CARROLS RESTAURANT GROUP, INC.
Form 424B3
October 24, 2017

Filed Pursuant to Rule 424(b)(3)
PROSPECTUS Registration No. 333-220679

CARROLS RESTAURANT GROUP, INC.
Offer to Exchange
up to $75,000,000 aggregate principal amount of 8.00% Senior Secured Second Lien Notes due 2022 (CUSIP No. 14574X AD6),
which have been registered under the Securities Act of 1933,
for any and all of $75,000,000 aggregate principal amount of outstanding 8.00% Senior Secured Second Lien Notes due 2022
(CUSIP Nos. 14574X AE4 and U14539 AC1),
which were originally issued on June 23, 2017

We are offering to exchange, upon the terms and subject to the conditions set forth in this prospectus and the accompanying letter of transmittal, up to $75.0 million aggregate principal amount of our 8.00% Senior Secured Second Lien Notes due 2022 (CUSIP No. 14574X AD6) that have been registered under the Securities Act of 1933, as amended (the “New Exchange Notes”) for our currently outstanding $75.0 million aggregate principal amount of 8.00% Senior Secured Second Lien Notes due 2022 (CUSIP Nos. 14574X AE4 and U14539 AC1) that were originally issued in a private offering (the "initial offering") on June 23, 2017 (the "outstanding New Notes" and together with the New Exchange Notes, collectively, the “2017 Notes”). The outstanding New Notes were issued as “Additional Notes” under an indenture dated April 29, 2015 (the “indenture”) pursuant to which we originally issued $200.0 million aggregate principal amount of 8.00% Senior Secured Second Lien Notes due 2022 on April 29, 2015 (the “Initial Notes”), which Initial Notes were exchanged for a like principal amount of notes that had been registered under the Securities Act of 1933, as amended (the “Existing Exchange Notes” and together with the Initial Notes, collectively, the “2015 Notes”). We refer to the 2015 Notes and the 2017 Notes collectively as the “notes.” We have $275.0 million aggregate principal amount of notes outstanding, and the 2015 Notes and the 2017 Notes are all governed by the indenture and vote as one class under the indenture.

Terms of the New Exchange Notes offered in this exchange offer:

- The terms of the New Exchange Notes are identical to the terms of the outstanding New Notes (including principal amount, interest rate and maturity), except that the New Exchange Notes have been registered under the Securities Act of 1933, as amended, or the “Securities Act,” are not subject to any covenant regarding registration under the Securities Act, and are freely transferable by holders thereof (except as provided in this prospectus).
- The New Exchange Notes will represent the same debt as the outstanding New Notes, and we will issue the New Exchange Notes under the same indenture.
- The outstanding New Notes were originally issued under a different CUSIP number from the 2015 Notes. The New Exchange Notes will share a single CUSIP number with the 2015 Notes, and the New Exchange Notes will be fungible with the 2015 Notes and are expected to trade with the 2015 Notes. Outstanding New Notes that are not tendered and exchanged for New Exchange Notes in this exchange offer will trade separately from the 2015 Notes.

Terms of this exchange offer:

- All outstanding New Notes that you validly tender and do not validly withdraw before this exchange offer expires will be exchanged for an equal principal amount of the relevant New Exchange Notes.
- This exchange offer expires at 5:00 p.m., New York City time, on November 21, 2017, unless extended.
- Tenders of outstanding New Notes may be withdrawn at any time prior to the expiration of this exchange offer.
- The exchange of New Exchange Notes for outstanding New Notes will not be a taxable event for U.S. federal income tax purposes.
- We will not receive any proceeds from this exchange offer.

Resales of New Exchange Notes:

- There is no existing public market for the outstanding New Notes or the New Exchange Notes. We do not intend to list the New Exchange Notes on any securities exchange or seek approval for quotation through any automated trading system. The New Exchange Notes may be sold in the over-the-counter market, in negotiated transactions or through a combination of these methods.

- If you fail to tender your outstanding New Notes for the New Exchange Notes, you will continue to hold unregistered securities, that (i) will bear a different CUSIP number from the New Exchange Notes and 2015 Notes, (ii) will trade separately from the New Exchange Notes and 2015 Notes, and (iii) may be difficult for you to transfer.

Investing in the notes involves risks. You should consider carefully the “Risk Factors” beginning on page 11 of this prospectus before participating in this exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

Broker-dealers who acquired outstanding New Notes from us in the initial offering are not eligible to participate in this exchange offer with respect to such outstanding New Notes. Each broker-dealer registered as such under the Securities Exchange Act of 1934, as amended, or the "Exchange Act", that receives New Exchange Notes for its own account pursuant to this exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of the New Exchange Notes. The letter of transmittal that accompanies this prospectus states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an “underwriter” within the meaning of the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer only in connection with resales of New Exchange Notes received in exchange for outstanding New Notes where the outstanding New Notes were acquired by the broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date of the applicable exchange offer and ending on the close of business 180 days after the registration statement of which this prospectus forms a part is declared effective by the SEC, or such shorter period as will terminate when broker-dealers are no longer required to deliver a prospectus in connection with market-making or other trading activities, we will make this prospectus available to any broker-dealer for use in connection with any resale of New Exchange Notes received by a broker-dealer for its own account. A broker-dealer may not participate in this exchange offer with respect to outstanding New Notes acquired other than as a result of market-making activities or trading activities. See “Plan of Distribution.”

The date of this prospectus is October 24, 2017.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. This prospectus is an offer to exchange only the outstanding New Notes offered by this prospectus and only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is accurate only as of its date.

This prospectus contains summaries of the terms of several material documents. These summaries include the terms that we believe to be material, but we urge you to review these documents in their entirety. We will provide without charge to each person to whom a copy of this prospectus is delivered, upon written or oral request of that person, a copy of any and all of this information. Written or oral requests should be directed to William E. Myers, Vice President, General Counsel and Secretary, Carrols Restaurant Group, Inc., 968 James Street, Syracuse, New York 13203, whose telephone number is (315) 424-0513. You should request this information at least five business days in advance of the date on which you expect to make your decision with respect to the exchange offer. In any event, you must request this information prior to November 14, 2017, in order to receive the information prior to the expiration of the exchange offer.

PRESENTATION OF INFORMATION

Throughout this prospectus, we refer to Carrols Restaurant Group, Inc. as “Carrols Restaurant Group” and, together with its consolidated subsidiaries, as “we,” “our” and “us” unless otherwise indicated or the context otherwise requires. Any reference to “Carrols” refers to our wholly-owned subsidiary, Carrols Corporation, a Delaware corporation, and its consolidated subsidiary, unless otherwise indicated or the context otherwise requires. Any reference to “Carrols LLC” refers to the wholly-owned subsidiary of Carrols, Carrols LLC, a Delaware limited liability company, unless otherwise indicated or the context otherwise requires. Any reference to “Republic Foods, Inc.” refers to Carrols LLC's wholly-owned subsidiary, Republic Foods, Inc., a Maryland corporation unless otherwise indicated or the context otherwise requires.

We use a 52-53 week fiscal year ending on the Sunday closest to December 31. Our fiscal years ended December 30, 2012, December 29, 2013, December 28, 2014 and January 1, 2017 each contained 52 weeks. Our fiscal year ended January 3, 2016 contained 53 weeks. The three and six months ended July 2, 2017 and July 3, 2016 each contained 13 and 26 weeks, respectively.

Throughout this prospectus, any reference to "BKC" refers to Burger King Worldwide, Inc. and its wholly-owned subsidiaries, including Burger King Corporation and its parent company, Restaurant Brands International Inc. BURGER KING® is a registered trademark and service mark and WHOPPER® is a registered trademark of BKC. Neither BKC nor any of its subsidiaries, affiliates, officers, directors, agents, employees, accountants or attorneys are in any way participating in, approving or endorsing this offering, any representations made in connection with this offering or any of the underwriting (if any) or accounting procedures used in this offering. The grant by BKC of any franchise or other rights to us is not intended as, and should not be interpreted as, an express or implied approval, endorsement or adoption of any statement regarding financial or other performance which may be contained in the prospectus. All financial information in this prospectus is our sole responsibility.

Any review by BKC of this prospectus has been conducted solely for the benefit of BKC to determine conformance with BKC internal policies, and not to benefit or protect any other person. No investor should interpret such review by BKC as an internal approval, endorsement, acceptance or adoption of any representation, warranty, covenant or projection contained in this prospectus.

The enforcement or waiver of any obligation of ours under any agreement between us and BKC or BKC affiliates is a matter of BKC or BKC affiliates' sole discretion. No investor should rely on any representation, assumption or belief that BKC or BKC affiliates will enforce or waive particular obligations of ours under those agreements.

MARKET AND INDUSTRY DATA

In this prospectus, we refer to information, forecasts and statistics regarding the restaurant industry and to information, forecasts and statistics from Nation's Restaurant News and the U.S. Department of Agriculture. Unless otherwise indicated, information regarding BKC in this prospectus has been made publicly available by BKC. The information, forecasts and statistics we have used may reflect rounding adjustments.

WHERE YOU CAN FIND MORE INFORMATION

We and the guarantors have filed a registration statement on Form S-4 with the U.S. Securities and Exchange Commission ("SEC") with respect to the exchange offer contemplated by this prospectus. This prospectus is a part of, and does not contain all of the information set forth in, the registration statement and the exhibits and schedules to the registration statement. For further information with respect to us, the guarantors and the New Exchange Notes, please refer to the registration statement, including its exhibits and schedules. Statements made in this prospectus relating to any contract or other document are not necessarily complete, and you should refer to the exhibits attached to the registration statement for copies of the actual contract or document. The public may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at Station Place, 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet website that contains reports, proxy statements and prospectuses, and other information regarding issuers, including us, that file electronically with the SEC. The public can obtain any documents that we file with the SEC at http://www.sec.gov. Information contained on any website referenced in this prospectus is not incorporated by reference in this prospectus or the registration statement of which it forms a part.

We are subject to the information and reporting requirements of the Exchange Act and, in accordance with the Exchange Act, we file periodic reports, proxy statements and other information with the SEC.

Under the terms of the indenture relating to the notes, we have agreed that, whether or not we are required to do so by the rules and regulations of the SEC, for so long as any of the notes remain outstanding, we will furnish to the trustee and holders of the notes the information specified therein in the manner specified therein. See “Description of Notes.”

You should rely only on the information contained in this prospectus or to which we have referred you. We have not authorized any person to provide you with different information or to make any representation not contained in this prospectus.

In addition, our website is found on the Internet at www.carrols.com. The website will contain information about us and our operations. Copies of each of our filings with the SEC can be viewed and downloaded free of charge from our website as soon as reasonably practicable after the reports are electronically filed with or furnished to the SEC.

