1964 ANNUAL REPORT • THE NATIONAL CASH REGISTER COMPANY

NCR

Annual Report
for the year ended
December 31, 1964

HIGHLIGHTS OF 1964

	1964	1963
Income from Sales, Services and Equipment Rentals	$665,773,000	$592,580,000
Net Income	22,503,000	20,082,000
Net Income per Share	2.69	2.42
Cash Dividends	9,981,000	9,959,000
Dividends per Share	1.20	1.20
Taxes (Federal, State, Local and Foreign)	46,253,000	42,679,000
Expenditures for Property, Plant and Equipment	61,676,000	57,664,000
Depreciation	45,179,000	37,896,000

AT YEAR END

Working Capital	$190,565,000	$184,540,000
Investment in International Operations	52,809,000	50,403,000
Total Assets	481,056,000	462,504,000
Long Term Debt	120,427,000	123,781,000
Stockholders' Equity	258,799,000	244,345,000
Shares of Common Stock Outstanding	8,360,040	8,299,607
Number of Stockholders	23,876	24,014
Number of Employees	65,000	61,000

CONTENTS

ANNUAL MEETING

On or about March 9, 1965, along with the mailing of this report, the management of the Company will commence the solicitation of proxies from the stockholders for use at the Annual Meeting of Stockholders to be held on April 28, 1965.

COVER

NCR cash registers, accounting machines and adding machines play an important part in the Company's "total" systems for processing business data. These basic business machines not only record transactions and provide control, but through various machine languages also serve as data input devices for NCR's line of computers.

etter to Stockholders

NCR's consolidated revenue from sales, services, and equipment rentals during 1964 totaled $665,773,000, a 12% increase over the $592,580,000 recorded in 1963. This was the highest level of sales ever achieved by the Company.

Net income for the year also reached a new high of $22,503,000, compared with $20,082,000 in 1963, or an increase of 12%. The 1964 earnings amounted to $2.69 per share on 8,360,040 shares outstanding at year's end. In 1963 the per-share earnings on 8,299,607 shares were $2.42.

Domestic earnings rose from $9,251,000 in 1963 to $12,048,000, due primarily to the favorable effect of higher sales volume and lower federal income taxes.

Total after-tax foreign earnings rose from $13,166,000 in 1963 to $14,118,000 in 1964. Of this latter amount, $10,455,000 was included in reported net income, representing those earnings remitted to the United States and the earnings of NCR's Canadian subsidiary.

A detailed review of the year's financial results will be found on Pages 22 and 23 of this report.

In previous annual reports we have discussed the far-reaching implications of NCR's entry into the electronic data processing field. This program has been the most ambitious in objectives and the most consequential in impact of any in the entire 80-year history of the Company.

The decision to undertake this highly demanding program, was based on two developments which have changed the entire complexion of the business equipment industry in recent years. The first of these was the widespread need for better means of handling the increasingly complex information-processing task; the second was a series of major technological breakthroughs which for the first time made feasible fully integrated business systems.

These developments made it apparent that NCR's future growth potential would be enhanced by the Company's ability to provide such total systems. This dictated the creation of entirely new and different types of NCR products—particularly electronic data processing equipment—as well as the further development of those products NCR has supplied to business for many years.

Creating this broader systems capability for NCR has required tremendous effort and the investment of large sums of money in virtually every area of Company activity. A greatly accelerated research and development program, for example, has produced in a few short years not only a full line of data processing equipment but new types of cash registers, accounting machines and adding machines, plus various encoding, reading and communication devices to link these "original-entry" machines with computers. In manufacturing, new production equipment has been installed and new manufacturing processes and methods developed. In marketing, expansions in manpower and training programs have

Robert S. Oelman, left, chairman; R. Stanley Laing, president.

1964 Sales of $665,773,000 Were Highest Yet Achieved and 12% Over Level of 1963; Net Income Rose 12% to Set New Record

far exceeded any similar undertakings in NCR history.

Because most users of electronic data processing equipment prefer to rent such systems, the Company has had to finance major investments in rental equipment. When equipment is rented, the same marketing and installation costs are incurred as if it had been sold outright, plus heavy depreciation charges as well. Yet rental income is received only over a period of years.

Comprehensive Corporate Plan Has Guided Company During Transition

At the outset of this all-embracing program, your management developed a comprehensive corporate plan to be followed during this important transitional period. Fundamental to this plan was the determination of a rate of growth that would be compatible with the Company's financial resources. Management's objective was to achieve total systems capability for NCR as rapidly as possible while maintaining the Company's level of earnings during a period when additional capital would be required, particularly for heavy investments in rental equipment.

We believe that the course followed has been a sound one. Important progress in the penetration of the rapidly growing total systems market has been achieved. NCR is now a Company well equipped in terms of products, systems know-how and manufacturing and marketing skills to move forward effectively in the electronic data processing field.

Continuing Aggressive Development Of NCR's Total Systems Capability Is Required to Capitalize Fully on Company's Broadened Opportunities

In looking to the future it is your management's conviction that a continuing aggressive development of NCR's total systems capability is required to capitalize fully on the Company's greatly broadened opportunities. This means that as increased earnings become available as a result of higher sales volume, improved operating efficiencies, and the maturing of our rental accounts, the interests of corporate growth will require additional expenditures, not only in the research and development of new products but in a further strengthening of the sales and service organizations required to market these products effectively.

Since publication of the last Annual Report a number of changes in the management of the Company have occurred. At the Board of Directors meeting on April 23, 1964, Robert S. Oelman was re-elected chairman and chief executive officer and R. Stanley Laing, formerly executive vice president, was named president. The former had served as both chairman and president since January 1, 1962. Other management changes are discussed on Page 32 of this report.

On behalf of all the directors and officers of the Company, we should like to thank the stockholders for their consistent confidence and support. Appreciation is also expressed to more than 65,000 NCR employees throughout the world, without whose hard work, enthusiasm and loyalty, the record of 1964's achievements could not have been written.

March 9, 1965

Robert S. Oelman
Chairman

R. Stanley Laing
President

DOMESTIC OPERATIONS

Marketing

NCR "Total" Systems Provide Key to Efficient Data Processing, Sound Business Management

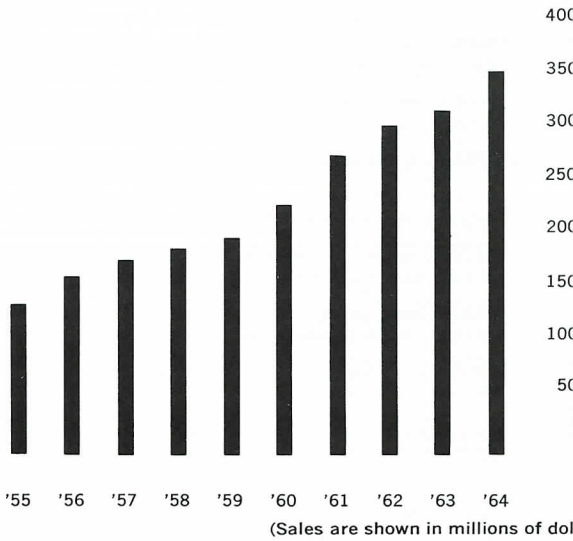
Underlying the growth of the business equipment industry in recent years has been an urgent need to find better ways of handling the ever-mounting volume of paperwork. In a recent survey, over half of the nation's 500 largest companies said their most serious problem was that of improving existing systems and procedures. Timely, concise and accurate reporting of operating results is absolutely essential to sound business management today.

Retail stores, for example, are to an increasing extent looking beyond the selling floor in planning for future automation. In addition to achieving the benefits provided by new and improved cash registers, merchants want such equipment linked to the back office or to a nearby service center in order to achieve automated merchandise control and customer billing, more informative sales analyses and accounting.

Financial institutions, industrial companies and governmental agencies are taking a comparably broad view of their operations. They are seeking advanced new systems that perform the entire information-processing job. In each case the objective is identical—to reduce paperwork and improve management efficiency.

To meet this objective, NCR has developed a broad line of data processing equipment and many new types of data preparation, input, output and "on-line" devices. These units can be assembled into an almost unlimited variety of system configurations, depending upon the application to be served.

In a similar way, NCR's marketing program has been oriented to include the installation of "total" systems as well as individual products. Teams of specialists bring their training and experience to the complex problems of designing and installing the complete information-processing systems which today's fast business pace demands.



SALES IN U.S. rose 12% in 1964. Over the past 10 years domestic volume has shown an average annual gain of 10%.

Serving Retail Stores

Higher Volume, Need for Better Merchandising and Control Accelerate Installations of New and Improved NCR Systems

The record sales rung up by the retailing industry in 1964 focused attention as never before on new operating methods and equipment.

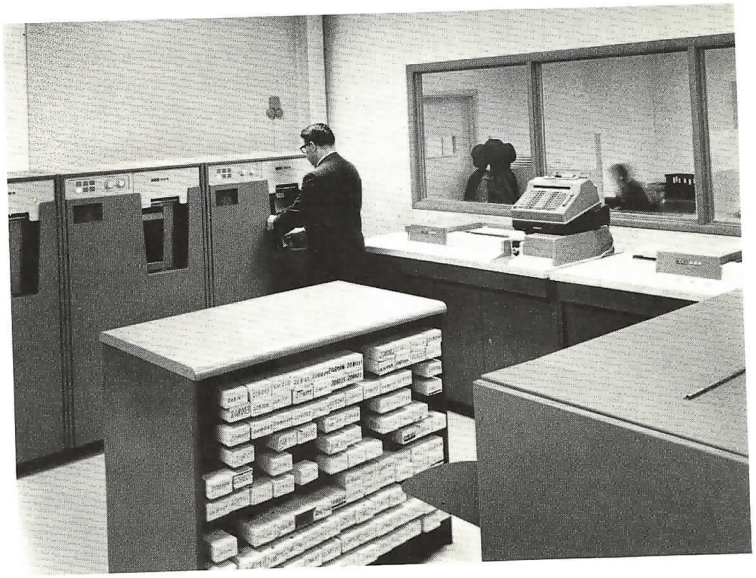
Processing the enormous volume of data generated by shoppers daily is only one of the problems currently facing store management. Competition is intensifying in this traditionally competitive industry; suburban store expansion continues, and merchandising methods are changing. In this environment, the need for better cost control, fewer markdowns and more precise inventory control makes new system concepts mandatory if profit margins are to be improved.

Merchandise control and customer billing are the two biggest accounting tasks in most retail operations. Through NCR's new REACT (Register Enforced Automated Control Technique), merchandise control can be automated to enable stores to achieve a better return on their inventory investment and to provide increased assurance that shoppers will find the merchandise they want. Automated customer billing can also be accomplished for virtually any retail operation through the installation of NCR systems.

