceedings

NCR was named as one of the defendants in a purported class-action suit filed in November 1996 in Florida alleging liability based on state antitrust and common-law claims of unlawful restraints of trade, monopolization, and unfair business practices related to a purported agreement between Siemens-Nixdorf and NCR. In January 1999, NCR agreed to settle this suit with plaintiffs for an undisclosed and non-material amount. This settlement is expected to be approved by the court in the near future.

5. STOCK REPURCHASE PROGRAM

As of September 30, 1999, the Company has committed $176 million of $250 million authorized for share repurchases. As a result of the reverse/forward stock split initiative, approximately 2.4 million shares were repurchased at a cost of $42.30 per share. In the second and third quarters of 1999 an additional 1.9 million shares were repurchased on the open market, at an average cost of $39.09 per share. Both of these stock repurchase programs are pursuant to the share repurchase program authorized by the Board of Directors on April 15, 1999.

On October 21, 1999, NCR's Board of Directors approved an additional share repurchase program of $250 million. NCR expects to implement the program through open market or through privately negotiated transactions on an on-going basis.

6. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing net income by the weighted average number of shares outstanding during the reported period. The calculation of diluted earnings per share is similar to basic, except that the weighted average number of shares outstanding include the additional dilution from potential common stock such as stock options and restricted stock awards.

7. RESTRUCTURING

On October 21, 1999, the Company's Board of Directors approved a restructuring program to accelerate the transformation of the Company from a computer hardware and product company, to a technology solutions and service provider. The changes will lead to an alignment around three key solutions, elimination of approximately 1,500 positions, and an enhanced leverage of the investment in the Data Warehousing offering. The three key solutions are Data Warehousing, Financial Self Service, and Retail Store Automation. Restructuring and other related non-recurring charges in the range of $200-$250 million pre-tax are expected to be recorded in the fourth quarter of 1999.

8. SALE OF PROPERTY

On October 26, 1999, the Company sold its land and office building located in Akasaka, Japan. A pre-tax gain of approximately $70 million will be recognized in the fourth quarter of 1999.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Three Months Ended September 30, 1999 Compared to Three Months Ended September 30, 1998

### Results of Operations

Revenue: Revenue for the three months ended September 30, 1999 was $1,530 million, down 2% from the third quarter of 1998. Foreign currency exchange rates had no material impact on revenue compared with the third quarter of 1998.

Revenue gains in the quarter compared to prior year occurred in the Retail and National Accounts industries at 14% and 7% respectively. These gains were offset by declines in the Financial and Other industries of 11% and 74% respectively. Downward pressure on revenue is expected in the fourth quarter of 1999 compared to the fourth quarter of 1998 within the Retail, Financial and National Accounts industries due to the planned decline in commodity hardware and information technology buying trends associated with Year 2000 issues. Systemedia industry revenue remained flat compared to the third quarter of 1998.

Revenue in the third quarter of 1999 compared with the third quarter of 1998 increased 23% in the Asia Pacific region, excluding Japan, with a decrease of 7% in Japan, 2% in Europe/Middle East/Africa and 4% in the Americas. The revenue declines experienced in Japan reflect market challenges in that area as well as NCR's decision to exit the Super ATM business in Japan. NCR continues to take steps to strengthen its operations in Japan including changes in management, and expects continuing improvements in future operating results. When adjusted for the impact of changes in foreign currency exchange rates, revenue on a local currency basis increased 1% in Europe/Middle East/Africa, 18% in the Asia Pacific region, excluding Japan, and decreased 26% in Japan. The Americas region comprised 54% of NCR's total revenue in the third quarter of 1999, Europe/Middle East/Africa region comprised 30%, Japan comprised 8% and the Asia Pacific region, excluding Japan, comprised 8%.

Gross Margin and Operating Expenses: Gross margin as a percentage of revenue increased 0.7 percentage points to 30.3% in the third quarter of 1999 from 29.6% in the third quarter of 1998. Products gross margin increased 1.4 percentage points to 36.5% in the third quarter of 1999. This increase is attributable to improved product mix and margin rate improvement in most product lines. Services gross margin increased 0.5 percentage points to 23.3% in the third quarter of 1999.