INFORMATION INCORPORATED BY REFERENCE

The SEC allows us to incorporate by reference into this prospectus certain information we file with it, which means that we can disclose important information by referring you to those documents. The information incorporated by reference is considered to be a part of this prospectus, and information that we file later with the SEC will automatically update and supersede information contained in this prospectus and any accompanying prospectus supplement. We incorporate by reference the documents listed below that we have previously filed with the SEC, except that information furnished under Item 2.02 or Item 7.01 of our Current Reports on Form 8-K or any other filing where we indicate that such information is being furnished and not "filed" under the Exchange Act, is not deemed to be filed and not incorporated by reference herein:

- our Annual Report on Form 10-K for the fiscal year ended January 1, 2017, filed on March 7, 2017;
- our Definitive Proxy Statement on Schedule 14A filed on April 26, 2017;

- our Quarterly Report on Form 10-Q for the quarter ended April 2, 2017, filed on May 10, 2017;
- our Quarterly Report on Form 10-Q for the quarter ended July 2, 2017, filed on August 9, 2017;
- our Current Reports on Form 8-K filed on: January 20, 2017; May 18, 2017; June 14, 2017; and June 26, 2017; and
- the description of our common stock contained in our Registration Statement on Form 8-A as filed with the SEC on November 30, 2006 and any further amendment or report filed hereafter for the purpose of updating such description.

We also incorporate by reference into this prospectus additional documents that we may file with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the completion or termination of the offering, including all such documents we may file with the SEC after the date of the initial registration statement and prior to the effectiveness of the registration statement, but excluding any information deemed furnished and not filed with the SEC. Any statements contained in a previously filed document incorporated by reference into this prospectus is deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained in this prospectus, or in a subsequently filed document also incorporated by reference herein, modifies or supersedes that statement.

This prospectus may contain information that updates, modifies or is contrary to information in one or more of the documents incorporated by reference in this prospectus. You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone else to provide you with different information. You should not assume that the information in this prospectus is accurate as of any date other than the date of this prospectus or the date of the documents incorporated by reference in this prospectus.

We will provide to each person, including any beneficial owner, to whom this prospectus is delivered, upon written or oral request, at no cost to the requester, a copy of any and all of the information that is incorporated by reference in this prospectus.

You may request a copy of these filings, at no cost to you, by telephoning us at (315) 424-0513 or by writing us at the following address:

Carrols Restaurant Group, Inc.
968 James Street
Syracuse, New York 13203
Attn: William E. Myers

You may also access the documents incorporated by reference in this prospectus through our website at www.carrols.com. The reference to our website is an inactive textual reference only and, except for the specific incorporated documents listed above, no information available on or through our website shall be deemed to be incorporated in this prospectus or the registration statement of which it forms a part.

FORWARD-LOOKING STATEMENTS

This prospectus contains statements which constitute "forward-looking" statements within the meaning of Section 27A of the Securities Act, and Section 21E of the Exchange Act. Statements that are predictive in nature or that depend upon or refer to future events or conditions are "forward-looking statements". These statements are often identified by the words “may”, “might”, “will”, “should”, “anticipate”, “believe”, “expect”, “intend”, “estimate”, “hope”, “plan expressions. In addition, expressions of our strategies, intentions or plans are also forward-looking statements. These statements reflect management's current views with respect to future events and are subject to risks and uncertainties, both known and unknown. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their date. There are important factors that could cause actual results to differ materially from those in forward-looking statements, many of which are beyond our control. You are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those projected or implied in the forward-looking statements. We have identified significant factors that could cause actual results to differ materially from those stated or implied in the forward-looking statements. We believe important factors that could cause actual results to differ materially from our expectations include the following, in addition to other risks and uncertainties discussed herein:

- Effectiveness of the Burger King® advertising programs and the overall success of the Burger King brand;
- Increases in food costs and other commodity costs;
- Competitive conditions;
- Our ability to integrate any restaurants we acquire;
- Regulatory factors;
- Environmental conditions and regulations;
- General economic conditions, particularly in the retail sector;
- Weather conditions;
- Fuel prices;
- Significant disruptions in service or supply by any of our suppliers or distributors;
- Changes in consumer perception of dietary health and food safety;
- Labor and employment benefit costs, including the effects of minimum wage increases, health care reform and changes in the Fair Labor Standards Act;
- The outcome of pending or future legal claims or proceedings;
- Our ability to manage our growth and successfully implement our business strategy;
- Our inability to service our indebtedness;
- Our borrowing costs and credit ratings, which may be influenced by the credit ratings of our competitors;
- The availability and terms of necessary or desirable financing or refinancing and other related risks and uncertainties;
- Factors that affect the restaurant industry generally, including recalls if products become adulterated or misbranded, liability if our products cause injury, ingredient disclosure and labeling laws and regulations, reports of cases of food borne illnesses such as "mad cow" disease and the possibility that consumers could lose confidence in the safety and quality of certain food products, as well as negative publicity regarding food quality, illness, injury or other health concerns; and
- Other factors discussed under "Risk Factors" herein.

Developments in any of these areas, which are more fully described elsewhere in this prospectus and which descriptions are incorporated into this section by reference, could cause our results to differ materially from results that have been or may be projected by or on our behalf.

All forward-looking statements included in this prospectus or incorporated by reference herein are based on information available to us on the date of this prospectus. We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. We urge you not to unduly rely on forward-looking statements contained in this prospectus or incorporated by reference herein.

SUMMARY

The following is a summary of material information discussed in this prospectus. This summary may not contain all the details concerning the exchange offer or other information that may be important to you. To better understand the exchange offer and our business and financial position, you should carefully review this entire prospectus.

Our Company

We are one of the largest restaurant companies in the United States and have been operating restaurants for more than 50 years. We are the largest Burger King® franchisee in the United States, based on number of restaurants, and have operated Burger King restaurants since 1976. As of July 2, 2017, we owned and operated 799 Burger King restaurants located in 17 Northeastern, Midwestern and Southeastern states. Burger King restaurants feature the popular flame-broiled Whopper® sandwich, as well as a variety of hamburgers, chicken and other specialty sandwiches, french fries, salads, breakfast items, hot dogs, snacks, smoothies, frappes and other offerings. We believe that our size, seasoned management team, extensive operating infrastructure, experience and proven operating disciplines differentiate us from many of our competitors as well as many other Burger King operators. For the fiscal year ended January 1, 2017, our restaurants generated total revenues of $943.6 million, our comparable restaurant sales increased 2.3% and our average annual restaurant sales for all restaurants were approximately $1.31 million per restaurant. For the fiscal quarter ended July 2, 2017, our restaurants generated total revenues of $279.5 million and our comparable restaurant sales increased 4.6%.

Our common stock is listed on The NASDAQ Global Market under the symbol “TAST.” Our acquisition of 278 Burger King restaurants from BKC on May 30, 2012, which we refer to as the “2012 acquisition”, included BKC’s assignment of its right of first refusal (the "ROFR") on franchise restaurant transfers in 20 states as follows: Connecticut (except Hartford county), Delaware, Indiana, Kentucky, Maine, Maryland, Massachusetts (except for Middlesex, Norfolk and Suffolk counties), Michigan, New Hampshire, New Jersey, New York (except for Bronx, Kings, Nassau, New York, Queens, Richmond, Suffolk and Westchester counties), North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Vermont, Virginia, Washington DC and West Virginia (the “DMA's”) pursuant to an operating agreement with BKC dated May 30, 2012, as amended on January 26, 2015 and December 17, 2015, which we refer to as the “operating agreement”. In addition, pursuant to the operating agreement, BKC granted us, on a non-exclusive basis, franchise pre-approval to acquire restaurants from Burger King franchisees in the 20 states covered by the ROFR until we operate 1,000 Burger King restaurants. Newly constructed or acquired restaurants beyond 1,000 or acquisitions in states not subject to the ROFR would be subject to BKC’s customary approval process. The amended operating agreement also required us to remodel 455 Burger King restaurants to BKC’s “20/20” restaurant image by December 31, 2016, and at December 31, 2016 we had complied with this remodel requirement. Additionally, under the amended operating agreement with BKC, beginning on January 1, 2016 and until we exceed operating 1,000 Burger King restaurants, a minimum of 10% of our annual new restaurant growth (including acquisitions) must come from the development of new Burger King restaurants (which includes restaurants we relocate within their market area); provided that for 2016 only, any required restaurant development may be deferred and opened by the end of 2017. At July 2, 2017, we had completed the development of three restaurants towards this commitment.

On June 6, 2017, we acquired 17 Burger King restaurants in the Baltimore and Washington, D.C. markets through the acquisition of all of the outstanding capital stock of Republic Foods, Inc. and on February 28, 2017, we acquired 43 Burger King restaurants in and around the Cincinnati, Ohio market. In 2016, we acquired a total of 56 Burger King restaurants in seven separate transactions; in 2015, we acquired a total of 55 Burger King restaurants in eight separate transactions; and in 2014 we acquired a total of 123 Burger King restaurants in five separate transactions.

Burger King Restaurants

According to BKC, as of December 31, 2016 there were a total of 15,738 Burger King restaurants, almost all of which were franchised and 7,387 were located in the United States and Canada. Burger King is the second largest hamburger restaurant chain in the world (as measured by number of restaurants) and we believe that the Burger King brand is one of the world’s most recognized consumer brands. Burger King restaurants have a distinctive image and are generally located in high-traffic areas throughout the United States. Burger King restaurants are designed to appeal to a broad spectrum of consumers, with multiple day-part meal segments targeted to different groups of consumers. We believe that the competitive attributes of Burger King restaurants include significant brand recognition, convenience of location, quality, speed of service and price.

BKC's marketing strategy is characterized by its HAVE IT YOUR WAY® service, TASTE IS KING® tag line, flame grilling, generous portions and competitive prices. Burger King restaurants feature flame-grilled hamburgers, the most popular of which is the Whopper® sandwich, a large, flame-grilled hamburger garnished with mayonnaise, lettuce, onions, pickles and tomatoes. The basic menu of all Burger King restaurants also includes a variety of hamburgers, chicken and other specialty sandwiches, french fries, soft drinks, salads, breakfast items, snacks, and other offerings. BKC and its franchisees have historically spent between 4% and 5% of their respective sales on marketing, advertising and promotion to sustain high brand awareness. BKC's marketing initiatives are designed to reach a diverse consumer base and BKC has continued to introduce a number of new and enhanced products to broaden menu offerings and drive customer traffic in all day parts.