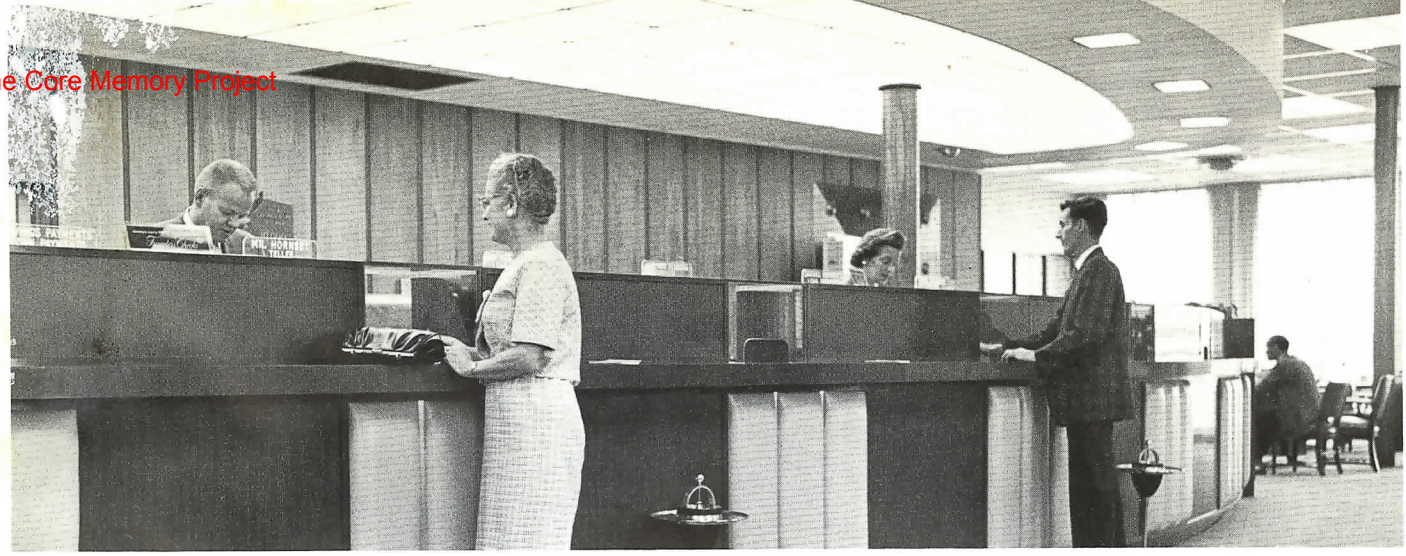
These advances have been made possible by linking sales registers and other basic business machines to computers. The input machines of these total systems, such as sales registers on the selling floor, capture the data required for subsequent processing. Preserved in machine-readable form, such as punched tape or "optical" figures, the data is rapidly digested by a computer. The computer constantly monitors inventory levels, assigns charges to customer accounts and automatically prepares monthly customer bills.

Some types of future retail systems will link input machines directly "on-line" to computers. Such systems will provide up-to-the-minute merchandise control, credit authorization and sales reporting. This concept is technically feasible today, and NCR is carrying out an extensive program to develop economically justifiable "on-line" retail systems.

The size of a retail operation is no barrier to the installation of total systems. For stores which cannot afford to install their own computer equipment, the services of NCR data processing centers are available. Thus, NCR total systems today are in use in a wide variety of retail establishments, ranging from small specialty shops to the largest chains and department stores.



One of the world's largest retailing companies is installing the total system shown above. In upper picture, a suburban store salesperson records a customer purchase on an NCR Class 21 register which captures transaction data in machine-readable figures. Printed tapes from over 600 such registers in nine area stores are sent daily to headquarters. In computer room, tapes are read into 315 CRAM system. System provides automatic customer billing and merchandise control.



Branch office of this large savings and loan association provides faster service to depositors through new NCR "on-line" system.

Teller sends data to computer miles away which processes transaction, activates teller's machine which updates depositor passbook.

In association's main office an NCR 315 computer system keeps all depositor accounts current and provides management reports.

Financial Institutions

Milestone In Banking Achieved Through "On-Line" Processing

Instantaneous processing of financial transactions became a reality during 1964 in several of the nation's largest savings banks and savings and loan associations. This milestone in banking was achieved through the development and installation of "on-line" processing systems.

In an on-line system, tellers' machines are linked directly by telephone lines to a centrally located 315 processor. A teller at any bank branch simply records the transaction on an NCR window machine and the computer at the main office does the rest. It posts the transaction to the depositor's account record stored in its CRAM magnetic memory; it calculates any accrued interest; it notes all previous transactions. Then it flashes all this information to the teller's machine which completely updates the depositor's passbook. The entire process requires only a few seconds and service to depositors is greatly speeded up.

NCR also will provide on-line processing services to groups of financial institutions. The first of these multi-bank data centers will open in New York City this spring, handling the accounts of more than a million depositors. Similar on-line processing services are being planned for Pittsburgh, Chicago, Los Angeles, San Francisco, Boston and other cities.

During the past year the Company also introduced a new series of "package" computer systems designed especially for commercial banks planning their first computer installations; a one-stop "universal" teller system which eliminates the need for a depositor to stop at several windows for different kinds of service, and a high-speed, 18-pocket document sorter which further expands the Company's line of sorting equipment for commercial banks.

Industrial Companies

Recently Introduced Products Strengthen NCR's Ability to Serve the Processing Needs of Industry

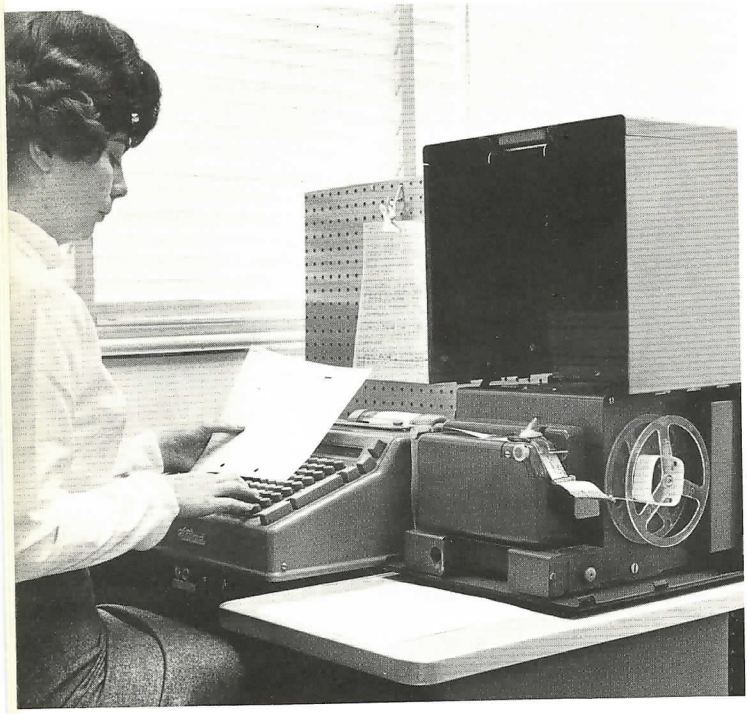
Until recent years NCR's sales to the huge industrial market consisted of individual business machines for specific applications. NCR accounting machines, for example, were marketed for such typical office tasks as payroll preparation, the processing of accounts receivable and accounts payable, and for general ledger bookkeeping.

The development of the Company's new integrated systems, which include full data processing capability, coincides with the changing needs of many industrial users of business equipment. While there are still many applications in industrial companies which can best be served by individual machine units, increasing emphasis is being placed on the installation of overall information-processing systems. Such total systems not only record essential operating information and prepare necessary records and documents, but at the same time provide analytical and statistical reports and other operating data which facilitate better business management by users of the systems.

The largest and most sophisticated NCR systems of this type utilize the 315 electronic data processing system and in many cases include various types of accounting, bookkeeping and adding machine equipment to supply input to the central processor via common machine languages. Approximately a third of the 315 systems in use today are serving industrial companies in such areas as inventory and production control, cost estimating, sales reporting, order analysis, and budget control.

Two recently released products, the Class 395 electronic accounting system and the Series 500 computer family, also have broad application in industry. With the addition of these products, NCR now offers a comprehensive line of equipment for industrial applications, and the Company expects to obtain an increasing share of this large market.

NCR systems are used by a wide variety of industrial firms to help control costs and improve operating efficiency. In photo below, employee of a diecasting firm enters cost data into an adding machine which creates punched paper tape. At right, punched tape is placed in reader of NCR 390 computer system for processing into cost-analysis report which enables firm to pinpoint any high cost areas.



One of the first organizations to install NCR's new 395 electronic accounting system was a military base which is using the equipment for general accounting and for cost and statistical reporting. NCR punched card sorter, above, classifies data for input into system. Reports generated by this versatile equipment help officers achieve more efficient base operation.

Government and Armed Services

Soaring Population and More Governmental Services Stimulate Sale of Business Equipment

The magnitude of the information-processing job in government grows with each passing year. It is estimated, for example, that since the 1960 census was taken, the population of the United States has increased by 12 million and now exceeds 192 million persons. In another five years it is expected to rise to at least 206 million.

Throughout his lifetime each of these persons creates a constant stream of records, many of which affect governmental operations at some level, either federal, state, county or local. These records must be processed rapidly and accurately, and many must be preserved for future reference.

Not only is the number of people served by governmental units and agencies multiplying, but so are the services provided. Even in the small municipal government today, the need for efficient, economical office methods and equipment is steadily becoming more pressing. In fact, it is no exaggeration to say that without the many new products introduced by the business equipment industry in recent years, it would not have been possible for government to keep pace with this burgeoning work load which affects all offices.

For these reasons virtually every product manufactured by NCR finds application in some realm of government or the Armed Services. A total of 174 NCR 390 computer systems are currently processing the military payroll for the Air Force throughout the world. Larger NCR 315 and 304 systems are in daily use by the Army, Navy, Air Force, Marine Corps, other federal agencies and in state and county governments. Other types of NCR systems, including accounting machines, cash registers and adding machines, are performing a wide spectrum of applications in tax offices, schools, post exchanges and many additional governmental and military organizations.

Because of the size and special requirements of the market for business equipment in the federal government, a specialized sales organization handles this part of NCR's marketing program.

Research and development programs conducted by NCR for the Armed Services or other agencies of the federal government are the responsibility of a separate development division.

Customer Services

Expert Systems Design, Training of Operators, Dependable Maintenance Insure High Performance

During 1964 night service was inaugurated at NCR branch offices in U.S. and Canada.

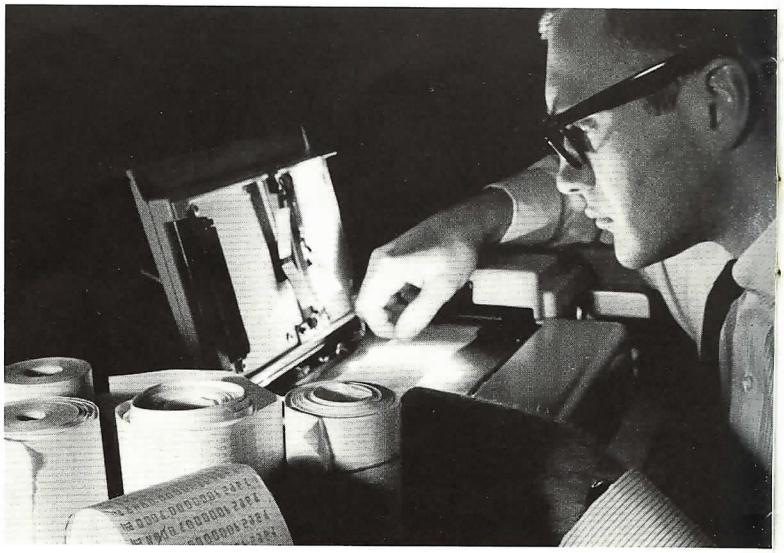
The user of an NCR business system buys considerably more than the machine units which make up that system. In every case an NCR systems specialist and in many instances teams of specialists design the most efficient system possible to meet the customer's current and future needs, then thoroughly train the user's staff in its use. After the system is operational, further counseling and assistance including dependable maintenance are provided.