Selling, general and administrative expenses decreased $12 million, or 4%, in the third quarter of 1999 from the third quarter of 1998. As a percentage of revenue, selling, general and administrative expenses were 21.5% in the third quarter of 1999 and 21.9% in the third quarter of 1998. This decrease is due to continued focus on expense reduction. Research and development expenses decreased $5 million to $82 million in the third quarter of 1999. As a percentage of revenue, research and development expenses were 5.4% in the third quarter of 1999 versus 5.6% in the third quarter of 1998. The third quarter research and development expenses continue to reflect the changing revenue base, and the investment continues to move toward software and solutions development efforts, with less emphasis on hardware, operating systems and middleware.

Income Before Income Taxes: NCR reported operating income of $52 million in the third quarter of 1999 compared to operating income of $33 million in the third quarter of 1998. Other income, net of expenses, was $34 million in the third quarter of 1999 compared to $9 million in the third quarter of 1998. Other income in 1999 includes approximately $28 million of gains on the sales of facilities. Income before income taxes was $86 million in the third quarter of 1999 compared to $42 million in the third quarter of 1998.

Provision for Income Taxes: Income tax provisions for interim periods are based on estimated annual income tax rates. The provision for income taxes was $33 million in the third quarter of 1999 compared to $17 million in the third quarter of 1998. The third quarter 1999 tax provision compared to the 1998 period reflects a return to more normalized tax rate levels. The normalization of tax rates is primarily due to improved profitability in certain tax jurisdictions, mainly the United States.

Nine Months Ended September 30, 1999 Compared to Nine Months Ended September 30, 1998

Results of Operations

Revenue: Revenue for the nine months ended September 30, 1999 was $4,435 million which was flat compared to the first nine months of 1998. When adjusted for the impact of changes in currency exchange rates, revenue decreased 1%.

Revenue gains occurred in the first nine months of 1999 compared to prior year in Retail and National Accounts industries of 16% and 3% respectively. These gains were entirely offset by declines in Financial industry of 6%, Systemedia of 2% and Other industry of 49%.

Revenue in the first nine months of 1999 compared with the first nine months of 1998 increased 1% in the Americas, 16% in the Asia Pacific region, excluding Japan, and remained flat in Europe/Middle East/Africa. Revenue in the same period decreased 13% in Japan. The revenue declines experienced in Japan reflect market challenges in that area as well as NCR's decision to exit the Super ATM business in Japan. When adjusted for the impact of changes in foreign currency exchange rates, revenue on a local currency basis increased 2% in Europe/Middle East/Africa, 14% in the Asia Pacific region, excluding Japan, and decreased 25% in Japan. The Americas region comprised 53% of NCR's total revenue in the first nine months of 1999, Europe/Middle East/Africa region comprised 31%, Japan comprised 9% and the Asia Pacific region, excluding Japan, comprised 7%.

Gross Margin and Operating Expenses: Gross margin as a percentage of revenue increased 1.3 percentage points to 30.3% in the first nine months of 1999 from 29.0% in the same period of 1998. Products gross margin increased 2.3 points to 36.1% in the first nine months of 1999. This increase is attributable to improved product mix and margin rate improvement in most product lines. Services gross margin increased 0.5 points to 23.8% in the first nine months of 1999 due primarily to improvements in customer support and professional services margins.

Selling, general and administrative expenses decreased $14 million in the first nine months of 1999 from the first nine months of 1998. As a percentage of revenue, selling, general and administrative expenses were 22.4% in the first nine months of 1999 and 22.7% in the first nine months of 1998. This decrease is due to continued focus on expense reduction. Research and development expenses decreased $13 million to $246 million in the first nine months of 1999. As a percentage of revenue, research and development expenses were 5.5% in the first nine months of 1999 versus 5.8% in the first nine months of 1998. The trend in research and development expenses continues to reflect the changing revenue base, and the investment continues to move toward software and solutions development efforts, with less emphasis on hardware, operating systems and middleware.