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Industry Overview

The Restaurant Market. Restaurant sales historically have closely tracked several macroeconomic indicators and we believe that “away-from-home” food consumption will increase due to these trends in recent years. Historically, unemployment has been inversely related to restaurant sales and, as the unemployment rate decreases and disposable income increases, restaurant sales have increased. According to the U.S. Department of Agriculture, in 2016 food away from home dollars exceeded at-home dining, with 50.2% of food dollars spent on food away from home and with total expenditures increasing 8.0% from 2013.

Quick-Service Restaurants. We operate in the hamburger category of the quick-service restaurant segment of the restaurant industry. Quick-service restaurants are distinguished by high speed of service and efficiency, convenience, limited menu and service, and value pricing. According to Nation’s Restaurant News, 2015 U.S. foodservice sales for the Top 100 restaurant chains increased 5.9% from 2014 to $248.3 billion. Of this amount, the hamburger category represented $76.8 billion, or 30.9%, making it the largest category of the quick-service segment.

Our Competitive Strengths

Largest Burger King Franchisee in the United States. We are the largest Burger King franchisee in the United States based on number of restaurants, and are well positioned to leverage the scale and marketing of one of the most recognized brands in the restaurant industry. We believe the geographic dispersion of our restaurants provides us with stability and enhanced growth opportunities in many of the markets in which we operate. We also believe that our large number of restaurants increases our ability to effectively manage the awareness of the Burger King brand in certain markets through our ability to influence local advertising and promotional activities.

Operational Expertise. We have been operating Burger King restaurants since 1976 and have developed sophisticated information and operating systems that enable us to measure and monitor key metrics for operational performance, sales and profitability that may not be available to other restaurant operators. Our focus on leveraging our operational expertise, infrastructure and systems allows us to optimize the performance of our restaurants and restaurants that we may acquire. Our size and history with the Burger King brand enable us to effectively track operating metrics and leverage best practices across our organization. We believe that our experienced management team, operating culture, effective operating systems and infrastructure enable us to operate more efficiently than many other Burger King operators, resulting in higher restaurant margins and improved overall financial results.

Consistent Operating History and Financial Strength. We believe that the quality and sophistication of our restaurant operations have driven our strong restaurant level performance. Comparable restaurant sales for our restaurants have generally outperformed the Burger King system. Our strong restaurant level operations coupled with our financial management capabilities have resulted in consistent and stable cash flows. We have demonstrated our ability to prudently manage financial leverage through a variety of economic cycles. We believe that our cash flow from operations and the availability of revolving credit borrowings under our senior credit facility will be used to fund our ongoing operations and capital expenditures.

Distinct Brand with Global Recognition, Innovative Marketing and New Product Development. As a Burger King franchisee, we benefit from, and rely on, BKC’s extensive marketing, advertising and product development capabilities to drive sales and generate increased restaurant traffic. Over the years, BKC has launched innovative and creative multimedia advertising campaigns that highlight the popular relevance of the Burger King brand. BKC has also introduced promotions that leverage both value and premium menu offerings as well as providing a platform for new premium sandwich offerings. We believe these campaigns continue to positively impact the brand today as BKC focuses on a well-balanced promotional mix and remains committed to focusing on fewer but more impactful new product launches and limited time offers, both of which continue to show positive trends. BKC is also aggressively working with franchisees throughout the system to encourage the renovation and remodeling of restaurants to BKC’s "20/20" image, which we believe will continue to increase customer traffic and restaurant sales.

Strategic Relationship with Burger King Corporation. We believe that the structure of the 2012 acquisition strengthened our well-established relationship with BKC and has further aligned our common interests to grow our business. We intend to continue to expand by making acquisitions, including acquisitions resulting from the exercise of the ROFR as well as other negotiated acquisitions under our pre-approval rights. The consideration to BKC associated with the 2012 acquisition included an equity interest in Carrols Restaurant Group in the form of convertible preferred stock, which currently constitutes approximately 20.6% of our outstanding common stock on an as-converted basis. Since the 2012 acquisition, two of BKC's senior executives have served on our board of directors. Jose Cil, Executive Vice President and President, Burger King, of Restaurant Brands International Inc., the indirect parent company of BKC, and Alexandre Macedo, BKC's President of North America, currently serve on our Board of Directors. Our restaurants represent approximately 10.2% of the Burger King locations in North America as of January 1, 2017. We believe that the combination of our rights under the operating agreement, BKC's equity interest and its board level representation will continue to reinforce the alignment of our common interests with BKC for the long term.

Multiple Growth Levers. We believe our historical track record of acquiring, integrating and remodeling our restaurants provides multiple avenues to grow our business. With more than 50 years of restaurant operating experience, we have successfully grown our business through acquisitions. Generally, we have experienced increases in comparable restaurant sales, increased restaurant-level profitability and improved operating metrics at the restaurants. In addition, as of July 2, 2017, we had a total of 578 restaurants with BKC's 20/20 restaurant image, which includes restaurants converted prior to our acquisition.

Experienced Management Team with a Proven Track Record. We believe that our senior management team's extensive experience in the restaurant industry and its long and successful history of developing, acquiring, integrating and operating quick-service restaurants provide us with a competitive advantage. Our management team has a successful history of integrating acquired restaurants, and over the past 20 years, we have significantly increased the number of Burger King restaurants we own and operate, largely through acquisitions. Our operations are overseen by our Chief Executive Officer, Dan Accordino, who has over 40 years of Burger King and quick-service restaurant experience and nine Regional Directors that have an average of 27 years of Burger King restaurant experience. Our 107 district managers that have an average tenure of 17 years in the Burger King system support the Regional Directors. Our operations management is further supported by our infrastructure of financial, information systems, real estate, human resources and legal professionals.

Our Business Strategy

Our primary business strategies are as follows:

Selectively Acquire and Develop Additional Burger King Restaurants. As of July 2, 2017, we operated 799 Burger King restaurants, making us one of the largest Burger King franchisee in the world. We acquired the ROFR in the 2012 acquisition and were granted certain pre-approval rights to acquire additional franchised restaurants and to develop new restaurants. Due to the number of restaurants and franchisees in the Burger King system and our historical success in acquiring and integrating restaurants, we believe that there is considerable opportunity for future growth. There are more than 2,000 Burger King restaurants we do not own in states in which we have the ROFR and pre-approval rights. Furthermore, we believe there are additional Burger King restaurants in states not subject to the ROFR that could be attractive acquisition candidates, subject to BKC's customary approval. We believe that the assignment of the ROFR and the pre-approval to acquire and develop additional restaurants provide us with the opportunity to significantly expand our ownership of Burger King restaurants in the future. While we may evaluate and discuss potential acquisitions of additional restaurants from time to time, we currently have no understandings, commitments or agreements with respect to any material acquisitions. We may be required to obtain additional financing to fund future acquisitions. There can be no assurance that we will be able to obtain additional financing, if necessary, on acceptable terms or at all.

Improve Profitability of Restaurants We Acquire by Leveraging Our Existing Infrastructure and Best-Practices. For acquired restaurants, we believe we can realize benefits from economies of scale, including leveraging our existing infrastructure across a larger number of restaurants. Additionally, we believe that our skilled management team, sophisticated information technology, operating systems and training and development programs support our ability to enhance operating efficiencies at any restaurants we may acquire. We have demonstrated our ability to increase the profitability of acquired restaurants and we believe, over time, that we will improve profitability and operational efficiency at the restaurants we have and may acquire.

Increase Restaurant Sales and Customer Traffic. BKC has identified and implemented a number of strategies to increase brand awareness, increase market share, improve overall operations and drive sales. These strategies are central to our strategic objectives to deliver profitable growth.

- Products. The strength of the BKC menu has been built on a distinct flame-grilled cooking platform to make better tasting hamburgers. We believe that BKC intends to continue to optimize the menu by focusing on core products, such as the flagship Whopper® sandwich, while maintaining a balance between value promotions and premium limited time offerings to drive sales and traffic. Recent product innovation has included a multi-tier balanced marketing approach to value and premium offerings, pairing value promotions with various limited time offerings of premium products. In addition, BKC has introduced various bundled meal deals to enhance the effectiveness of its promotional offers. There have also been a number of enhancements to food preparation procedures to improve the quality of BKC’s existing products. These new menu platforms and quality improvements form the backbone of BKC’s strategy to appeal to a broader consumer base and to increase restaurant sales.

- Image. We believe that re-imaged restaurants increase curb appeal and result in increased restaurant sales. As of July 2, 2017, we had a total of 578 restaurants with the BKC "20/20" image, including restaurants converted prior to our acquisition. BKC’s 20/20 restaurant image features a fresh, sleek, eye-catching design. The restaurant redesign incorporates easy-to-navigate digital menu boards in the dining room, streamlined merchandising at the drive-thru and flat screen televisions in the dining area. We believe our restaurant remodeling has improved our guests’ dining experience and increased customer traffic.
- Advertising and Promotion. We believe that we will continue to benefit from BKC’s advertising support of its menu items, product enhancement and re-imaging initiatives. BKC has established a data driven marketing process which has focused on driving restaurant sales and traffic, while targeting a broad consumer base with inclusive messaging. This

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strategy uses multiple touch points to advertise our products, including digital advertising, social media and on-line video in addition to traditional television advertising. BKC has a food-centric marketing strategy which focuses consumers on the food offerings, the core asset, and balances value promotions and premium limited time offerings to drive profitable restaurant sales and traffic.

- Operations. We believe that improving restaurant operations and enhancing the customer experience are key components to increasing the profitability of our restaurants. We believe we will benefit from BKC's ongoing initiatives to improve food quality, simplify restaurant level execution and monitor operational performance, all of which are designed to improve the customer experience and increase customer traffic.

Strategically Remodel to Elevate Brand Profile and Increase Profit Potential. In 2017, we plan to remodel an additional 28 to 32 more locations to BKC's "20/20" image as well as rebuild 6 to 8 restaurants and construct 10 to 15 new restaurants, of which two or three restaurants will be relocated within their respective markets. We believe there are opportunities to increase profitability by remodeling additional restaurants including restaurants that we have acquired or may acquire in the future.

Recent Developments

On June 23, 2017 we sold $75 million principal amount of 8.00% Senior Secured Second Lien Notes due 2022 in a Rule 144A and Regulation S private placement subject to subsequent registration with the SEC. The outstanding New Notes were issued as additional notes under, and the terms of the outstanding New Notes are governed by, an indenture dated April 29, 2015 (the "indenture"), entered into by us, as issuer, and our material subsidiaries party thereto, as guarantors, with The Bank of New York Mellon Trust Company, N.A., as trustee, pursuant to which we issued $200.0 million aggregate principal amount of 8.00% Senior Secured Second Lien Notes due 2022 on April 29, 2015, which Initial Notes were exchanged for a like principal amount of notes that had been registered under the Securities Act of 1933.