During 1964 the Company again enlarged its marketing and service organizations. In the United States and Canada the NCR marketing organization now totals 14,500. Service personnel increased to 8,200 by year end, a gain of 1,000 over the prior year and almost three times as many as 10 years ago. Training programs for both marketing and service personnel in new NCR systems were the most extensive yet conducted, with more than 51,000 man weeks of instruction given servicemen alone.

As another customer service the Company manufactures and markets a broad line of supplies. These include printed forms, sales checks, paper rolls, ink ribbons, price-marking stamps and other items. In 1964 sales of these products continued to rise, with the largest increase being recorded by NCR Paper, a carbonless copy paper widely used throughout the business world. In the past five years sales of NCR Paper have more than doubled, with annual volume exceeding $26 million.

The Company's domestic network of Data Processing Centers was expanded in 1964 with the opening of services in 10 additional cities, bringing the number of such facilities to 23. A further extension of data processing services is planned.

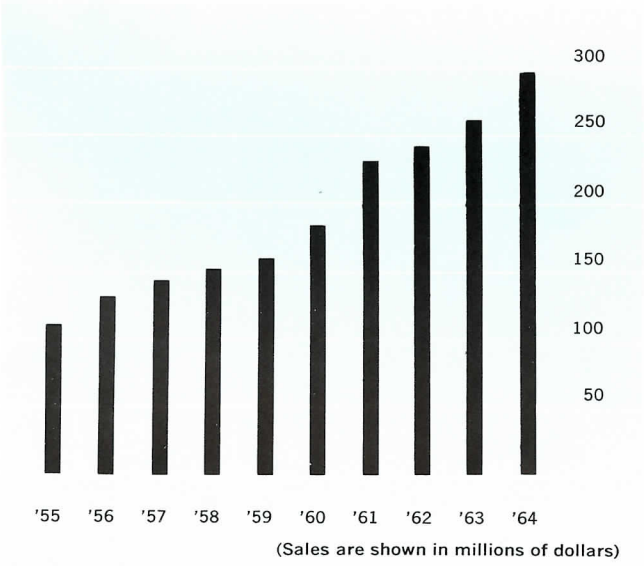
The services of NCR's larger data processing centers were augmented in 1964 by providing similar facilities at a number of branch offices. Above, an "optical" tape is removed from a florist's register. It will be sent to NCR office for processing.



At NCR branch office, tapes are fed into an optical scanner. This machine "reads" data and converts it into computer language for automatic processing. Availability of such services is stimulating sale of NCR's basic business machines.

INTERNATIONAL OPERATIONS

Manufacturing and Marketing Organizations Expanded To Keep Pace With Growing Demand for Products Abroad



OVERSEAS MARKETS continue to grow at a rapid pace. In 1964 sales abroad rose 13% over 1963 level.

Although NCR products have been sold in international markets for 80 years, by far the greatest growth in the Company's business abroad has taken place during the past decade. This trend continued in 1964, with overseas sales setting a new record for the 19th consecutive year.

The steady progress of NCR's international operations can be attributed in large measure to three primary factors. The first of these has been the economic strength of many parts of the Free World, most notably in the British Commonwealth nations, Japan and continental Europe.

During this same period NCR has rapidly built up its overseas manufacturing facilities, partly through additions to existing factories and also by construction of entirely new plants. These factories are strategically located to serve not only large home markets but export markets as well.

A concurrent expansion of manpower, including both sales and service personnel, has created a marketing depth which has made possible increasingly important gains in the world business equipment market. Today, the operations of NCR's International Division are carried forward by more than 31,000 men and women of proven ability, training and dedication.

The demand for NCR's basic business machines in overseas markets was stimulated in 1964 by the introduction of important new products. The past year was also marked by noteworthy progress in the marketing and installation of electronic data processing equipment abroad. Orders for more than 400 computer systems have been received to date by NCR in the international field. As in the United States, a great many of these systems utilize cash register, accounting machine or adding machine units as input devices.

The Company's growing network of overseas Data Processing Centers now totals 17 facilities and is being steadily enlarged. In addition to the processing revenue produced by these facilities, they are proving to be a stimulus to the sale of punched-tape and optical-print business machines. They also serve an important function in enabling prospective computer users to study the application of the Company's computer systems to a wide variety of information-processing tasks for business.

The number of total business systems installed in the United States currently exceeds by a wide margin those in use overseas. However, the intense interest abroad in advanced business

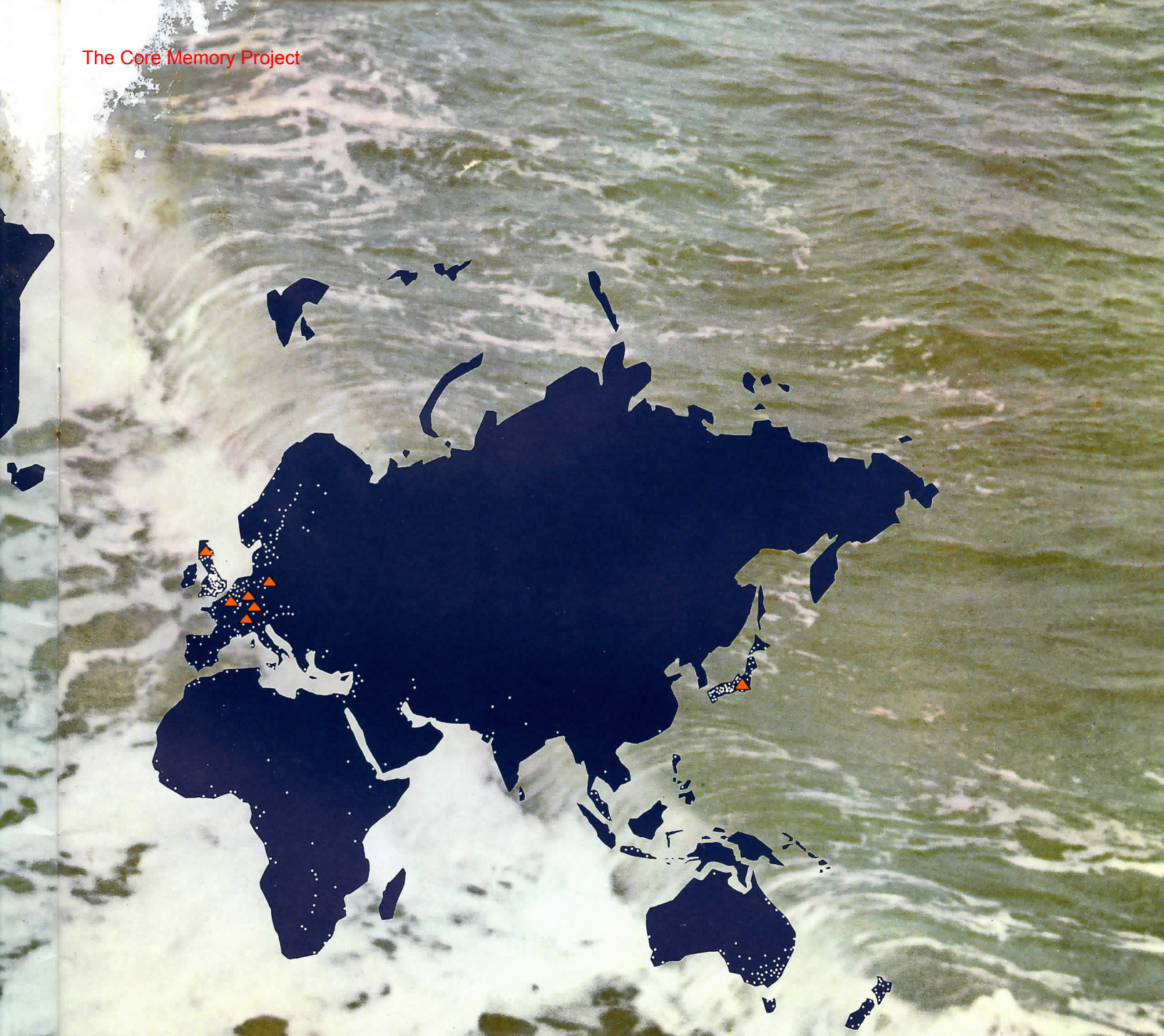
equipment is resulting in rapid growth in the installation of such systems. During 1964, for example, NCR conducted demonstrations of on-line banking systems for the leading financial institutions of Japan. These proved so successful that major Japanese banks sent representatives to the United States to study firsthand the Company's installations in this country. Comparable on-line demonstrations are being presented to the European financial community this year.

One of the major tasks currently confronting NCR's International Division is the conversion of approximately 80,000 of the Company's cash registers, accounting machines and adding machines in Australia from sterling to decimal operation. "Conversion Day" in Australia is scheduled for February, 1966, and this decimalization program represents the most extensive of its kind yet undertaken by NCR. It involves more than three times as many machines as were converted in the South African decimalization program of 1961. Several NCR factories are now producing the millions of parts which will be required for this currency changeover. Later this year NCR will set up special conversion centers in Australia, where most of the NCR machines currently in use will be adapted to the new currency. Another decimalization program, that scheduled by New Zealand for July of 1967, will affect an additional 20,000 NCR machines.

Out of its long experience in manufacturing and marketing NCR products abroad, the Company has developed a basic philosophy of international operations. The Company believes its operating principles have been key factors in enabling NCR products and services to achieve worldwide acceptance.

These principles include:

A conviction that the citizens of those nations in which NCR operates can best manage the Company's affairs in their respective countries;



▲ PRINCIPAL NCR FACTORIES (Dots Represent Sales Offices)

NCR products are manufactured at 12 principal factories and are distributed through more than 1,000 sales and service outlets in 120 countries. The Company's largest factory and world headquarters are located at Dayton, Ohio. Additional U.S. manufacturing is carried out at the Electronics Division in Hawthorne, Calif., and the Adding Machine Division in Ithaca, N.Y. A factory at Toronto serves the Canadian and export market. Overseas, the Company has four plants inside the Common Market. These are located in Augsburg and Giessen, West Germany, in West Berlin and in Massy, France. NCR's second largest factory, at Dundee, Scotland, primarily serves the United Kingdom and British Commonwealth nations. A plant at Oiso, Japan, serves Far Eastern markets. Other factories are located at Bulach, Switzerland, and São Paulo, Brazil. In addition, NCR has 16 supply production facilities throughout the world, including seven such plants in the United States.

Memory module used in new 315 Rod Memory Computer is about half the size of conventional unit.

ing task. The 395 was developed especially for the many accounting applications throughout the business world where computer systems are too costly and conventional accounting equipment inadequate.