Income Before Income Taxes: NCR reported operating income of $105 million in the first nine months of 1999 compared to an operating income of $22 million in the same period of 1998. Other income, net of expenses, was $60 million in the first nine months of 1999 compared to $112 million in the first nine months of 1998. Other income in 1999 includes gains of approximately $39 million on the sales of facilities. Other income in 1998 includes a non-recurring gain of $55 million on the sale of TOPEND to BEA Systems, Inc (BEA). Income before income taxes was $165 million in the first nine months of 1999 compared to $134 million in the same period of 1998.

Provision for Income Taxes: Income tax provisions for interim periods are based on estimated annual income tax rates. The provision for income taxes was $63 million in the first nine months of 1999 compared to $61 million in the first nine months of 1998. The first nine months 1999 tax provision compared to the 1998 periods primarily reflects a return to more normalized tax rate levels. The normalization of tax rates is primarily due to improved profitability in certain tax jurisdictions, mainly the United States.

## Financial Condition, Liquidity, and Capital Resources

NCR's cash, cash equivalents, and short-term investments totaled $595 million at September 30, 1999, compared to $514 million at December 31, 1998.

Operating Activities: NCR generated cash flows from operations of $354 million in the first nine months of 1999 while net cash flows used in operations were $126 million in the first nine months of 1998. The cash generated in operations in the first nine months of 1999 was driven primarily by improved asset management. Receivable balances decreased $266 million in the first nine months of 1999 compared to an increase of $6 million in the same period in 1998. The improvement in 1999 reflects a strong focus on collections. Inventory balances increased $9 million in the first nine months of 1999 compared to an increase of $56 million in the first nine months of 1998. 1998 operating activities included a $55 million gain in the sale of TOPEND to BEA.

Investing Activities: Net cash flows used in investing activities were $282 million in the first nine months of 1999 and $167 million in the same period of 1998. In 1999, NCR purchased short-term investments of $93 million compared with an investment reduction of $150 million in 1998. The increase in 1999 reflects the improvement in operating results. Capital expenditures were $251 million for the first nine months of 1999 and $244 million for the comparable period in 1998. Capital expenditures generally relate to expenditures for reworkable parts used to service customer equipment, expenditures for equipment and facilities used in manufacturing and research and development, and expenditures for facilities to support sales and marketing activities. 1998 proceeds from the sale of facilities and other assets includes the sale of NCR's TOP END middleware technology to BEA and the sale of NCR's retail and computer systems manufacturing operations to Solectron Corp. ("Solectron").

Financing Activities: Net cash used in financing activities was $78 million in the first nine months of 1999 compared to $142 million used in the first nine months of 1998. As of September 30, 1999, $161 million of cash was used in the repurchase of Company stock pursuant to the share repurchase program included in Note 5 of the Notes to Consolidated Financial Statements; $200 million of cash was used in the same period of 1998 to repurchase Company stock. In the first nine months of 1999, NCR reported cash flows of $71 million from other financing activities compared to $44 million in the same period of 1998. Other financing cash flows primarily relate to share activity under NCR's employee stock purchase plan.

NCR believes that cash flows from operations, the credit facility, and other short- and long-term financings, if any, will be sufficient to satisfy its future working capital, research and development, capital expenditure, and other financing requirements for the foreseeable future.

## Factors That May Affect Future Results

### Year 2000

Please note that the following is a Year 2000 Readiness Disclosure, as that term is defined in the Year 2000 Information and Readiness Disclosure Act (105 P.L.271).

Year 2000 issues concern the inability of certain computerized information systems to properly process date-sensitive information as the year 2000 approaches. Systems that do not process such information may require modification or replacement prior to the year 2000. NCR accords a significant priority to Year 2000 issues, and in early 1996 established a task force to coordinate its global efforts to develop and implement its plans to address such issues.