On June 20, 2017, we entered into an amendment to our senior credit facility dated as of May 30, 2012, which we refer to as our "senior credit facility", to permit the issuance of the outstanding New Notes.

Corporate Information

We are a Delaware corporation, incorporated in 1986. We conduct all of our operations through our indirect subsidiary, Carrols LLC, a Delaware limited liability company, and its wholly-owned subsidiary Republic Foods, Inc., a Maryland corporation. We have no assets other than the shares of Carrols. Our principal executive offices are located at 968 James Street, Syracuse, New York 13203 and our telephone number at that address is (315) 424-0513. Our corporate website is www.carrols.com. Such website address is textual reference only, meaning that the information contained on our website is not a part of this prospectus and is not incorporated by reference in this prospectus.

Summary of the Exchange Offer

The Initial Offering of Outstanding New Notes	In connection with the private placement of the outstanding New Notes on June 23, 2017, we entered into a registration rights agreement, dated June 23, 2017, with the initial purchaser of the outstanding New Notes in which we agreed, among other things, to use our reasonable best efforts to cause the exchange offer described in this prospectus to be consummated within 270 days after the date of the original issue of the original notes. You are entitled to exchange in the exchange offer your outstanding New Notes for New Exchange Notes, the terms of which are identical in all material respects to the outstanding New Notes (including principal amount, interest rate and maturity) except that the New Exchange Notes have been registered under the Securities Act of 1933, as amended, or the "Securities Act."
The Exchange Offer	We are offering to exchange up to $75.0 million aggregate principal amount of 8.00% Senior Secured Second Lien Notes due 2022, which will be registered under the Securities Act, for up to $75.0 million aggregate principal amount of outstanding 8.00% Senior Secured Second Lien Notes due 2022 (CUSIP Nos. 14574X AE4 and U14539AC1), which were issued in connection with a private placement on June 23, 2017. In order to be exchanged, an outstanding New Note must be properly tendered and accepted. We will issue $1,000 principal amount of New Exchange Notes for each respective $1,000 principal amount of outstanding New Notes validly tendered and not withdrawn pursuant to this exchange offer. We will issue New Exchange Notes promptly after the expiration of this exchange offer. The outstanding New Notes were originally issued under a different CUSIP number from the 2015 Notes. The New Exchange Notes will share a single CUSIP number with the 2015 Notes, and the New Exchange Notes will be fungible with the 2015 Notes and are expected to trade with the 2015 Notes. Outstanding New Notes that are not tendered and exchanged for New Exchange Notes in this exchange offer will trade separately from the 2015 Notes.
Expiration Date	This exchange offer expires at 5:00 p.m., New York City time, on November 21, 2017, unless we decide to extend the expiration date, in which case the term "expiration date" means the latest date and time to which we extend this exchange offer. For more information, see "The Exchange Offer—Expiration Date; Extensions; Amendments."
Withdrawal Rights	You may withdraw the tender of your outstanding New Notes at any time prior to 5:00 p.m., New York City time, on the expiration date. To withdraw, you must deliver a written or facsimile transmission notice of withdrawal to the exchange agent at its address indicated on the cover page of the letter of transmittal before 5:00 p.m., New York City time, on the expiration date of this exchange offer. For more information, see "The Exchange Offer—Withdrawal of Tenders."
Acceptance of Outstanding New Notes and Delivery of New Exchange Notes	If you fulfill all conditions required for proper acceptance of outstanding New Notes, we will accept any and all outstanding New Notes that you properly tender in this exchange offer on or before 5:00 p.m., New York City time, on the expiration date. We will return any outstanding New Notes that we do not accept for exchange to you as promptly as practicable after the expiration date and acceptance of the outstanding New Notes for exchange. See "The Exchange Offer-Terms of the Exchange Offer."
Conditions to the Exchange Offer	This exchange offer is subject to customary conditions. See "The Exchange Offer—Conditions."
Procedures for Tendering	If you wish to tender your outstanding New Notes for exchange in this exchange offer, you must transmit to the exchange agent on or before 5:00 p.m., New York City time, on the expiration date

Outstanding New Notes	either:

- an original or a facsimile of a properly completed and duly executed copy of the letter of transmittal which accompanies this prospectus, together with your outstanding New Notes and any other documentation required by the letter of transmittal, at the address provided on the cover page of the letter of transmittal; or
- if the outstanding New Notes you own are held of record by The Depositary Trust Company, or “DTC,” in book-entry form and you are making delivery by book-entry transfer, a computer-generated message transmitted by means of DTC's Automated Tender Offer Program System, or “ATOP,” in which you acknowledge and agree to be bound by the terms of the letter of transmittal and which, when received by the exchange agent, will form a part of a confirmation of book-entry transfer, DTC will facilitate the exchange of your outstanding New Notes and update your account to reflect the issuance of the New Exchange Notes to you. ATOP allows you to electronically transmit your acceptance of this exchange offer to DTC instead of physically completing and delivering a letter of transmittal to the exchange agent.

For more information see “The Exchange Offer—Procedures for Tendering.”

Special Procedures for Beneficial Owners	If you are the beneficial owner of book-entry interests and your name does not appear on a security position listing of DTC as the holder of the book-entry interests or if you are a beneficial owner of outstanding New Notes that are registered in the name of a broker, dealer, commercial bank, trust company or other nominee and you wish to tender the book-entry interest or outstanding New Notes in this exchange offer, you should contact the person in whose name your book-entry interests or outstanding New Notes are registered promptly and instruct that person to tender on your behalf. For more information, see "The Exchange Offer—Procedures for Tendering."
Guaranteed Delivery Procedures	If you wish to tender your outstanding New Notes and: • time will not permit your notes or other required documents to reach the exchange agent by 5:00 p.m., New York City time, on the expiration date; or • the procedure for book-entry transfer cannot be completed on time; you may tender your outstanding New Notes by completing a notice of guaranteed delivery and complying with the guaranteed delivery procedures. For more information, see "The Exchange Offer—Guaranteed Delivery Procedures."
Resales of the New Exchange Notes	Based on an interpretation by the staff of the Securities and Exchange Commission, or the "SEC," set forth in no-action letters issued to third parties, we believe that the New Exchange Notes you receive in this exchange offer may be offered for resale, resold and otherwise transferred by you without compliance with the registration and prospectus delivery requirements of the Securities Act, provided that: • you are acquiring the New Exchange Notes in the ordinary course of your business; • you are not participating, do not intend to participate, and have no arrangement or understanding with any person to participate, in the distribution of the New Exchange Notes issued to you in this exchange offer; and • you are not an affiliate of ours within the meaning of Rule 405 of the Securities Act. If any of these conditions are not satisfied and you transfer any New Exchange Notes issued to you in this exchange offer without delivering a resale prospectus meeting the requirements of the Securities Act or without an exemption from registration of your New Exchange Notes from these requirements, you may incur liability under the Securities Act. We will not assume, nor will we indemnify you against, any such liability. Each broker-dealer that is issued New Exchange Notes in this exchange offer for its own account in exchange for outstanding New Notes must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the New Exchange Notes. A broker-dealer may use this prospectus for an offer to resell, resale or other retransfer of the New Exchange Notes issued to it in this exchange offer in exchange for outstanding New Notes that were acquired by that broker-dealer as a result of market-making or other trading activities. For more information, see "The Exchange Offer—Resale of the New Exchange Notes." Each broker-dealer that is issued New Exchange Notes in this exchange offer for its own account in exchange for outstanding New Notes must acknowledge that it will deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of the New Exchange Notes. A broker-dealer may use this prospectus for an offer to resell, resale or other retransfer of the New

Exchange Notes issued to it in this exchange offer in exchange for outstanding New Notes that were acquired by that broker-dealer as a result of market-making or other trading activities. For more information, see "The Exchange Offer—Resale of the New Exchange Notes."
Any holder of outstanding New Notes who:

- is our affiliate
- does not acquire New Exchange Notes in the ordinary course of its business; or
- tenders its outstanding New Notes in this exchange offer with the intention to participate, or for the purpose of participating, in a distribution of New Exchange Notes cannot rely on the position of the staff of the SEC enunciated in Exxon Capital Holdings Corporation (available May 13, 1988), Morgan Stanley & Co. Incorporated (available June 5, 1991), and Shearman & Sterling (available July 2, 1993) or similar no-action letters and, in the absence of an exemption therefrom, must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale of the New Exchange Notes.

Registration Rights Agreement	In connection with the initial sale of the outstanding New Notes, we entered into a registration rights agreement with the initial purchaser. In that agreement we agreed, among other things, to use our reasonable best efforts to file the registration statement of which this prospectus forms a part with the SEC within 180 days after the date we issued the outstanding New Notes and to use our reasonable best efforts to consummate this exchange offer within 270 days after the date we issued the outstanding New Notes. This exchange offer is intended to satisfy your rights and our obligations with respect to an exchange offer under the registration rights agreement. If we fail to consummate this exchange offer within 270 days after the date we issued the outstanding New Notes, we agreed to pay additional interest on the outstanding New Notes. After this exchange offer is complete, you will no longer be entitled to any exchange and certain registration rights with respect to your outstanding New Notes. Under certain circumstances set forth in the registration rights agreement, holders of notes, including holders who are not permitted to participate in this exchange offer or who may not freely sell exchange notes New Exchange Notes received in this exchange offer, may require us to file and cause to become effective, a shelf registration statement covering resales of the notes by these holders.
Effect on Holders of Outstanding New Notes	As a result of making this exchange offer, and upon acceptance for exchange of all validly tendered outstanding New Notes pursuant to the terms thereof, we will have fulfilled one of the covenants contained in the registration rights agreement and, accordingly, we will not be obligated thereunder to pay additional interest for failure to take these actions. If you are a holder of outstanding New Notes and you do not tender them in this exchange offer, you will continue to hold them and you will be entitled to all the rights and subject to all the limitations applicable to the outstanding New Notes in the indenture, and you may continue to be entitled to certain limited rights and be subject to certain limitations under the registration rights agreement. To the extent that outstanding notes are tendered and accepted in this exchange offer, the trading market for the outstanding notes could be adversely affected.
Broker-Dealers	Each broker-dealer registered as such under the Exchange Act that receives New Exchange Notes for its own account in exchange for outstanding New Notes, where such outstanding New Notes were acquired by such broker-dealer as a result of market-making activities or other trading activities, must acknowledge that it will deliver a prospectus in connection with any resale of those New Exchange Notes. See "Plan of Distribution."
Consequences of Failure to Exchange	All untendered outstanding New Notes will continue to be subject to the restrictions on transfer provided for therein and in the indenture governing the notes. In general, the outstanding New Notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. Other than in connection with this exchange offer, we do not currently anticipate that we will register the outstanding notes under the Securities Act. For more information, see "The Exchange Offer—Consequences of Failure to Exchange."
Exchange Agent	The Bank of New York Mellon Trust Company, N.A. is serving as the exchange agent in connection with this exchange offer. The address and telephone number of the exchange agent are set forth under "The Exchange Offer—Exchange Agent" at page 30.
Federal Income Tax Considerations	Based upon advice from counsel, we believe that the exchange of outstanding New Notes for New Exchange Notes will not be a taxable event for U.S. federal income tax purposes. See "Certain U.S. Federal Income Tax Considerations."