The Company's new Series 500 computer family also fills a sizable gap in the business equipment field. Prior to the introduction of the Series 500, many users who had outgrown their accounting machine installations found that available computer systems were either priced too high or lacked the necessary flexibility and performance to meet their requirements.

The modular design of the Series 500 permits a user to install a modest system initially, renting for as little as $765 a month, and later expand his system into a more sophisticated complex of equipment as needs grow or change. More than 20 different types of input and output equipment are available with the Series 500.

Initial market reaction indicates that this new computer family will become one of the most important products introduced by NCR. Orders received to date represent a wide variety of applications and reveal the breadth of the market that will be served by the Series 500.

The Rod Memory Computer is the most recent addition to NCR's 315 computer family. Utilizing proprietary NCR developments in thin-film technology, this system features a main memory of exceptional speed and reliability. The 315 RMC processor and its associated memory units are compatible with existing 315 peripheral equipment and programs, thereby permitting users with standard 315 processors to increase the performance of their systems whenever desired.

Operating in the nanosecond (billionth of a second) range, the 315 RMC is the highest performance computer yet introduced by NCR.

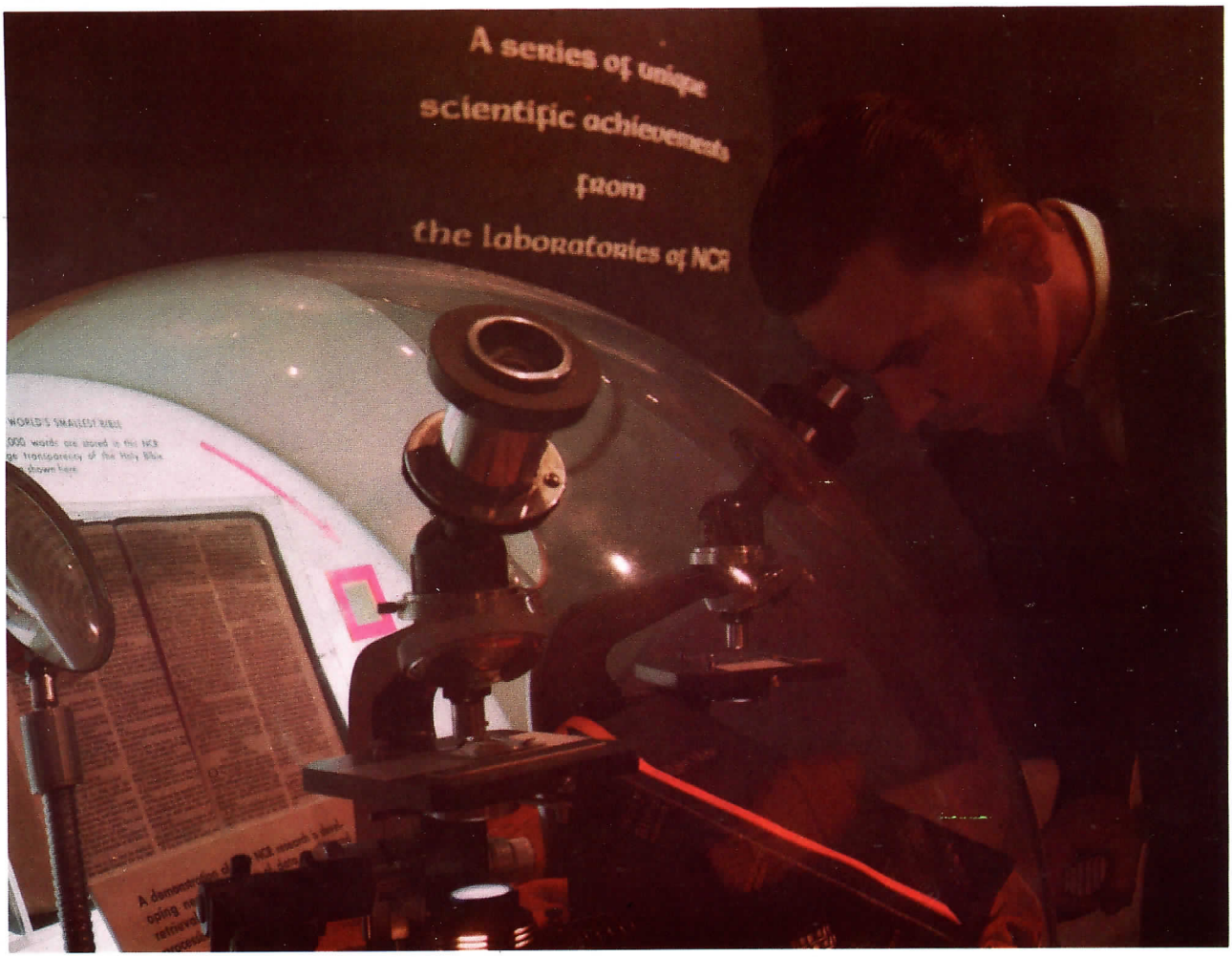
NCR's new Series 500 computer family is applicable to wide range of data processing applications.

MAN and his records

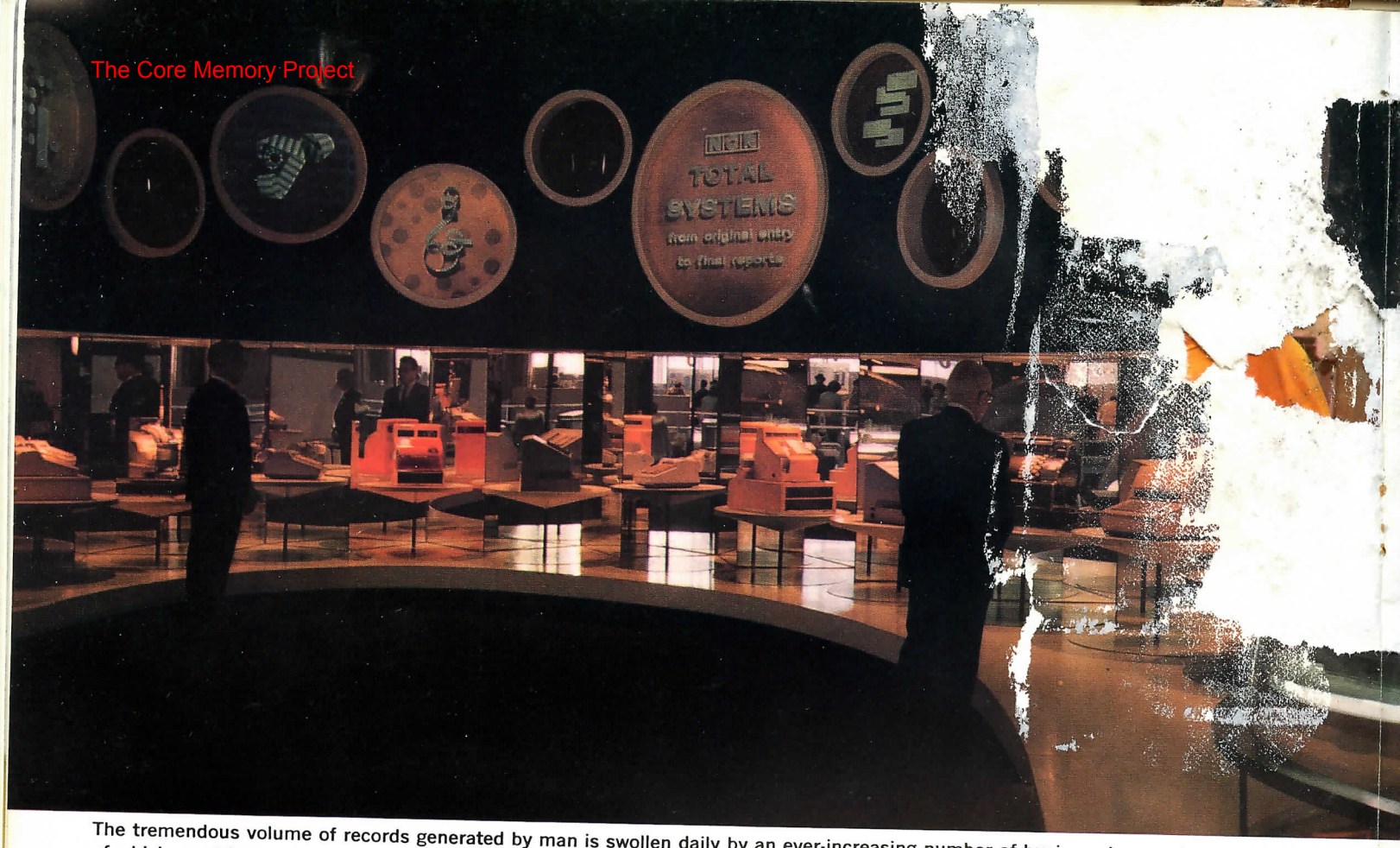
"Man and His Records," the theme of the NCR Pavilion at the New York World's Fair, dramatizes the tremendous scope of record-processing in modern life. A few of the displays at the NCR Pavilion are depicted on this and the following two pages.

The so-called "paper explosion" has created almost an infinite number of new requirements for processing, storing and retrieving the records created by man. It has been estimated that the cost just for filing all this information now totals several billion dollars a year.

The paperwork problem in business is growing at such a rate that revolutionary new tech-



Entire Bible can be reduced to a slide the size of two postage stamps through a new NCR information storage technique. In the display shown above, each of the 1245 pages can be read under microscope.

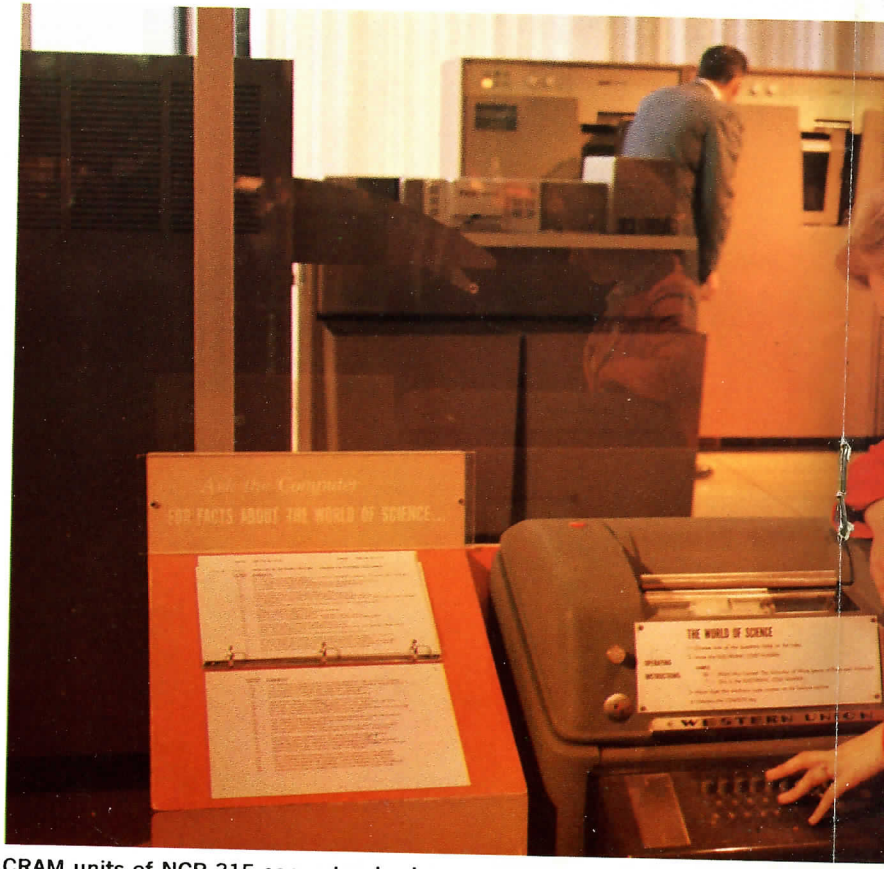


The tremendous volume of records generated by man is swollen daily by an ever-increasing number of business transactions, all of which must be recorded and processed. Wide range of NCR basic business machines, shown above, helps to simplify this task.

niques for solving it will be required in future years. Such techniques are under development today in laboratories throughout the business equipment industry. At NCR, for example, scientists are currently working in such research areas as voice-operated business machines, the use of laser beams to transmit vast quantities of data at the speed of light, the application of fluid logic techniques, and unique new types of information storage and retrieval systems.