NCR's Year 2000 plans include, without limitation: (1) replacing or upgrading NCR's affected internal information technology (IT) systems and non-IT systems (those which include embedded microprocessors such as security systems or factory production equipment), (2) developing Year 2000 Qualified products as part of its offerings to customers, (3) designating products that will not be rendered Year 2000 Qualified, (4) making Year 2000 upgrades available for certain products and (5) identifying options for customers to migrate from non-Qualified products to Year 2000 Qualified products. "Year 2000 Qualification" means that a particular NCR product has been reviewed to confirm that it stores, processes (including sorting and performing mathematical operations), inputs and outputs data containing date information correctly, regardless of whether the data contains dates before, on, or after January 1, 2000. NCR products that do not perform date manipulation, and that do not alter any date information that flows through them, are also considered Year 2000 Qualified. NCR's Year 2000 Qualification Requirements Definition also sets forth a series of operating conditions that a product must satisfy to be designated Qualified or Qualified With Comment. Since 1997, NCR has acquired a number of corporate entities. Some of these acquired companies employed Year 2000 readiness definitions applicable to their products or services that differed from NCR's Qualification concept, but which NCR considered acceptable. Such products continue to be available for sale, although not under NCR's Qualified designation.

State of Readiness: In assessing the Year 2000 readiness of its products, IT systems and non-IT systems, the Company employs a process consisting of five phases: (1) inventory; (2) assessment; (3) remediation; (4) testing; and (5) deployment (including making Year 2000 Qualified products available to customers and, for the Company's internal systems, replacing or modifying designated IT and non-IT systems).

The Company has completed inventory, assessment, remediation and testing of all of the products it presently develops and provides to customers. Installation of Year 2000 Qualified products at customer sites is largely dependent upon, among other things, the customers' schedules, the availability of personnel for installations and the presence or absence of Year 2000 plans on the customers' part. NCR has encouraged its customers to plan their installations of Year 2000 Qualified products or upgrades well before the end of 1999, to prevent strains on NCR's ability to supply any necessary installation services and to allow customers time for full system testing. Nonetheless, some installations are occurring or are scheduled to occur in the closing months of 1999 and there can be no certainty that all such installations will be timely completed, particularly those made very close to the occurrence of the Year 2000, due to excessive demands for qualified personnel to provide them. NCR has designated the Year 2000 Qualification status of several thousand of its current and former products, and has made that directly available to past and present customers through links on its Year 2000 website. Through that website, direct contacts to customers with formal account teams assigned to them, its "800" call center, mailings to customers, and other means, NCR has sought to convey information on the status of its products, to advise on the availability or discontinuation of maintenance services for older products, and to provide information on upgrades or migration paths. There can be no assurance, however, that all owners of NCR products, particularly if they are not current maintenance customers, or otherwise have no current NCR relationship, can be identified or contacted.

The Company previously offered highly specialized products specifically targeted for niche markets, often unique to a single country ("local products"). The Company has completed its assessment of these local products, typically sold prior to 1995 under the Company's previous business model, and has determined that the majority of them are not Year 2000 Qualified. Where practical, NCR is communicating with purchasers of these products and is offering to assist them in identifying replacement NCR products, if available.

The Company has completed its inventory, assessment, remediation and testing of the Year 2000 issues associated with its critical global IT systems (e.g., manufacturing, financial management, incident management, payroll and statutory, and order processing systems). As of October 10, 1999, deployment (including retirement of legacy systems) was complete for all of these critical IT systems, which are supported by the Company's Information Technology Services group. The Company has also completed its inventory, assessment, remediation and testing of Year 2000 issues associated with its non-critical global internal information systems supported by the Information Technology Services group, and deployment (including retirement of legacy systems) was complete for approximately 99% of such systems as of October 10, 1999. Other, typically localized IT systems, applications or tools are directly supported by various business units of the Company around the world; most of these are categorized as non-critical to the locations and business units that utilize them, and none are categorized as critical to the Company and its subsidiaries taken as a whole. The Company's Year 2000 analysis and related deployment for these systems, applications and tools was substantially complete at the end of the third quarter of 1999, with the remainder of such activities expected to be completed in the fourth quarter of 1999. In addition, the Company has completed its inventory and assessment of the Year 2000 issues associated with its non-IT systems, including telecommunication equipment, security systems and embedded microprocessors, at its manufacturing, distribution and office facilities around the world. The Company did not identify any significant business impact as a result of Year 2000 issues in connection with such systems.