Use of Proceeds	We will not receive any proceeds from the issuance of New Exchange Notes pursuant to this exchange offer. We will pay all of our expenses incident to this exchange.

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Summary of Terms of the New Exchange Notes

The terms of the New Exchange Notes to be issued in this exchange offer are substantially identical in all material respects to those of the outstanding New Notes, except that:

- the New Exchange Notes will be registered under the Securities Act;
- the New Exchange Notes will not be entitled to certain registration rights under the registration rights agreement; and
- the New Exchange are freely transferable by holders thereof (except as provided in this prospectus).

The New Exchange Notes will represent the same debt as the outstanding New Notes. The outstanding New Notes, New Exchange Notes and the outstanding 2015 Notes are governed by the indenture.

Issuer	Carrols Restaurant Group, Inc.
Notes Offered	$75.0 million aggregate principal amount of 8.00% Senior Secured Second Lien Notes due 2022 (the “New Exchange Notes”) to be issued under the indenture The New Exchange Notes will constitute “Additional Notes” under the indenture. We have $275.0 million aggregate principal amount of notes outstanding, all of which are governed by the indenture and vote as a single class under the indenture. The outstanding New Notes were originally

	issued under a different CUSIP number from the 2015 Notes. The New Exchange Notes will share a single CUSIP number with the 2015 Notes, and the New Exchange Notes will be fungible with the 2015 Notes and are expected to trade with the 2015 Notes. Outstanding New Notes that are not tendered and exchanged for New Exchange Notes in this exchange offer will trade separately from the 2015 Notes.
Maturity Date	May 1, 2022.
Interest Payment Dates	Interest on the New Exchange Notes accrues from the last interest payment date on which interest was paid on the outstanding New Notes surrendered for them, or, if no interest has been paid on such outstanding

	New Notes, from May 1, 2017. We will not pay interest on the outstanding New Notes accepted for exchange. Interest on the notes is payable on May 1 and November 1, commencing November 1, 2017.
Subsidiary Guarantees	The notes are guaranteed on a senior secured basis by each of our existing and future direct and indirect domestic "restricted subsidiaries," subject to certain exceptions. Currently, our only existing restricted subsidiaries are Carrols, Carrols LLC. and Republic Foods, Inc.
Ranking	The notes and guarantees are our and the guarantors' senior secured obligations and:
	•

rank equal in right of payment to our guarantors' existing and future senior obligations;

- rank senior in right of payment to all of our and the guarantors' existing and future subordinated obligations;

- rank effectively senior to all of our and the guarantors' existing and future unsecured obligations to the extent of the value of the collateral securing the notes;

- are effectively subordinated to our and the guarantors' indebtedness and obligations that are secured by priority liens on the collateral, including indebtedness under our senior credit facility, to the extent of the value of such collateral; and

- are structurally subordinated to the obligations of all our subsidiaries that do not serve as guarantors of the notes.

As of July 2, 2017, we had approximately $282.7 million of total indebtedness outstanding, primarily consisting of $275.0 million of notes (which includes $75.0 million of outstanding New Notes and $200.0 million of the 2015 Notes), $1.2 million of lease financing obligations, $6.5 million of capital leases and other debt, and $60.2 million of availability under our senior credit facility (after reserving $12.8 million for letters of credit issued under the senior credit facility). See "Capitalization."

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Collateral	The notes and the guarantees are secured by a second priority lien on the assets owned by us and the guarantors that also secure obligations under our senior credit facility, subject to certain exceptions. The lenders under our senior credit facility benefit from first priority liens on the collateral. Under the security agreement, we and the guarantors have, subject to certain exceptions, granted security interests in substantially all of our and their real, personal and fixture property, including all of the equity interests held by us in subsidiaries (but (a) as to the voting stock of any foreign subsidiary, not to exceed 65% of the outstanding voting stock, (b) excluding

any capital stock of a subsidiary to the extent necessary for such subsidiary not to be subject to any requirement pursuant to Rule 3-16 or Rule 3-10 of Regulation S-X under the Exchange Act, due to the fact that such subsidiary's capital stock secured the notes or guarantees, to file separate financial statements with the SEC and (c) subject to other exceptions, including franchise agreements, leased real property and certain owned real property) and all proceeds and products of the foregoing. See “Description of Notes-Security.”

The value of the collateral at any time will depend on market and other economic conditions, including the

	availability of suitable buyers for the collateral. The liens on the collateral may be released without the consent of the holders of notes if collateral is disposed of in a transaction that complies with the indenture and related security documents or in accordance with the provisions of the intercreditor agreement. See "Risk Factors - Risks Related to the Notes" and "Description of Notes - Security" and "- Intercreditor Agreement."
Intercreditor Agreement	Pursuant to an intercreditor agreement, the liens securing the notes are second priority liens that are expressly junior in priority to the liens that secure obligations under our senior credit facility. Pursuant to the intercreditor agreement, the liens securing the notes may not be enforced for a 180 day

	"standstill" period. The holders of the first priority lien obligations will receive all proceeds from any realization of the collateral or from the collateral or proceeds thereof in any insolvency or liquidation proceeding, in each case until the first priority lien obligations are paid in full. See "Description of Notes - Intercreditor Agreement."
Use of Proceeds	We will not receive any cash proceeds from this exchange offer.
Optional Redemption	On or after May 1, 2018, we may redeem some or all of the notes at any time at the redemption prices specified under "Description of Notes - Optional Redemption." Before May 1, 2018, we may redeem some or all of the notes at a redemption price equal to 100% of the

	principal amount of each note to be redeemed plus a make-whole premium described under "Description of Notes - Optional Redemption" together with accrued and unpaid interest. In addition, at any time prior to May 1, 2018, we may redeem up to 35% of the notes with the net cash proceeds from specified equity offerings at a redemption price equal to 108.00% of the principal amount of each note to be redeemed, plus accrued and unpaid interest, if any, to the date of redemption.
Change of Control	Upon a change of control (as defined in "Description of Notes -Certain Definitions"), we must offer to repurchase the notes at 101% of the principal amount, plus accrued and unpaid interest to the purchase

	date.
Certain Covenants	The indenture governing the notes contains certain covenants, including limitations and restrictions on our and our restricted subsidiaries' ability to: • incur additional indebtedness or issue preferred stock; • make dividend payments or restricted payments; • create liens; • sell assets; • enter into transactions with affiliates; and • enter into mergers, consolidations, or sales of all or substantially all of our assets. The restrictive covenants set forth in the indenture are subject to important exceptions and qualifications. See "Description of Notes—Certain

	Covenants."
No Public Market	The outstanding New Notes and, if issued, the New Exchange Notes, are new securities and there is currently no established trading market for the outstanding New Notes or the New Exchange Notes. However, the New Exchange Notes will share a single CUSIP number with the outstanding 2015 Notes and are expected to trade along with the 2015 Notes. The initial purchaser has advised us that it presently intends to make a market in the outstanding New Notes and, if issued, the New Exchange Notes. However, you should be aware that they it is not obligated to make a market and may discontinue its market-making activities at any time without notice. As result, a liquid

market for the outstanding New Notes and, if issued, the New Exchange Notes, may not be available if you try to sell your outstanding New Notes or New Exchange Notes. We do not intend to list the outstanding New Notes or, if issued, the New Exchange Notes on any securities exchange.

Risk Factors	Potential investors in the notes should carefully consider the matters set forth under the caption “Risk Factors” prior to making an investment decision with respect to the notes.

RISK FACTORS

Any investment in the New Exchange Notes involves a high degree of risk. You should carefully consider the following risks, as well as other risk factors and information contained, or incorporated by reference, in this prospectus before making an investment decision. The risks and uncertainties described below are not the only risks and uncertainties that we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also impair our business operations. If any of those risks actually occurs, our business, financial condition and results of operations would suffer. The risks discussed below also include forward-looking statements and our actual results may differ substantially from those discussed in these forward-looking statements. See "Forward-Looking Statements" in this prospectus.

Risks Related to the Exchange Offer

Your outstanding New Notes will not be accepted for exchange if you fail to follow the exchange offer procedures.

We will not accept your outstanding New Notes for exchange if you do not follow the exchange offer procedures. We will issue New Exchange Notes as part of this exchange offer only after a timely receipt of your outstanding New Notes, a properly completed and duly executed letter of transmittal and all other required documents. Therefore, if you want to tender your outstanding New Notes, please allow sufficient time to ensure timely delivery. If we do not receive your outstanding New Notes, letter of transmittal and other required documents by the expiration date of this exchange offer or you do not otherwise comply with the guaranteed delivery procedures for tendering your New Notes, we may not accept your outstanding New Notes for exchange. Neither we, the trustee nor the exchange agent is under a duty to give notification of defects or irregularities with respect to the tenders of outstanding New Notes for exchange. If there are defects or irregularities with respect to your tender of outstanding New Notes, we will not accept your outstanding New Notes for exchange unless we decide in our sole discretion to waive those defects or irregularities. Each broker or dealer that receives New Exchange Notes for its own account in exchange for outstanding New Notes that were acquired in market-making or other trading activities must acknowledge that it will deliver a prospectus in connection with any resale of the New Exchange Notes.

Some holders who exchange their outstanding New Notes may be deemed to be underwriters and these holders will be required to comply with the registration and prospectus delivery requirements in connection with any resale transaction.

If you exchange your outstanding New Notes in this exchange offer for the purpose of participating in a distribution of the New Exchange Notes, you may be deemed to have received restricted securities and, if so, will be required to comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

Although the New Exchange Notes are expected to trade along with the 2015 Notes, you may not be able to resell them.

The New Exchange Notes will be registered under the Securities Act and will share a single CUSIP number with the 2015 Notes, will be fungible with the 2015 Notes and are expected to trade along with the 2015 Notes. However, there can be no assurance as to:

- the liquidity of any trading market for the notes;
- the ability of holders to sell their New Exchange Notes; or
- the price at which the holders will be able to sell their New Exchange Notes.