Since its founding in 1884, the business of NCR has been to assist other businesses in coping with their record-processing requirements. Because these requirements are constantly changing, the nature of the Company, its products and its services has changed accordingly. With entirely new fields of technology and new methods to employ in meeting tomorrow's record-processing challenges, the Company today can bring imaginative new approaches to the age-old problem of man and his records.

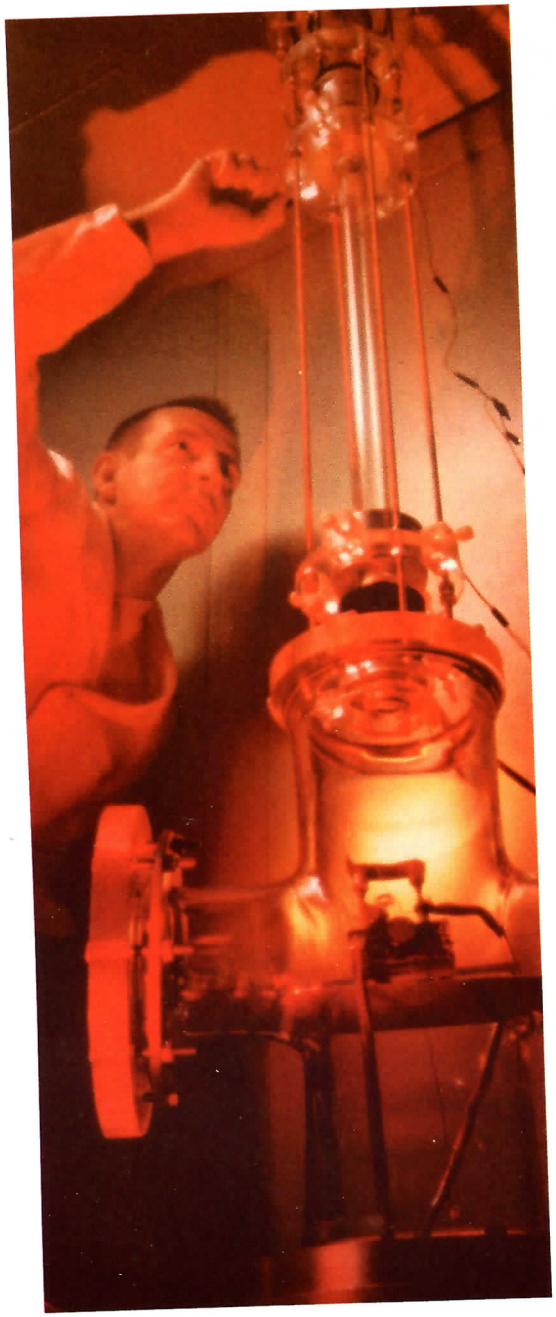
Thus, the Company's guiding principle as expressed in the dictum, "We Progress Through Change," has even greater significance today than when it was first stated many years ago by the founder of NCR.



CRAM units of NCR 315 computer, background, can instantly locate facts from vast store of information in response to inquiries.

RESEARCH and DEVELOPMENT

Year's Expenditures in R & D Total $22,039,000; Program Continues to Stress Integrated Equipment



High-voltage electron beam produces a narrow path of intense energy being used here to change crystalline structures used in computer circuits.

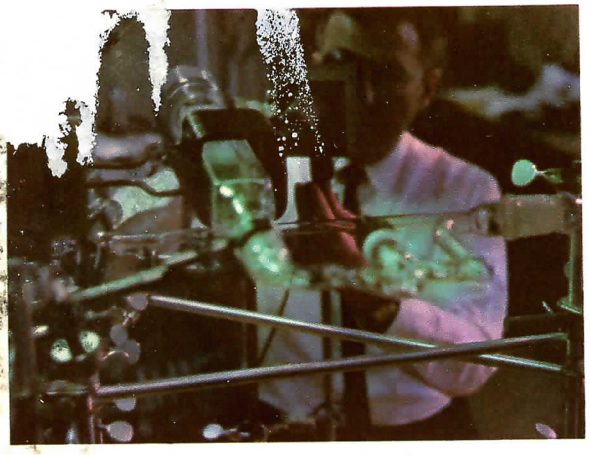
NCR's expenditures for research and development in 1964 were $22,039,000, an increase of 10% over 1963. Important programs were carried forward in the development of electronic data processing equipment, data input and output units and data preparation equipment including cash registers, accounting machines and adding machines.

In recent years the Company has introduced a range of solid-state computer systems, priced from approximately $30,000 to $1,000,000. Each of these computer families embodies a wide range of related peripheral equipment. In addition to a central processor and console, each includes such associated equipment as memory devices, buffer and control units, magnetic tape handlers, paper tape punches, paper tape readers, card readers and sorters, magnetic-ledger-card readers, on-line devices, "optical" readers, magnetic imprinters and various types of output printers. Taken together, there are almost 100 separate peripheral units. Many of these are available in several models to meet the widely varying needs of the Company's customers.

A comparably extensive engineering program has been required in the area of data capturing and input machines, such as cash registers, accounting machines and adding machines equipped to print "optical" or magnetic machine-readable figures, or to create punched paper tape or punched cards automatically as a by-product of normal operation.

As a result, NCR offers today the widest range of data preparation and original-entry devices in the business equipment industry. This is a factor of increasing significance as the trend toward fully integrated systems gains momentum because a "total" system must provide all-around balance, in input and output capabilities as well as in processing. Higher processing speeds cannot be effectively utilized, in fact, without corresponding speed and efficiency in data input and output. Thus, peripheral equipment is assuming an increasingly important role in the makeup of the total system configuration.

In its product development programs NCR makes every effort to protect customers against obsolescence, both in product and system design.



Epitaxial device above forms thin films on material used in the fabrication of integrated circuits.

Many of the Company's basic business machines, for example, are adaptable to subsequent system changes. Also, NCR computer equipment is modular in design; greater capacity memories can be added if required and higher performance peripheral units can be installed if the user's needs change.

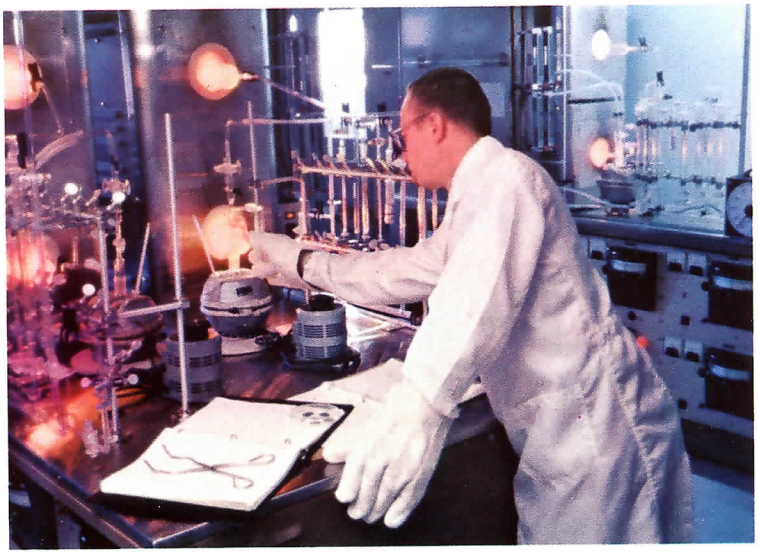
New concepts in the design of individual business machines have also been developed by the Company. Recent product releases, for example, have included new types of accounting machines which offer electronic computation and electronic data storage, and improved electro-mechanical cash registers which feature major design and manufacturing innovations.

The Company's research and engineering programs in recent years have included several noteworthy developments. Among products which have incorporated significant and unique technological advances are the 390 computer as the first magnetic ledger data processor; CRAM as a high-speed easily expandable random access memory device which provides both sequential and random processing; the 315 Rod Memory Computer as the first commercial computer offering an all-thin-film main memory, and the Class 52 Sales-Tronic and Class 53 sales registers as essential components of complete systems for automation in retail data processing.

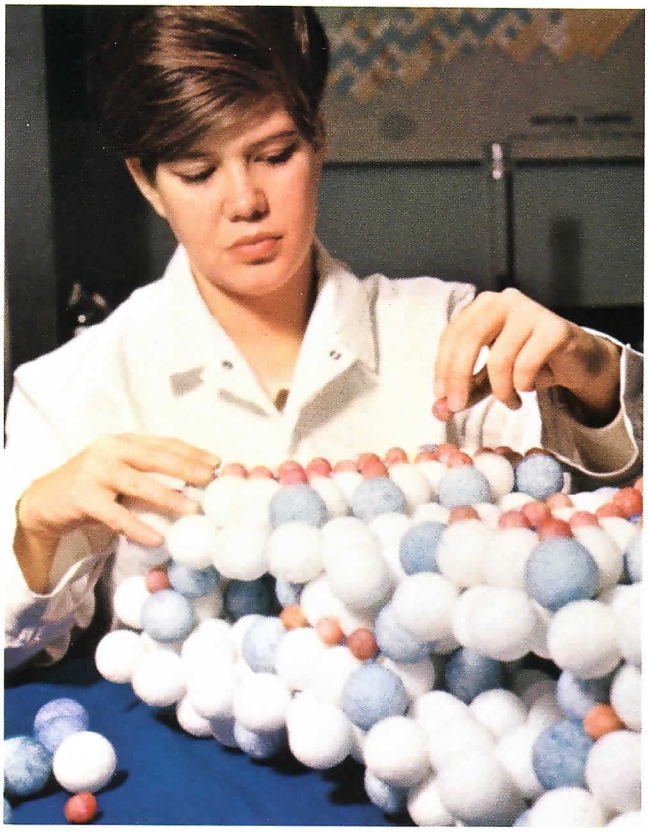
Among 1964 product releases—in addition to those described in the New Systems section of this report—were several new peripheral devices for the NCR 315 computer series. These included greater capacity CRAM memory units, new types of magnetic tape equipment, and an expanded range of communication devices for on-line systems. As a result of these and other additions to the 315 series, the market for this family of medium-size computers has been extended.