NCR has requested information from substantially all of its key suppliers concerning their Year 2000 readiness to assess the suppliers' ability to continue to deliver products and services to NCR, as well as the Year 2000 readiness of those products and services themselves. Suppliers are categorized as critical (meaning their failure to deliver products or services could have a critical impact on some phase or phases of NCR's business) or non-critical (typically designating a supplier that is NCR's primary source of a significant product or service, but for which one or more alternate sources also exist). At this time, approximately 235 and 525 suppliers are identified in those respective categories (other suppliers, such as those utilized on a spot basis, in very low volume, or for generic commodity purchases not critical to the Company's business, are

excluded). NCR has conducted reviews and completed its initial assessment of its critical suppliers in accordance with its Year 2000 Qualification guidelines. All of the critical suppliers that the Company has assessed either have completed their Year 2000 internal compliance activities or have presented plans or statements that, at present, meet NCR's expectations. NCR will continue to monitor these suppliers and expects to be prepared to implement prepared contingency plans should the Company determine that any of its critical suppliers will not complete their plans on schedule. In addition, NCR continues to assess its non-critical suppliers. NCR has completed its assessment of all of its non-critical suppliers and continues to evaluate new suppliers for Year 2000 readiness.

NCR's assessment of its suppliers is dependent upon its ability to obtain accurate and complete information from them, and on their willingness to provide such information. Moreover, there can be no assurances that all of NCR's suppliers, including its critical suppliers, will be able to effectively achieve Year 2000 readiness. NCR has developed contingency plans to address such situations with respect to both its critical and non-critical suppliers. The Company relies on Solectron to provide essential hardware components of NCR's product offerings. Any major Year 2000 failures by Solectron or any other critical suppliers could materially and adversely impact the Company. Because of Solectron's particular significance to the Company's manufacturing operations, NCR has conducted multiple on-site reviews of Solectron's facilities to ascertain the status of those facilities' Year 2000 readiness. No material Year 2000 issues have been identified in those reviews. Solectron facilities, including all those utilized by NCR, were also subject to an external audit for Year 2000 readiness arranged for by Solectron.

NCR believes that no single customer represents so significant a portion of the Company's revenues that failure on the part of such a customer to plan effectively for Year 2000 would materially impact NCR's consolidated results of operations, financial condition or cash flows. In addition, NCR believes that the diversity of its customer base should minimize the potential financial impact of such an event. Some commentators have predicted that information technology buying trends could be reduced due to Year 2000 issues. While some NCR customers have postponed or have indicated that they may postpone purchasing decisions in order to stabilize their information technology systems to facilitate Year 2000 testing and readiness, others have indicated that Year 2000 readiness should not affect the timing of their purchases, and some have made new purchases to enhance their Year 2000 readiness. The impact of such buying patterns on NCR's financial results is difficult to quantify, but NCR expects that an increase in the number of customers having elected to stabilize their systems until the year 2000 may have an adverse effect on the Company's revenue, consolidated results of operations, financial condition or cash flows in the fourth quarter of 1999.

Costs to Address Year 2000 Issues: Due to a number of factors, it is difficult to calculate the total cost of addressing the Company's Year 2000 issues with precision. These factors include, without limitation, the large number of NCR employees and contractors devoting a portion of their time and efforts to Year 2000 issues, and the inability to separately identify Year 2000 costs due to the concurrent remediation of both Year 2000 and non-Year 2000 issues associated with NCR's products, IT systems and non-IT systems. The Company estimates the total cost to address its Year 2000 issues, including costs already incurred in 1997 and 1998, to be approximately $205 million. These costs include (1) in connection with the products offered by the Company, personnel expenses, product upgrades, and other modifications, including the replacement of legacy systems, and (2) in connection with the Company's infrastructure, the internal IT and non-IT systems being addressed in the Company's Year 2000 plans as discussed above. Approximately $85 million of such total costs were incurred in fiscal 1998; the Company estimates it incurred approximately $20 million of such costs in 1997. NCR intends to capitalize or expense its Year 2000 costs as required by generally accepted accounting principles. In addition, the Company expects to fund these costs through operating cash flows. Because these Year 2000 costs will be funded through a reallocation of NCR's overall research and development, information technology and administrative spending, Year 2000 costs are not expected to result in significant increases in such expenditures. These cost estimates do not include potential increased service, customer satisfaction, warranty or litigation costs that may arise from Year 2000 issues affecting the Company's products or from unanticipated failures of the Company's IT and non-IT systems, nor do they include any increased costs, such as those associated with execution of contingency plans, that may result from supplier or customer disruptions related to a lack of readiness for Year 2000 issues. Although NCR believes its cost estimates are reasonable, there can be no assurance, for the reasons stated below, that the costs of implementing the Company's Year 2000 plans will not differ materially from its estimates.