We do not intend to apply for listing of the New Exchange Notes on any securities exchange or for quotation through an automated quotation system.The New Exchange Notes might trade at higher or lower prices than their principal amount or purchase price, depending on many factors, including prevailing interest rates, the market for similar debentures, our financial performance and the interest of securities dealers in making a market in the New Exchange Notes.

We understand that the initial purchaser presently intends to make a market in the New Exchange Notes. However, it is not obligated to do so, and any market-making activity with respect to the notes, including the New Exchange Notes, may be discontinued at any time without notice. In addition, any market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act, and may be limited during this exchange offer or the pendency of an applicable shelf registration statement. There can be no assurance that an active market will exist for the notes, including the New Exchange Notes, or that any trading market that does develop will be liquid. Historically, the market for non-investment grade debt has been subject to disruptions that have caused volatility in prices. It is possible that the market for the notes, including the New Exchange Notes, will be subject to disruptions. Any such disruptions may have a negative effect on you, as a holder of the New Exchange Notes, regardless of our prospects and financial performance.

Broker-dealers may become subject to the registration and prospectus delivery requirements of the Securities Act and any profit on the resale of the New Exchange Notes may be deemed to be underwriting compensation under the Securities Act.

Any broker-dealer that acquires New Exchange Notes in the exchange offer for its own account in exchange for outstanding New Notes which it acquired through market-making or other trading activities must acknowledge that it will comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction by that broker-dealer. Any profit on the resale of the New Exchange Notes and any commission or concessions received by a broker-dealer may be deemed to be underwriting compensation under the Securities Act.

If you do not exchange your outstanding New Notes, they may be difficult to resell.

It may be difficult for you to sell outstanding New Notes that are not exchanged in the exchange offer, since any outstanding New Notes not exchanged will continue to be subject to the restrictions on transfer described in the legend on the global security representing the outstanding New Notes. These restrictions on transfer exist because we issued the outstanding New Notes pursuant to an exemption from the registration requirements of the Securities Act and applicable state securities laws. Generally, the outstanding New Notes that are not exchanged for New Exchange Notes will remain restricted securities and will trade separately, if at all, from the outstanding 2015 Notes and the outstanding New Notes that have been exchanged in the exchange offer. Accordingly, those outstanding New Notes may not be offered or sold, unless registered under the Securities Act and applicable state securities laws, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We currently do not plan to register the outstanding New Notes under the Securities Act.

Risks Related to the Notes

Our substantial indebtedness could adversely affect our financial condition.

As a result of our substantial indebtedness, a significant portion of our cash flow will be required to pay interest and principal on our outstanding indebtedness, and we may not generate sufficient cash flow from operations, or have future borrowings available under our senior credit facility, to enable us to repay our indebtedness, including the notes, or to fund other liquidity needs. As of July 2, 2017, we had approximately $282.7 million of total indebtedness outstanding, primarily consisting of $275.0 million of notes (which includes $75.0 million of outstanding New Notes and $200.0 million of the 2015 Notes), $1.2 million of lease financing obligations, $6.5 million of capital leases and other debt, and $60.2 million of availability under our senior credit facility (after reserving $12.8 million for letters of credit issued under the senior credit facility which included amounts for anticipated claims from our renewals of workers' compensation and other insurance policies), which would effectively rank senior to the notes including the New Exchange Notes.

Our substantial indebtedness could have important consequences to you. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to the notes and our other debt;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness and related interest, including indebtedness we may incur in the future, thereby reducing the availability of our cash flow to fund working capital, capital expenditures (including restaurant remodeling obligations under the operating agreement) and other general corporate purposes;
- restrict our ability to acquire additional restaurants;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- increase our cost of borrowing;
- place us at a competitive disadvantage compared to our competitors that may have less debt; and
- limit our ability to obtain additional financing for working capital, capital expenditures, acquisitions, debt service requirements or general corporate purposes.

We expect to use cash flow from operations, revolving credit borrowings under our senior credit facility and a portion of the net proceeds from the issuance of the outstanding New Notes to meet our current and future financial obligations, including funding our operations, debt service, possible future acquisitions and capital expenditures (including restaurant remodeling and new restaurant development). Our ability to make these payments depends on our future performance, which will be affected by financial, business, economic and other factors, many of which we cannot control. Our business may not generate sufficient cash flow from operations in the future, which could result in our being unable to repay indebtedness, or to fund other liquidity needs. If we do not have enough money, we may be forced to reduce or delay our business activities and capital expenditures (including our restaurant remodeling and new restaurant development obligations), sell assets, obtain additional debt or equity capital or restructure or refinance all or a portion of our debt, including our senior credit facility and the notes, on or before maturity. We cannot make any assurances that we will be able to accomplish any of these alternatives on terms acceptable to us, or at all. In addition, the terms of existing or future indebtedness, including the agreements for our senior credit facility, may limit our ability to pursue any of these alternatives.

Despite current indebtedness levels and restrictive covenants, we may still be able to incur more debt or make certain restricted payments, which could further exacerbate the risks described above.

We and our subsidiaries may be able to incur additional debt in the future, including debt that may be secured on a first lien basis or pari passu with the notes, including the New Exchange Notes. Although our senior credit facility and the indenture governing the notes contain restrictions on our ability to incur indebtedness, those restrictions are subject to a number of exceptions. In addition, if we are able to designate some of our restricted subsidiaries under the indenture governing the notes as unrestricted subsidiaries, those unrestricted subsidiaries would be permitted to borrow beyond the limitations specified in the indenture governing the notes and engage in other activities in which restricted subsidiaries may not engage. We may also consider investments in joint ventures or acquisitions, which may increase our indebtedness. Moreover, although our senior credit facility and the indenture governing the notes contain restrictions on our ability to make restricted payments, including the declaration and payment of dividends, we are able to make such restricted payments under certain circumstances. Adding new debt to current debt levels or making restricted payments could intensify the related risks that we and our subsidiaries now face. See “Capitalization.”

The agreements governing our debt agreements restrict our ability to engage in some business and financial transactions and contain certain other restrictive terms.

Our debt agreements, such as the indenture governing the notes and the agreement governing our senior credit facility, restrict our ability in certain circumstances to, among other things:

- incur additional debt;
- pay dividends and make other distributions on, redeem or repurchase, capital stock;
- make investments or other restricted payments;
- enter into transactions with affiliates;
- engage in sale and leaseback transactions;
- sell all, or substantially all, of our assets;
- create liens on assets to secure debt; or
- effect a consolidation or merger.

These covenants limit our operational flexibility and could prevent us from taking advantage of business opportunities as they arise, growing our business or competing effectively. In addition, our senior credit facility requires us to maintain specified financial ratios and satisfy other financial condition tests. Our ability to meet these financial ratios and tests can be affected by events beyond our control, and we cannot assure you that we will meet these tests.

A breach of any of these covenants or other provisions in our debt agreements could result in an event of default, which if not cured or waived, could result in such debt becoming immediately due and payable. This, in turn, could cause our other debt to become due and payable as a result of cross-acceleration provisions contained in the agreements governing such other debt. In the event that some or all of our debt is accelerated and becomes immediately due and payable, we may not have the funds to repay, or the ability to refinance, such debt. In addition, in the event that the notes become immediately due and payable, the holders of the notes, including the New Exchange Notes, would not be entitled to receive any payment in respect of the notes until all of our senior debt has been paid in full.

Our ability to make payments on the notes depends on our ability to receive dividends and other distributions from our subsidiaries.

We are a holding company and have no direct operations and depend on dividends and other payments from our subsidiaries to generate the funds necessary to meet our financial obligations, including the payment of principal and of interest on their outstanding debt. Our subsidiaries are legally distinct from us. Payment to us by our subsidiaries will be contingent upon our subsidiaries' earnings and other business considerations. The ability of our subsidiaries to pay dividends, make distributions, provide loans or make other payments to us may be restricted by applicable state and foreign laws, potentially adverse tax consequences and their agreements, including agreements governing their debt. As a result, we may not be able to access their cash flow to service our debt, including the notes, and we cannot assure you that the amount of cash and cash flow reflected on our financial statements will be fully available to us.

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We may not have the funds necessary to satisfy all of our obligations under our senior credit facility, the notes, including the New Exchange Notes, or other indebtedness in connection with certain change of control events.

Upon the occurrence of specific kinds of change of control events, the indenture governing the notes requires us to make an offer to repurchase all notes that are then outstanding at 101% of the principal amount thereof, plus accrued and unpaid interest (and additional interest, if any) to the date of repurchase. However, it is possible that we will not have sufficient funds, or the ability to raise sufficient funds, at the time of the change of control to make the required repurchase of the notes. In addition, restrictions under our senior credit facility may not allow us to repurchase the notes upon a change of control. If we could not refinance such debt or otherwise obtain a waiver from the holders of such debt, we would be prohibited from repurchasing the notes, which would constitute an event of default under the indenture. Certain important corporate events, such as leveraged recapitalizations that would increase the level of our indebtedness, would not constitute a "Change of Control" under the indenture. See "Description of Notes —Change of Control."

In addition, our senior credit facility provides that certain change of control events constitute an event of default under such senior credit facility. Such an event of default entitles the lenders thereunder to, among other things, cause all outstanding debt obligations under the senior credit facility to become due and payable and to proceed against the collateral securing such senior credit facility. Any event of default or acceleration of the senior credit facility will likely also cause a default under the terms of our other indebtedness.

We may enter into transactions that would not constitute a change of control that could affect our ability to satisfy our obligations under the notes, including the New Exchange Notes.

Legal uncertainty regarding what constitutes a change of control and the provisions of the indenture may allow us to enter into transactions, such as acquisitions, refinancings or recapitalizations, that would not constitute a change of control but may increase our outstanding indebtedness or otherwise affect our ability to satisfy our obligations under the notes. The definition of change of control includes a phrase relating to the transfer of "all or substantially all" of our assets and subsidiaries taken as a whole. Although there is a limited body of case law interpreting the phrase "substantially all," there is no precise established definition of the phrase under applicable law. Accordingly, your ability to require the issuer to repurchase notes as a result of a transfer of less than all of our assets to another person may be uncertain.

Risks Related to the Collateral and Guarantees

The lien on the collateral securing the notes, including the New Exchange Notes, and the guarantees is junior and subordinate to the lien on the collateral securing our senior credit facility and certain other first lien obligations.