The past year was also marked by important progress in relatively new technologies which will drastically change the nature of tomorrow's business equipment.

Hundreds of integrated circuits are formed on a one-inch chip and then inspected as shown in above laboratory photograph. Later they are cut apart and wired with hair-like strands of gold.



Electric furnaces in an NCR "clean room" are used to prepare integrated circuit base materials. The fabrication of integrated circuits requires a dust-free, carefully controlled atmosphere.



Researcher builds molecular model of clay emulsion used in the production of NCR Paper. Through such studies product performance is constantly improved.

Magnetic tape scanner tests new types of computer tape. Metallic version of tape, being tested below, stores more data and has better wear characteristics.

Integrated circuitry is one of the most far-reaching of all these developments. This "third-generation" technology for reducing the size and costs of computer circuits, while simultaneously making possible improved performance and reliability, will provide the basic componentry for many of tomorrow's NCR systems.

During 1964 significant progress was also made in the area of new mass memory devices with capacities and access speeds exceeding those of any units currently available. Some of these new memory devices are based on proprietary developments in thin-film technology.

Another step which typifies the revolutionary nature of much of the research work currently being carried out in NCR laboratories is the development of non-impact printing mechanisms. These employ materials sensitive to various types of energy and thus require relatively few moving parts. Noise is virtually eliminated, with a potential of very high printing speeds.

Other technological areas currently being explored by teams of NCR researchers include the fields of photoconductors, phosphors, fiber optics, and lasers as potential new techniques for application in tomorrow's business systems.

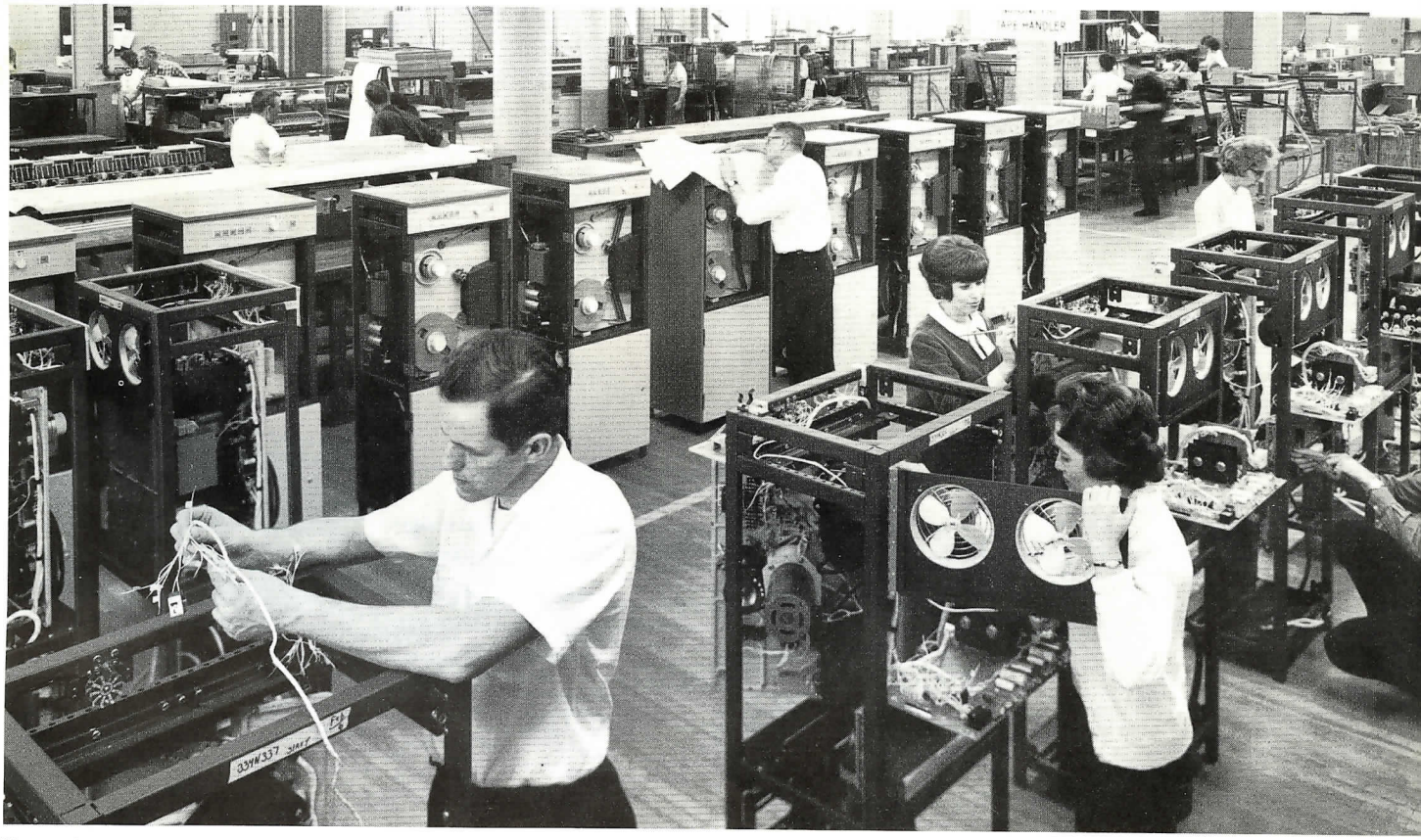
Work also progressed during the year in Photochromic Micro-Image (PCMI) technology. This process, originated by NCR, uses light-sensitive materials for reducing the size of all kinds of images. In effect PCMI makes it possible to "microfilm microfilm" and to thereby achieve a fantastic 40,000-to-1 area reduction in the storage of documents. In this way whole volumes of information can be contained on 3-by-5-inch slides; the contents of the entire Library of Congress, for example, could be kept in several standard-size filing cabinets containing these cards. Commercial applications for this unique process are currently being planned. It is anticipated that PCMI techniques will also become an integral part of those future business systems in which the storage and ready retrieval of voluminous records are required.

In recent years the Company has carried out many R & D programs for the Armed Services and for other federal agencies. In addition to serving the national interest, these varied projects have broadened NCR's experience in new and rapidly emerging technologies.

Such a program recently developed an automatic line-drawing machine to simplify the production of miniature electronic circuits. Activated by punched paper tape, this intricate device bypasses a major step in the process for making tiny integrated circuits, reducing both the cost and time required and providing far greater flexibility.

Manufacturing

Extensive Training Programs and Installation of New Equipment Have Broadened NCR's Production Capabilities

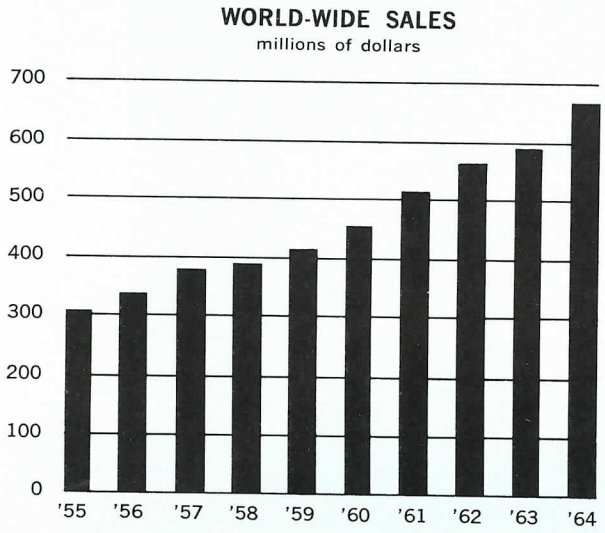


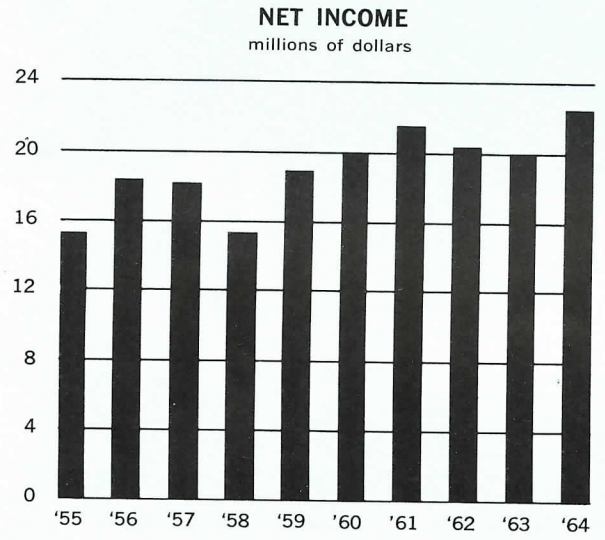
Magnetic tape handlers used in 315 computers are shown during assembly at NCR's Dayton factory.

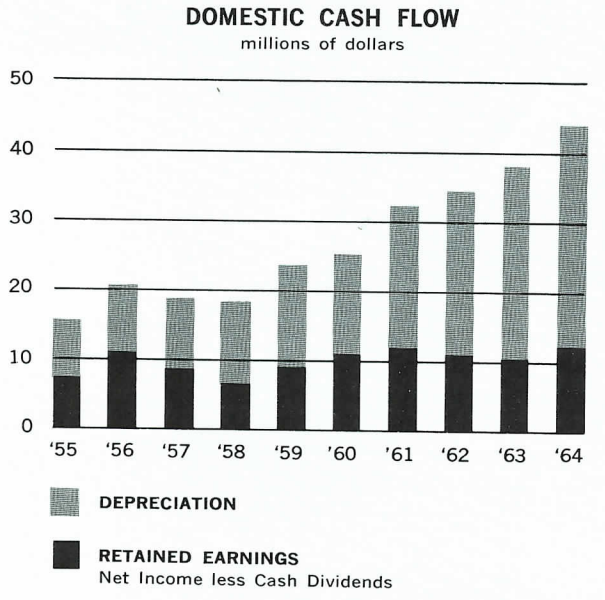
The manufacture of NCR's complex electro-mechanical products has historically required a high degree of precision workmanship and many specialized skills. In recent years, important new dimensions have been added to the Company's manufacturing capabilities. An increasing share of NCR's products today consists of electronic units which are considerably different in design and in construction and require other types of manufacturing methods, processes and equipment from the electro-mechanical devices which the Company has traditionally manufactured.

Two principal factors have facilitated this significant broadening of the Company's production operations. The first has been an extensive series of employee training programs carried out in recent years. In addition, the Company has invested many millions of dollars in new types of production machinery, ranging from electronic circuit board fabrication equipment to wire-wrapping machines which automate the production of various types of computer components. The depth of basic skills among the Company's employees has made possible a rapid transition to the production of electronic equipment.

Virtually all of the many diverse products marketed by the Company are manufactured in their entirety in NCR factories. Some of the peripheral units manufactured for NCR data processing systems are also sold directly to other equipment manufacturers for inclusion in the overall systems marketed by those companies.







Financial Review

SALES

Consolidated revenues from sales, services and equipment rentals increased 12% in 1964, amounting to $665,773,000.

	1964	1963
Domestic	$369,228,000	$330,911,000
International	296,545,000	261,669,000
Total	$665,773,000	$592,580,000

Equipment sales and rentals amounted to $451,259,000 in 1964, representing 68% of total revenues. Supply sales totaled $102,134,000, an increase of 23% while service income increased 15% to $112,380,000.