Risks of Year 2000 Issues: Year 2000 problems can be difficult to identify or predict for a number of reasons. These include, among others, the complexity of testing (whether by NCR or by a customer) inter-connected products, operating environments, networks and applications, including those developed and/or sold by third parties; the difficulty of simulating and testing for all possible variables and outcomes associated with critical dates in 1999 and 2000; and the reliability of test results obtained in a laboratory environment against actual occurrences in a live production environment. As a result of such difficulties and the risks described below, there can be no assurances that Year 2000 issues will not materially adversely impact NCR's consolidated results of operations, financial condition or cash flows.

Despite the Company's substantive Year 2000 plans and efforts, the Company could face significant risks associated with its business-critical operations, including, without limitation, the possible malfunction of NCR's IT and non-IT systems due to unidentified components or applications, undetected errors or defects, and the potential impacts of Year 2000 difficulties experienced by third parties (e.g., suppliers, customers, resellers and distributors, utilities, governmental units and financial institutions). In particular, risks associated with non-U.S. third parties may be greater than those located domestically, as it is widely reported that many non-U.S. businesses and governments are not addressing their Year 2000 issues on a timely basis.

In addition, despite the Company's Year 2000 Qualification and testing processes, NCR could face significant Year 2000 risks as a vendor of technology products and services. Such risks include, but are not limited to, the following uncertainties: NCR's products, including those of companies it has recently acquired, may contain undetected errors or defects associated with Year 2000 issues; NCR may be unable to identify and notify affected customers of local or other products that are not Year 2000 Qualified; installation schedules of Year 2000 Qualified products may be delayed; and demand for installation services may exceed the ability of NCR and other service providers to meet that demand (as noted above, there are customers who are still implementing their upgrades in the closing months of 1999, and some may be unable to achieve their schedules). In addition, NCR has provided a range of services, including software code development, as contracted and specified by its customers. Typically, such services and products have been accepted by the customers and warranties for them have expired; however, there is some risk that customers will claim that NCR bears responsibility for Year 2000 issues involving their systems. The Company also has provided Year 2000 code remediation services to a small number of its customers. Some commentators have noted that the complexity of identifying and testing Year 2000 issues in connection with such services raises prospects of liability. NCR's contractual arrangements typically contain limited warranties and limitations on liability, but there can be no assurance that these limitations will be upheld in all instances. Any of these or other unforeseen Year 2000 risks could increase service, customer satisfaction, warranty and litigation costs. While no litigation has been initiated against NCR in connection with Year 2000 issues, suits have been brought against other technology vendors and such claims may be advanced against NCR in the future.

The anticipated costs and risks described above are based on management's best estimates using information currently available and numerous assumptions of future events. There can be no assurances that these estimates will not change or that there will not be delays in implementing the Company's Year 2000 plans. In addition, the continued availability of personnel to address Year 2000 issues cannot be assured, which could result in increased costs or delays in implementing NCR's Year 2000 plans.