The notes, including the New Exchange Notes, and the guarantees are secured by second priority liens granted by us and the existing guarantors and any future guarantor on our assets and the assets of the guarantors that secure obligations under our senior credit facility and certain hedging and cash management obligations, subject to certain permitted liens, exceptions and encumbrances described in the indenture governing the notes and the security documents relating to the notes. As set out in more detail under "Description of Notes," the lenders under our senior credit facility and holders of certain of our hedging and cash management obligations are entitled to receive all proceeds from the realization of the collateral under certain circumstances, including upon default in payment on, or the acceleration of, any obligations under our senior credit facility, or in the event of our, or any of our subsidiary guarantors', bankruptcy, insolvency, liquidation, dissolution, reorganization or similar proceeding, to repay such obligations in full before the holders of the notes will be entitled to any recovery from such collateral. In addition, the indenture governing the notes permits us and the guarantors to create additional liens under specified circumstances, including liens senior in priority to and pari passu with the liens securing the notes. Any obligations secured by such liens may further limit the recovery from the realization of the collateral available to satisfy holders of the notes, including the New Notes.

Holders of the notes will not control decisions regarding collateral.

The lenders under our senior credit facility, as holders of first priority lien obligations, control substantially all matters related to the collateral pursuant to the terms of the intercreditor agreement. The holders of the first priority lien obligations may cause the collateral agent thereunder (the "first lien agent") to dispose of, release, or foreclose on, or take other actions with respect to, the collateral (including amendments of and waivers under the security documents) with which holders of the notes may disagree or that may be contrary to the interests of holders of the notes, even after a default under the notes. To the extent collateral is released from securing the first priority lien obligations, the intercreditor agreement provides that in certain circumstances, the second priority liens securing the notes will also be released. In addition, the security documents related to the second priority lien generally provide that, so long as the first priority lien obligations are in effect, the holders of the first priority lien obligations may change, waive, modify or vary the security documents governing such first priority liens without the consent of the holders of the notes (except under certain limited circumstances) and that the security documents governing the second priority liens will be automatically changed, waived and modified in the same manner. Further, the security documents governing the second priority liens may not be amended in any manner adverse to the holders of the first-priority obligations without the consent of the first lien agent until the first priority lien obligations are paid in full. The intercreditor agreement prohibits second priority lienholders from foreclosing on the collateral for a 180 day “stand still” period (subject to extension for any period during which the first lien agent is exercising remedies) until payment in full of the first priority lien obligations. We cannot assure you that in the event of a foreclosure by the holders of the first priority lien obligations, the proceeds from the sale of collateral would be sufficient to satisfy all or any of the amounts outstanding under the notes, including the New Exchange Notes, after payment in full of the obligations secured by first priority liens on the collateral.

There may not be sufficient collateral to pay all or any of the notes, especially if we incur additional secured indebtedness ranking prior to or pari passu with the notes, which will dilute the value of the collateral securing the notes and guarantees.

No appraisals of any collateral have been prepared in connection with the issuance of the notes, including the New Exchange Notes. The fair market value of the collateral is subject to fluctuations based on factors that include, among others, the condition of the markets and sectors in which we operate, the ability to sell the collateral in an orderly sale, the condition of the national and local economies, the availability of buyers and similar factors. The value of the assets pledged as collateral for the notes could also be impaired in the future as a result of our failure to implement our business strategy, competition or other future trends. In the event of foreclosure, liquidation, bankruptcy or similar proceeding on the collateral, the proceeds from the sale of the collateral may not be sufficient to satisfy in full or at all our obligations under the notes and any additional indebtedness secured equally and ratably with the notes. The amount to be received upon such a sale would be dependent on numerous factors, including but not limited to the timing and the manner of the sale. In addition, the book value of the collateral should not be relied on as a measure of realizable value for such assets. By its nature, portions of the collateral may be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the collateral can be sold in a short period of time in an orderly manner. A significant portion of the collateral includes assets that may only be usable, and thus retain value, as part of our existing operating business. Accordingly, any such sale of the collateral separate from the sale of certain of our operating businesses may not be feasible or of significant value.

To the extent that pre-existing liens, liens permitted under the indenture and other rights, including liens on excluded assets (such as those securing purchase money obligations and capital lease obligations granted to other parties in addition to the holders of obligations secured by liens ranking prior to the notes, including liens under our senior credit facility) encumber any of the collateral securing the notes and the guarantees, those parties have or may exercise rights and remedies with respect to the collateral that could adversely affect the value of the collateral and the ability of the collateral agent, the trustee under the indenture or the holders of the notes to realize or foreclose on the collateral. Consequently, liquidating the collateral securing the notes may not result in proceeds in an amount sufficient to pay any amounts due under the notes after also satisfying the obligations to pay any creditors with prior liens. If the proceeds of any sale of collateral are not sufficient to repay all amounts due on the notes, the holders of the notes (to the extent not repaid from the proceeds of the sale of the collateral) would have only an unsecured, unsubordinated claim against our and the guarantors' remaining assets.

Other consequences of a finding of under-collateralization would be, among other things, a lack of entitlement on the part of the notes to receive post-petition interest and collect fees and costs. In addition, under these circumstances, the unsecured portion of the notes would not be entitled to receive “adequate protection” under federal bankruptcy laws. In addition, if any payments of post-petition interest had been made at any time prior to such a finding of under-collateralization, those payments would be recharacterized by the bankruptcy court as a reduction of the principal amount of the secured claim with respect to the notes.

We or any subsidiary guarantor may incur additional secured indebtedness under the indenture, including the issuance of additional notes or the incurrence of other forms of indebtedness secured equally and ratably with the notes and borrowings under our senior credit facility or other senior lien obligations, subject to certain specified conditions. See “Description of Notes -Certain Covenants -Limitation on Incurrence of Debt.” Any such incurrences could dilute the value of the collateral securing the notes and guarantees.

The pledge of the capital stock, other securities and similar items of our subsidiaries that secure the notes may automatically be released from the lien on them and no longer constitute collateral for so long as the pledge of such capital stock or such other securities would require the filing of separate financial statements with the SEC for that subsidiary.

The notes, including the New Exchange Notes, are secured by a pledge of the stock of some of our subsidiaries. Under the SEC regulations in effect as of the issue date of the outstanding New Notes, if the par value, book value as carried by us or market value (whichever is greatest) of the capital stock, other securities or similar items of a subsidiary pledged as part of the collateral securing our senior credit facility is greater than or equal to 20% of the aggregate principal amount of the notes then outstanding, such subsidiary would be required to provide separate financial statements to the SEC. Therefore, the indenture and the collateral documents provide that any capital stock and other securities of any of our subsidiaries will be excluded from the collateral securing the notes for so long as the pledge of such capital stock or other securities to secure the notes would cause such subsidiary to be required to file separate financial statements with the SEC pursuant to Rules 3-16 and 3-10 of Regulation S-X (as in effect from time to time). As a result, holders of the notes could lose a portion or all of their security interest in the capital stock or other securities of those subsidiaries during such period. It may be more difficult, costly and time-consuming for holders of the notes to foreclose on the assets of a subsidiary than to foreclose on its capital stock or other securities, so the proceeds realized upon any such foreclosure could be significantly less than those that would have been received upon any sale of the capital stock or other securities of such subsidiary. In addition, in the event that the capital stock or other securities of a subsidiary is included in the collateral as described above, the collateral agent under the senior credit facility would be entitled to maintain possession of such capital stock or other securities until the payment in full of the obligations under the senior credit facility. Substantially all of our business is operated through Carrols LLC and Republic Foods, Inc. Currently, our only existing restricted subsidiaries are Carrols, Carrols LLC and Republic Foods, Inc. Because, as of the issue date of the outstanding New Notes, the book value of the capital stock of Carrols and Carrols LLC was greater than 20% of the aggregate principal amount of notes then outstanding, the pledge of capital stock of Carrols and Carrols LLC was subject to this cutback. See "Description of Notes-Collateral."

State law may limit the ability of the collateral agent, trustee under the indenture or the holders of the notes, including the New Exchange Notes, to foreclose on the real property and improvements included in the collateral.

The notes are secured by, among other things, liens on certain owned real property and improvements which we and/or the guarantors own. The laws of those states may limit the ability of collateral agent, the trustee under the indenture or the holders of the notes to foreclose on the improved real property collateral located in those states. Laws of those states govern the perfection, enforceability and foreclosure of mortgage liens against real property interests which secure debt obligations such as the notes, including the New Exchange Notes. These laws may impose procedural requirements for foreclosure different from and necessitating a longer time period for completion than the requirements for foreclosure of security interests in personal property. Debtors may have the right to reinstate defaulted debt (even after it is accelerated) before the foreclosure date by paying the past due amounts and a right of redemption after foreclosure. Governing laws may also impose security first and one form of action rules which can affect the ability to foreclose or the timing of foreclosure on real and personal property collateral regardless of the location of the collateral and may limit the right to recover a deficiency following a foreclosure.

Rights of holders of the notes in the collateral may be adversely affected by the failure to perfect liens on certain collateral acquired in the future.

Applicable law requires that certain property and rights acquired after the grant of a general security interest, such as real property, equipment subject to a certificate and certain proceeds, can only be perfected at the time such property and rights are acquired and identified. The trustee or the collateral agent will not monitor, or we may not inform the trustee or the collateral agent of, the future acquisition of property and rights that constitute collateral, and necessary action may not be taken to properly perfect the security interest in such after-acquired collateral. The collateral agent for the notes has no obligation to monitor the acquisition of additional property or rights that constitute collateral or the perfection of any security interest in favor of the notes against third-parties. Such failure may result in the loss of the security interest therein or the priority of the security interest in favor of the notes against third-parties.

Rights of holders of the notes in their collateral may be adversely affected by bankruptcy proceedings.

The right of the collateral agent for the notes to repossess and dispose of the collateral securing the notes upon acceleration is likely to be significantly impaired by federal bankruptcy law if bankruptcy proceedings are commenced by or against us. This could be true even if bankruptcy proceedings are commenced after the collateral agent has repossessed and disposed of the collateral. Under federal bankruptcy law, a secured creditor such as a collateral agent for the notes is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from a debtor, without bankruptcy court approval. Moreover, federal bankruptcy law permits the debtor to continue to retain and to use collateral, and the proceeds, products, rents, or profits of the collateral, even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given "adequate protection."

The meaning of the term "adequate protection" varies according to circumstance, but in general the doctrine of "adequate protection" requires a troubled debtor to protect the value of a secured creditor's interest in the collateral, through cash payments, the granting of an additional security interest or otherwise, if and at such time as the court in its discretion may determine during the pendency of the bankruptcy case. In view of the broad discretionary powers of a bankruptcy court, it is impossible to predict how long payments under the notes could be delayed following commencement of a bankruptcy case, whether or when the collateral agent would repossess or dispose of the collateral, or whether or to what extent holders of the notes would be compensated for any delay in payment or loss of value of the collateral through the requirements of “adequate protection.” Furthermore, in the event that the value of the collateral is not sufficient to repay all amounts due on the notes, the holders of the notes would have unsecured “deficiency claims” for the balance of the principal on the notes (excluding “unmatured interest,” as described above). Federal bankruptcy laws do not generally permit the payment or accrual of interest, costs, or attorneys' fees for unsecured or undersecured claims during the debtor's bankruptcy case.