EARNINGS

Net income was $22,503,000 compared with $20,082,000 in 1963. Earnings per share were $2.69 based on the 8,360,040 shares outstanding at year end. Cash dividends were $1.20 per share for 1964.

	1964	1963
Domestic Earnings	$12,048,000	$ 9,251,000
Foreign Earnings Included in Net Income	10,455,000	10,831,000
Net Income	$22,503,000	$20,082,000

Domestic earnings increased due to higher volume, a decrease in U.S. income taxes and an improvement in margins, including those of the rental business. Expenditures for research, engineering and product development and for the training of an expanding sales and service organization continued to rise in 1964.

Earnings from outside the United States, including royalties, were $14,118,000 after taxes of $19,750,000 (including $2,650,000 in United States taxes).

	1964	1963
Foreign Earnings After Tax	$14,118,000	$13,166,000
Less: Unremitted Earnings	3,663,000	2,335,000
Foreign Earnings Included in Net Income	$10,455,000	$10,831,000

Reported net income included only those foreign earnings actually remitted to the United States plus the earnings of NCR's Canadian subsidiary.

Production of new decimal machines and conversion kits for the Australian decimalization program is currently under way at several NCR factories. However, this program had no appreciable effect on 1964 earnings.

PROPERTY

The Company invested $61,676,000 in property additions during 1964. Domestic additions amounted to $38,077,000 while $23,599,000 was invested by international subsidiaries.

	1964	1963
Land and Buildings	$ 5,491,000	$ 3,238,000
Machinery and Equipment	20,033,000	17,550,000
Tools	6,114,000	6,160,000
Rental Equipment	30,038,000	30,716,000
	$61,676,000	$57,664,000

As a result of changes in 1964 in the Internal Revenue Code, the Company has treated the "investment credit" of $831,000 for 1964 property additions as a reduction in the provision for U.S. income taxes. The credit for property additions in 1962 and 1963 will continue to be included in income over the depreciable lives of the assets as outlined in the 1962 Annual Report.

During 1964, the Company paid $9,806,000, including $4,027,000 overseas, on leases of varying duration, principally for sales and service offices.

ACQUISITION

In December, 1964, the Company acquired Business Systems Incorporated, a leading West Coast supplier of printed forms, in exchange for 54,000 shares of NCR stock. This acquisition has been accounted for as a pooling of interests and accordingly, the results of operations for 1964 (Page 24) include $214,000, the net income of Business Systems Incorporated for the entire year. No adjustment has been made for prior years, since the effect would not be material.

FOREIGN INVESTMENT

Net foreign investment at year end was $52,809,000 compared with $50,403,000 at the end of 1963. A major factor in the increased investment was the formation of a new subsidiary in Italy. The Company was previously represented in that country by a sales agent. The balance of the increase in foreign investment arises from trading accounts with various foreign subsidiaries based on export shipments from the parent company.

NCR RETIREMENT PLAN

Payments to the NCR Retirement Plan for current service and the amortization of past service costs amounted to $5,136,000 in 1964. At year end, unfunded past service costs amounted to $10,285,000 which are being amortized over periods of 11 to 17 years.

Revenue from Service, Supplies, and Equipment Rentals Contributes to NCR's Growth

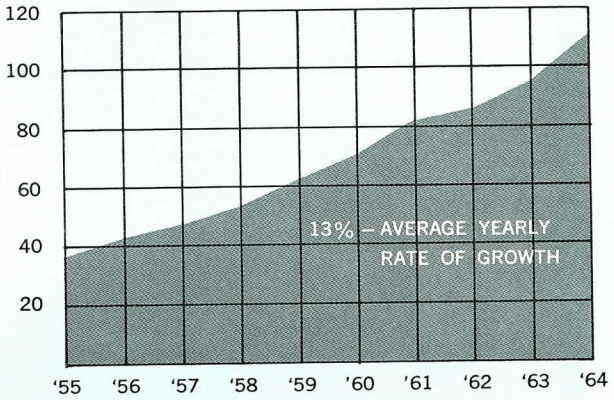
The charts below show the significant growth in the Company's service, supply, and equipment rental income. In 1964, the combined revenues from these three sources amounted to $251,312,000 and accounted for approximately 38% of total volume.

To a large degree, supply and service volume is a function of the total number of NCR machines in use and is a recurring source of income. Similarly, the growing investment in rental machines, which totaled $93,766,000 at the end of 1964, adds stability to the Company's operating results.

The management will continue to emphasize the growth of these important segments of the business.

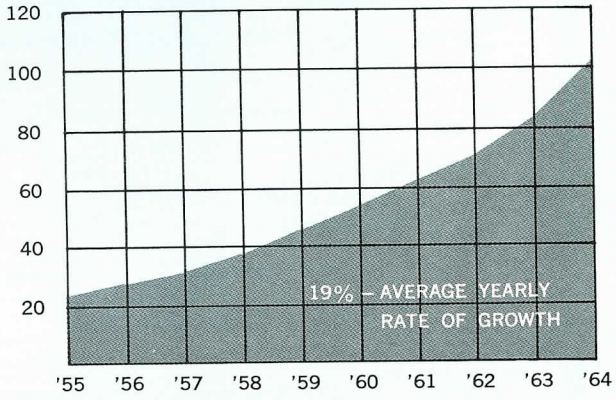
CONSOLIDATED SERVICE INCOME

millions of dollars



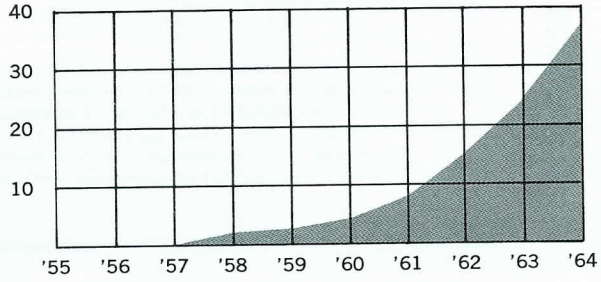
CONSOLIDATED SUPPLY SALES

millions of dollars



CONSOLIDATED RENTAL INCOME

millions of dollars



Results of Operations

	1964	1963
Income		
Income from sales, services and equipment rentals	$665,773,111	$592,579,932
Other income	13,259,406	12,629,752
	679,032,517	605,209,684
Costs and expenses		
Manufacturing	307,362,556	275,005,365
Selling, general and administrative	238,987,939	212,233,159
Research and development	22,038,813	20,026,615
Depreciation	45,178,818	37,896,215
Interest	8,864,736	8,386,670
Income taxes:		
United States	11,300,000	11,000,000
Foreign	17,100,000	15,200,000
	650,832,862	579,748,024
	28,199,655	25,461,660
Less—		
Minority interest in net earnings of foreign subsidiaries	2,033,631	1,934,568
Net earnings of foreign subsidiaries and branches not remitted to the United States (Note)	3,663,417	2,335,200
Write-down of assets in various foreign countries to current rate of exchange	——	1,109,625
	5,697,048	5,379,393
Net income for the year	22,502,607	20,082,267
Earnings retained for use in the business		
Balance January 1:		
The National Cash Register Company	89,443,858	79,320,384
Business Systems Incorporated (See Page 23)	1,417,501	——
	113,363,966	99,402,651
Cash dividends—$1.20 per share	9,980,547	9,958,793
Balance December 31	$103,383,419	$ 89,443,858

Note—The results of operations include the income, costs and expenses of all subsidiary companies and branches; however, the net earnings of all foreign subsidiaries and branches except Canada which have not been remitted to the United States have been deducted in arriving at net income for the year.

See financial review on pages 22 an

Financial Position

Assets	December 31 1964	1963
Current assets		
Cash	$ 16,654,847	$ 16,142,288
Marketable securities at cost (approximate market)	75,970,344	60,791,883
Receivables	91,919,581	90,996,061
Inventories	106,489,053	109,536,758
Prepaid expenses	1,361,867	1,451,245
	292,395,692	278,918,235
Investment in foreign subsidiaries and branches	52,809,481	50,403,310
Property, plant and equipment	133,686,403	130,870,964
Other assets	2,164,508	2,311,895
Total assets	$481,056,084	$462,504,404
Liabilities and stockholders' equity		
Current liabilities		
Payables and accruals	$ 38,612,636	$ 38,178,285
Accrued taxes	29,441,110	26,714,270
Current installments on long term debt	3,354,000	1,929,000
Dividend payable	2,508,012	2,489,882
Customers' deposits	3,528,999	2,740,005
Customers' service prepayments	24,385,680	22,326,917
	101,830,437	94,378,359
Long term debt (exclusive of installments due within one year)	120,427,000	123,781,000
Total liabilities	222,257,437	218,159,359
Stockholders' equity		
Common stock, represented in 1964 by 8,360,040 shares (1963—8,299,607) of a total of 9,000,000 authorized shares, $5 par value	155,415,228	154,901,187
Earnings retained for use in the business	103,383,419	89,443,858
Total stockholders' equity	258,798,647	244,345,045
Total liabilities and stockholders' equity	$481,056,084	$462,504,404

Note — Under the stock option plan approved by the stockholders in 1958, there were 122,707 shares under option to key employees on January 1, 1964. Additional options were granted in 1964 to purchase 8,500 shares at $69.50 a share, the market price on the date the options were granted. Options are exercisable in annual installments beginning one year after the date granted and expire five years thereafter for options granted in 1964 and 10 years thereafter for prior options. Options on 6,433 shares at prices ranging from $61.07 to $70.71 a share were exercised during 1964 and options on 3,255 shares expired or terminated. At December 31, 1964 there were 121,519 shares under option at prices ranging from $61.07 to $108.125 a share and 5,546 shares were available for granting of options in the future.

es 22 and 23 for additional information

NCR

Summary of Changes in Working Capital

	1964	1963
Working capital was provided by:		
Net income for the year	$ 22,502,607	$ 20,082,267
Domestic depreciation:		
Property, plant and equipment	16,162,775	17,342,034
Rental machines	15,836,891	11,148,224
	31,999,666	28,490,258
Disposition of plant and equipment	3,697,183	3,473,045
Proceeds from sales of common stock	414,120	55,290
Working capital of Business Systems Incorporated on January 1, 1964 (See Page 23)	1,081,593	—
	59,695,169	52,100,860
Working capital was used for:		
Cash dividends to stockholders	9,980,547	9,958,793
Domestic expenditures for:		
Property, plant and equipment	14,574,824	14,094,998
Rental machines	23,501,635	25,306,315
	38,076,459	39,401,313
Reduction of long term debt due after one year	3,354,000	1,929,000
Additional investment in foreign subsidiaries and branches	2,406,171	3,422,196
Other	(147,387)	332,259
	53,669,790	55,043,561
Net change in working capital	6,025,379	(2,942,701)
Working capital at beginning of year	184,539,876	187,482,577
Working capital at end of year	$190,565,255	$184,539,876
Working capital is represented by:		
Current assets	$292,395,692	$278,918,235
Current liabilities	101,830,437	94,378,359
	$190,565,255	$184,539,876

Items Included in Statement of Financial Position

	December 31 1964	1963
Receivables:		
Current accounts	$ 47,916,202	$ 42,329,996
Installment accounts	45,183,133	49,975,619
	93,099,335	92,305,615
Less—provision for estimated doubtful accounts	1,179,754	1,309,554
	$ 91,919,581	$ 90,996,061
Inventories (at lower of cost or market—cost determined principally on last-in, first-out method):		
Raw stock and production supplies	$ 17,648,017	$ 19,487,020
Work in process	39,243,036	38,288,490
Finished goods	49,598,000	51,761,248
	$106,489,053	$109,536,758
Property, plant and equipment (at cost):		
Land	$ 2,965,954	$ 2,928,967
Buildings	43,951,186	43,112,977
Machinery and equipment	70,836,143	67,510,881
Tools	63,942,469	64,885,761
Rental machines	80,123,669	61,463,237
	261,819,421	239,901,823
Less—depreciation	128,133,018	109,030,859
	$133,686,403	$130,870,964
Long term debt (exclusive of installments due within one year):		
2.65 - 3.75% Sinking fund notes due 1966-1980	$ 31,227,000	$ 33,781,000
4.75% Sinking fund debentures due 1966-1985	39,200,000	40,000,000
4.375% Sinking fund debentures due 1967-1987	50,000,000	50,000,000
	$120,427,000	$123,781,000

The long term debt is payable in annual amounts ranging from $3,068,000 to $5,125,000 except for 1966, 1977, 1985 and 1987 when payments of $14,064,000, $7,908,000, $12,500,000 and $12,500,000, respectively, are required. At the option of the Company, all or part of the long term debt may be paid prior to maturity.