Contingency Plans: NCR believes it has developed effective Year 2000 plans for the critical areas of its business. However, the Company recognizes that it is not possible to identify and test all potential variables and outcomes relative to Year 2000 issues. Accordingly, the Company has developed over 400 business continuity and contingency plans (BCCPs) for its critical processes. NCR's BCCPs address, among other things, the potential for Year 2000 failures of third parties, including suppliers. BCCPs have also been developed for such areas as customer support services, services delivery, order management, help desks, incident-based services, manufacturing systems, accounting and payroll, networks and processing centers. These plans were completed in the second quarter of 1999. As of the end of the third quarter of 1999, the Company has developed and updated, as the case may be, complementary disaster recovery plans for its 89 identified critical facilities. Disaster recovery plans are not limited to Year 2000 concerns, and address potential failures of utilities or building services, as well as occurrences such as floods and fires. Both the BCCPs and the disaster recovery plans are expected to be adjusted and coordinated in the fourth quarter of 1999 as information and circumstances change.

## Environmental

The Company has been identified as a potentially responsible party in connection with the Fox River matter as further described in "Environmental Matters" under Note 4 of the Notes to Consolidated Financial Statements on page 7 of this quarterly report and such discussion is incorporated in this Item 2 by reference and made a part hereof.

## Restructuring

On October 21, 1999, the Company's Board of Directors approved a restructuring program to accelerate the transformation of the Company from a computer hardware and product company, to a technology solutions and service provider. The changes will lead to an alignment around three key solutions, elimination of approximately 1,500 positions, and an enhanced leverage of the investment in the Data Warehousing offering. The three key solutions are Data Warehousing, Financial Self Service, and Retail Store Automation. Restructuring and other related non-recurring charges in the range of $200-$250 million pre-tax are expected to be recorded in the fourth quarter of 1999. The Company anticipates annual savings of approximately $75 million as a result of the restructuring, beginning in 2000, although there are no assurances that this level of savings will be achieved.

## Forward Looking Statements

This Management's Discussion and Analysis of Financial Condition and Results of Operations, and other sections of this Form 10-Q contain forward-looking statements that are based on current expectations, estimates and projections about the industry in which the Company operates, management's beliefs and assumptions made by management. Any Form 10-K, Annual Report to Shareholders, Form 10-Q or Form 8-K of the Company may include forward-looking statements. In addition, other written or oral statements, which constitute forward-looking statements, may be made by or on behalf of the Company. Words such as "expects," "anticipates," "intends," "plans," "believes," "seeks," "estimates," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("Factors"), which are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or forecasted in such forward-looking statements. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Factors include price and product/services competition by foreign and domestic competitors, including new entrants; the Company's ability to identify, complete and successfully integrate other businesses through mergers, acquisitions, joint ventures and other business combinations; the ability to identify and expand into new and emerging markets; the ability to continue to introduce competitive new products, services and solutions on a timely, cost effective basis; the ability to achieve and improve profitable gross margins through, among other things, a competitive mix of products/services; the achievement of lower costs and expenses; the pace of market growth for the Company's offerings, such as data warehousing; the effectiveness of the Company's new advertising campaign; the Company's ability to execute its strategies for its offerings in various markets, including e-commerce and other new industries beyond its traditional focus; the Company's ability to exit certain of its businesses as planned and its ability to execute the new restructuring of its businesses into Data Warehousing, Financial Self Service and Retail Store Automation; management changes in Japan; protection and validity of patent and other intellectual property rights; reliance on third party and single source or exclusive suppliers, such as Solectron; reliance on alliances with companies that provide products and services that are integrated into NCR's solution offerings; the seasonal nature of the Company's business; risks of operating abroad; and the outcome of pending and future litigation and governmental proceedings, including those related to the environment, health and safety. These foregoing are representative, but do not constitute a complete list, of the Factors that could affect the outcome of the forward-looking statements. In addition, such statements could be affected by general industry and market conditions and growth rates, NCR's performance in these markets, retention of personnel, general domestic and international political or economic conditions, including interest rate and currency exchange rate fluctuations, Euro changeover and other Factors.

For a further description of Factors that could cause actual results to differ materially from such forward-looking statements, see Footnote 4 of the Notes to Consolidated Financial Statements in Item 1 hereof, Item 3 Quantitative and Qualitative Disclosure About Market Risk, the discussion above captioned Year 2000 and also see the discussion of such Factors in Form 10-Q for the quarters ended March 31, 1999 and June 30, 1999, the Company's Form 10-K for the Fiscal Year ended December 31, 1998 and in the Company's other securities filings.