Accountants' Report

PRICE WATERHOUSE & CO.

60 BROAD STREET
NEW YORK
February 19, 1965

To the Stockholders of
The National Cash Register Company:

In our opinion, the accompanying statements (pages 24 to 29) present fairly the financial position of The National Cash Register Company and its domestic subsidiary at December 31, 1964, and the consolidated results of operations and changes in working capital for the year then ended, all in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

Price Waterhouse & Co.

NCR

Investment in Foreign Subsidiaries and Branches

	Canada
Assets	
Current assets	
Cash and securities	$ 353,550
Receivables	6,418,575
Inventories	8,537,044
Prepaid expenses	452,181
	15,761,350
Property, plant and equipment	6,442,141
Other assets	—
Total assets	22,203,491
Liabilities	
Current liabilities	
Notes payable	3,820,626
Payables and accruals	2,798,317
Accrued taxes	707,057
Customers' deposits	216,758
	7,542,758
Mortgages and other long term debt	—
Employees' indemnity and other reserves	—
Total liabilities	7,542,758
Net assets	14,660,733
Less:	
Minority interests	—
Accumulated earnings retained for use in foreign operations	—
Net investment	$14,660,733

Note:
Property accounts are stated at dollar cost less depreciation. All other items are at year end exchange rates. Intercompany profit has been eliminated from inventories which are stated generally at the lower of cost or market.

	Great Britain and Continental Europe	Japan, Australia and Far East	Latin America	Africa and Middle East	Total At December 31 1964	Total At December 31 1963
	$ 1,949,096	$ 5,693,961	$ 974,488	$ 504,990	$ 9,476,085	$ 10,943,014
	44,313,261	6,560,786	12,933,257	3,513,776	73,739,655	64,678,315
	56,466,495	25,581,839	9,290,854	5,571,340	105,447,572	93,972,258
	1,907,731	2,225,708	730,492	404,916	5,721,028	4,328,043
	104,636,583	40,062,294	23,929,091	9,995,022	194,384,340	173,921,630
	40,055,567	16,534,778	8,756,379	1,694,257	73,483,122	63,790,462
	1,167,714	774,725	230,237	20,449	2,193,125	1,882,227
	145,859,864	57,371,797	32,915,707	11,709,728	270,060,587	239,594,319
	28,688,642	4,707,796	4,233,884	3,744,222	45,195,170	37,037,662
	27,951,241	9,979,852	6,164,456	2,911,590	49,805,456	42,031,661
	13,093,640	4,092,217	880,308	223,622	18,996,844	16,022,917
	3,748,670	2,132,743	2,110,749	177,604	8,386,524	7,181,441
	73,482,193	20,912,608	13,389,397	7,057,038	122,383,994	102,273,681
	9,493,100	1,201,756	538,767	206,922	11,440,545	10,138,565
	5,736,418	2,998,669	2,869,415	923,607	12,528,109	10,761,845
	88,711,711	25,113,033	16,797,579	8,187,567	146,352,648	123,174,091
	57,148,153	32,258,764	16,118,128	3,522,161	123,707,939	116,420,228
	3,113,515	7,004,400	96,359	141,723	10,355,997	9,137,873
	31,635,216	20,696,505	5,908,880	2,301,860	60,542,461	56,879,045
	$ 22,399,422	$ 4,557,859	$10,112,889	$ 1,078,578	$ 52,809,481	$ 50,403,310

Note:

Net investment is based on November 30 financial statements adjusted for December transactions with the parent company. The parent company has guaranteed approximately $11,000,000 of indebtedness of foreign subsidiaries.

NCR

Ten-Year Review

Results of operations	1964	1963	1962
Income from sales, services and equipment rentals	$665,773,000	$592,580,000	$564,021,000
Net income	22,503,000	20,082,000	20,645,000
Net income per share*	2.69	2.42	2.49
Cash dividends per share*	1.20	1.20	1.20
Stock dividends and stock split	—	—	—

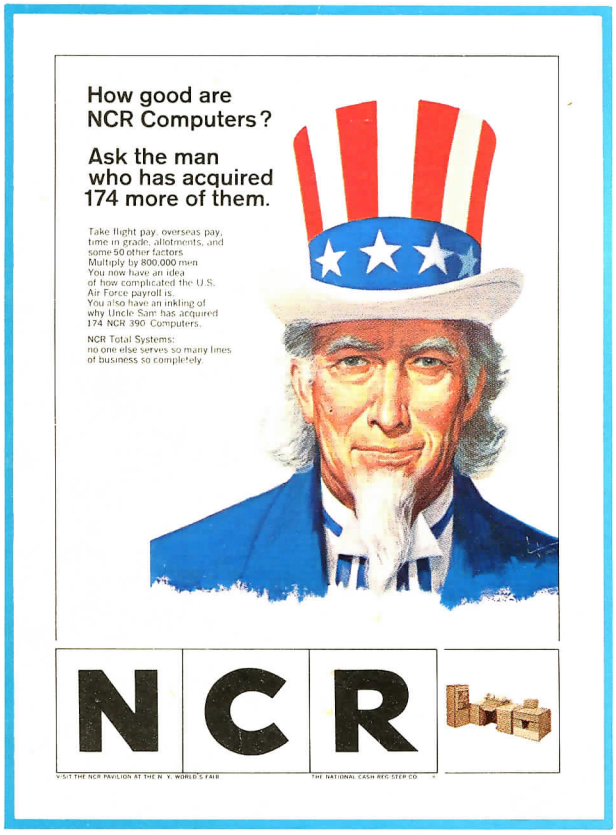
*Adjusted for stock dividends and stock split

Financial position			
Assets			
Current assets	$292,396,000	$278,918,000	$280,249,000
Net assets of foreign subsidiaries and branches (excluding minority interests)	113,351,000	107,282,000	101,525,000
Less: Accumulated unremitted earnings	*60,542,000*	*56,879,000*	*54,544,000*
Property	133,686,000	130,871,000	123,433,000
Other assets	2,165,000	2,312,000	1,980,000
Total	$481,056,000	$462,504,000	$452,643,000
Liabilities and stockholders' equity			
Current liabilities	$101,830,000	$ 94,378,000	$ 92,767,000
Long term debt	120,427,000	123,781,000	125,710,000
Common stock	155,415,000	154,901,000	154,846,000
Earnings retained	103,384,000	89,444,000	79,320,000
Total	$481,056,000	$462,504,000	$452,643,000

Other data			
Additions to property—Domestic	$ 38,077,000	$ 39,401,000	$ 42,033,000
International	23,599,000	18,263,000	19,065,000
Depreciation provision—Domestic	32,000,000	28,490,000	23,914,000
International	13,179,000	9,406,000	7,418,000
Research and development expenditures	22,039,000	20,027,000	19,455,000
Shares of common stock outstanding	8,360,040	8,299,607	8,298,707
Number of stockholders	23,876	24,014	24,297
Number of employees	65,000	61,000	59,000

196?	1960	1959	1958	1957	1956	1955
$518,88?,000	$457,822,000	$419,064,000	$393,746,000	$382,512,000	$340,934,000	$301,180,000
21,708,000	20,024,000	19,076,000	15,512,000	18,190,000	18,420,000	15,388,000
2.72	2.52	2.40	2.09	2.45	2.49	2.11
1.20	1.20	1.14	1.14	1.14	1.04	1.00
—	5%	—	—	—	5%	3 for 1

$205,671,000	$207,343,000	$171,687,000	$158,527,000	$163,917,000	$168,163,000	$130,245,000
93,507,000	79,861,000	71,623,000	65,674,000	64,498,000	59,724,000	53,323,000
51,896,000	*43,506,000*	*40,214,000*	*36,237,000*	*35,292,000*	*30,754,000*	*27,853,000*
108,228,000	95,740,000	85,748,000	82,927,000	74,384,000	60,385,000	54,948,000
818,000	843,000	231,000	229,000	31,000	143,000	62,000
$356,328,000	$340,281,000	$289,075,000	$271,120,000	$267,538,000	$257,661,000	$210,725,000
$ 86,610,000	$ 82,010,000	$ 79,352,000	$ 68,983,000	$ 70,497,000	$ 68,766,000	$ 60,829,000
77,639,000	79,568,000	41,497,000	71,351,000	73,455,000	75,455,000	48,570,000
123,543,000	122,321,000	99,587,000	72,130,000	71,963,000	71,535,000	55,078,000
68,536,000	56,382,000	68,639,000	58,656,000	51,623,000	41,905,000	46,248,000
$356,328,000	$340,281,000	$289,075,000	$271,120,000	$267,538,000	$257,661,000	$210,725,000
$ 34,664,000	$ 26,925,000	$ 18,014,000	$ 21,831,000	$ 25,161,000	$ 16,177,000	$ 14,307,000
12,745,000	8,518,000	5,921,000	6,943,000	8,933,000	6,846,000	5,204,000
20,049,000	15,051,000	13,741,000	11,691,000	9,683,000	9,748,000	7,655,000
6,793,000	5,820,000	5,685,000	5,054,000	4,488,000	3,599,000	3,476,000
17,100,000	15,515,000	14,175,000	15,242,000	13,650,000	8,383,000	7,741,000
7,975,417	7,956,515	7,577,633	7,068,414	7,065,282	7,042,609	6,614,818
23,680	24,038	22,636	18,156	17,704	16,707	15,923
56,000	52,000	49,000	47,000	45,000	44,000	40,000



NCR ADVERTISING is being presented in a fresh, new format as part of the Company's program to bring its expanded range of products to the attention of the business world. Principal media used are industry and trade publications supplemented by national publications with large business audience. Ad shown above, for example, is appearing in March issues of Business Week, Fortune, Newsweek, Time, and U.S. News & World Report.

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