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

NCR is exposed to market risk, including changes in foreign currency exchange rates and interest rates. NCR uses a variety of measures to monitor and manage these risks, including derivative financial instruments. Because a substantial portion of NCR's operations and revenue occur outside the United States, NCR's results can be significantly impacted by changes in foreign currency exchange rates. To manage the exposures to changes in currency exchange rates, NCR enters into various derivative financial instruments such as forward contracts, swaps and options. These instruments generally mature within twelve months. At inception, the derivative instruments are designated as hedges of inventory purchases and sales and certain financing transactions that are firmly committed or forecasted. Gains and losses on qualifying hedged transactions are deferred and recognized in the determination of income when the underlying transactions are realized, canceled or otherwise terminated. When hedging certain foreign currency transactions of a long-term investment nature, gains and losses are recorded in the currency translation adjustment component of stockholders' equity. Gains and losses on other foreign exchange contracts are generally recognized currently in other income or expense as exchange rates change. NCR does not hold or enter into derivative financial instruments for trading purposes.

For purposes of specific risk analysis, NCR uses sensitivity analysis to determine the impacts that market risk exposures may have on the fair values of the Company's hedge portfolio. The foreign currency exchange risk is computed based on the market value of future cash flows as impacted by the changes in the rates attributable to the market risk being measured. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the opposite gain or loss on the underlying transaction. A 10% strengthening of the U.S. Dollar from levels present at September 30, 1999 results in a decrease of 4 million U.S. Dollars to the current fair value of derivatives protecting anticipated exposures. A 10% weakening in U.S. Dollar exchange rates would increase the same fair value of derivatives by 20 million U.S. Dollars.

The interest rate risk associated with NCR's borrowing and investing activities at September 30, 1999 is not material in relation to NCR's consolidated financial position, results of operations or cash flows. NCR does not generally use derivative financial instruments to alter the interest rate characteristics of its investment holdings or debt instruments.

## Part II. Other Information

### ITEM 1. LEGAL PROCEEDINGS

The information required by this item is included in the material under Note 4 of the Notes to Consolidated Financial Statements on page 8 of this quarterly report and is incorporated in this Item 1 as by reference and made a part hereof.

### ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3.1 Articles of Amendment and Restatement and Articles Supplementary of NCR Corporation, as amended May 14, 1999 (incorporated by reference to Exhibit 3.1 to the NCR Corporation Form 10-Q for the period ended June 30, 1999).

3.2 Bylaws of NCR Corporation, as amended and restated on February 19, 1998 (incorporated by reference to Exhibit 3.2 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1997).

4.1 Common Stock Certificate of NCR Corporation (incorporated by reference to Exhibit 4.1 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1996).

4.2 Preferred Share Purchase Rights Plan of NCR Corporation, dated as of December 31, 1996, by and between NCR Corporation and The First National Bank of Boston (incorporated by reference to Exhibit 4.2 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1996).

27 Financial Data Schedule.

(b) Reports on Form 8-K

No reports filed on Form 8-K for the quarter ended September 30, 1999.

UNIX is a registered trademark in the United States and other countries, exclusively licensed through X/OPEN Company Limited.
Windows NT is a registered trademark of Microsoft Corporation.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

NCR CORPORATION

Date: November 12, 1999

By: /s/ David Bearman

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David Bearman, Senior Vice-President
and Chief Financial Officer

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THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION FOR NCR CORPORATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEETS AT SEPTEMBER 30, 1999 AND THE CONSOLIDATED STATEMENTS OF OPERATIONS FOR THE THREE MONTH PERIOD ENDED SEPTEMBER 30, 1999 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000,000
U.S. DOLLARS

3-MOS
DEC-31-1999
JUN-01-1999
SEP-30-1999
1
476
119
1,291
0
392
2,435
0
0
4,783
1,638
32
0
0
1
1,460
4,783
808
1,530
513
1,067
411
0
3
86
33
0
0
0
0
53
0
0