Certain pledges of collateral and payments on the notes might be avoidable by a trustee in bankruptcy.
Any future pledge of collateral, or any future perfection of any other pledge, to secure the notes might be avoidable under the U.S. bankruptcy preference laws by the pledgor (as debtor in possession), by its trustee in bankruptcy or by someone else

acting on behalf of the bankruptcy estate, if certain events or circumstances exist or occur, including, among others, if the pledgor is insolvent at the time of the pledge, the pledge permits the holders of the notes to receive a greater recovery than they would in a liquidation case under Chapter 7, Title 11 of the United States Code (the "Bankruptcy Code"), if the pledge had not been given, and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the later of the pledge, and perfection of the pledge, or, in certain circumstances, a longer period. If any pledges of collateral are avoided, the collateral will not be available to the holders of the notes or the guarantees to satisfy the obligations under the notes.

Certain payments on the notes might be avoidable under the U.S. bankruptcy preference laws by the issuer (as debtor in possession), by its trustee in bankruptcy or by someone else acting on behalf of the bankruptcy estate if certain events or circumstances exist or occur, including, among others, if the issuer is insolvent at the time of the payment, the payment permits the holders of the notes to receive a greater recovery than they would have received in a liquidation case under Chapter 7 of the Bankruptcy Code if the payment had not been made, and a bankruptcy proceeding in respect of the issuer is commenced within 90 days following the payment, or, in certain circumstances, a longer period.

Security interests over certain collateral were not in place by the closing of the offering and sale of the outstanding New Notes or were not perfected by the closing of the offering and sale of the outstanding New Notes.

Certain security interests, including amendments to mortgages on certain of our real properties were not in place by the closing date of the offering and sale of the outstanding New Notes or were not perfected on the closing date of the offering and sale of the outstanding New Notes. To the extent any security interest in the collateral securing the outstanding New Notes was not perfected on or prior to the closing date of the offering and sale of the outstanding New Notes, we will use our commercially reasonable efforts to have all such security interests perfected, to the extent required by the indenture governing the notes and the security documents, within 90 days following the closing date of the offering and sale of the outstanding New Notes. If we are unable to do so by such deadline, we will use commercially reasonable efforts to do so as soon as practicable thereafter.

In addition, if we or any guarantor were to become subject to a bankruptcy proceeding after the issue date of the outstanding New Notes, any mortgage or security interest in other collateral delivered after the issue date of the outstanding New Notes would face a greater risk than any mortgage or security interests in place on the issue date of being avoided by the pledgor (as debtor in possession) or by its trustee in bankruptcy as a preference under bankruptcy law if certain events or circumstances exist or occur, including if the pledgor is insolvent at the time of the pledge, the mortgage or pledge permits the holders of the notes to receive a greater recovery than if the mortgage or pledge had not been given and a bankruptcy proceeding in respect of the pledgor is commenced within 90 days following the perfection of the mortgage or pledge, or, in certain circumstances, a longer period. To the extent that the grant of any such mortgage or other security interest is avoided as a preference, the holder of the notes would lose the benefit of the mortgage or security interest.

With respect to our real properties to be mortgaged as security for the notes, no surveys, title insurance or local counsel opinions will be delivered. There will be no independent assurance therefore, that the mortgages securing the notes are enforceable under applicable state law to encumber the correct real properties or that there are no liens other than those permitted by the indenture encumbering such real properties.

In connection with the offering and sale of the outstanding New Notes, we were not required to provide surveys, title insurance or local counsel opinions with respect to our real properties intended to constitute collateral. Therefore we can provide no independent assurances that (i) the real property encumbered by each mortgage includes the property owned, leased or otherwise held by us and our subsidiaries that it was intended to include, (ii) we have the rights to the real properties that we purport to have in each mortgage and that our title to such real properties is not encumbered by liens not permitted by the indenture, and (iii) no encroachments, adverse possession claims, zoning or other restrictions exist with respect to such real properties which could result in a material adverse effect on the value or utility of such real properties. Furthermore, as local counsel opinions were not delivered in connection with the offering and sale of the outstanding New Notes, there can be no independent assurance that the mortgages, as amended, create and constitute valid and enforceable liens on the property intended to be encumbered thereby under the laws of each jurisdiction in which such property is located. Despite these representations, without surveys, title insurance or local counsel opinions, and after giving effect to the first lien priorities held by lenders under our senior credit facility, you should not rely on the value of the real property collateral securing the notes, including the New Exchange Notes.

The collateral is subject to casualty risks.

We intend to maintain insurance or otherwise insure against hazards in a manner appropriate and customary for our business. There are, however, certain losses that may be either uninsurable or not economically insurable, in whole or in part. Insurance proceeds may not compensate us fully for our losses. If there is a complete or partial loss of any of the collateral, the insurance proceeds may not be sufficient to satisfy all of the secured obligations, including the notes and the guarantees.

In the event of a total or partial loss to any of the mortgaged facilities, certain items of equipment, fixtures and other improvements may not be easily replaced. Accordingly, even though there may be insurance coverage, the extended period needed to manufacture or construct replacement of such items could cause significant delays.

We will in most cases have control over the collateral, and the sale of particular assets by us could reduce the pool of assets securing the notes and the guarantees.

The collateral documents allow us to remain in possession of, retain exclusive control over, freely operate and collect, invest and dispose of any income from, the collateral securing the notes and the guarantees.

In addition, we will not be required to comply with all or any portion of Section 314 of the Trust Indenture Act of 1939, or “Trust Indenture Act.” With respect to any release of collateral, we must deliver to the notes collateral agent, from time to time, an officer's certificate to the effect that all releases and withdrawals during the preceding twelve-month period in which no release or consent of the notes collateral agent was obtained in the ordinary course of business were not prohibited by the indenture. See “Description of Notes.”

There are certain categories of property that are excluded from the collateral, including the franchise agreements. The imposition of certain permitted liens will cause the asset on which such liens are imposed to be excluded from the collateral securing the notes, including the New Exchange Notes, and the guarantees.

Our business consists of operating Burger King restaurants through franchise agreements. The franchise agreements are excluded from the collateral securing the notes. The exclusion of the franchise agreements from the collateral impacts the value of the collateral and the ability of the note holders or the collateral agent on their behalf to realize on the collateral securing the notes. In addition, in the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the holders of the notes would be unsecured creditors with respect to the franchise agreements and their claim would rank pari passu with all other unsubordinated unsecured creditors against the proceeds from the franchise agreements. In general, pursuant to the terms of the franchise agreements, BKC would have a consent right prior to any sale, assignment, transfer or conveyance of substantially all of the assets of a Burger King restaurant, which could impact the ability to realize on the collateral.

The indenture permits liens in favor of third-parties to secure purchase money indebtedness and capital lease obligations, and any assets subject to such liens will be automatically excluded from the collateral securing the notes and the guarantees. Our ability to incur purchase money indebtedness and capital lease obligations is subject to the limitations, as described in “Description of Notes—Certain Covenants —Limitation on Incurrence of Debt.” Other categories of excluded assets and property include substantially all of the assets and property excluded from the definition of collateral under the senior credit facility, including any rights or interest in certain intent-to-use trademark or service mark applications, any leasehold interest in real property and there are certain limited exceptions of collateral securing the senior credit facility. In addition, the security interest over our deposit and securities accounts will not be perfected by control agreements. See “Description of Notes —Security.” Excluded assets will not be available as collateral to secure the issuer's and the guarantors' obligations under the notes. As a result, with respect to the excluded assets, the notes and the guarantees will effectively rank equally with any other unsubordinated indebtedness of the issuer and the guarantors that is not itself secured by the excluded assets.

It may be difficult to realize the value of the collateral pledged to secure the notes, including the New Exchange Notes, and the guarantees.

The security interest of the collateral agent may be subject to practical problems generally associated with the realization of security interests in the collateral. For example, the collateral agent may need to obtain the consent of a third-party or governmental agency to obtain or enforce a security interest in a license or contract or to otherwise operate our business. We cannot assure you that the collateral agent will be able to obtain any such consent. If the trustee exercises its rights to foreclose on certain assets, transferring required government approvals to, or obtaining new approvals by, a purchaser of assets may require governmental proceedings with consequent delays. In addition, any foreclosure on the assets of a subsidiary, rather than upon its capital stock as a result of the stock of such subsidiary being an “excluded asset,” may result in delays and additional expense, as well as less proceeds than would otherwise have been the case.

In addition, the collateral agent for the notes may need to evaluate the impact of potential liabilities before determining to foreclose on the collateral, because entities that hold a security interest in real property may be held liable under environmental laws for the costs of remediating or preventing release or threatened releases of hazardous substances at the secured property. In this regard, the collateral agent may decline to foreclose on the collateral or exercise remedies available if it does not receive indemnification to its satisfaction from the holders. Finally, the collateral agent's ability to foreclose on the collateral on behalf of the holders of the notes may be subject to lack of perfection, the consent of third-parties, prior liens and practical problems associated with the realization of the collateral agent's lien on the collateral. In addition, the franchise agreements and our capital stock and the capital stock of our restricted subsidiaries are subject to the Burger King Rights (as such term is defined in the "Description of Notes"), which will limit our ability to dispose of such collateral.

The notes will be structurally subordinated to all liabilities of our future subsidiaries that are not guarantors of the notes.

Not all of our future subsidiaries will guarantee the notes. The notes are structurally subordinated to the indebtedness and other liabilities of our future subsidiaries that do not guarantee the notes. These future non-guarantor subsidiaries are separate and distinct legal entities and will have no obligation, contingent or otherwise, to pay any amounts due pursuant to the notes, or to make any funds available therefor, whether by dividends, loans, distributions or other payments. Any right that we or the subsidiary guarantors have to receive any assets of any of the non-guarantor subsidiaries upon the liquidation or reorganization of those subsidiaries, and the consequent rights of holders of the notes to realize proceeds from the sale of any of those subsidiaries' assets, will be effectively subordinated to the claims of those subsidiaries' creditors, including trade creditors, and holders of preferred equity interests of those subsidiaries. Accordingly, in the event of a bankruptcy, liquidation or reorganization of any of our future non-guarantor subsidiaries, absent a decision of the court, such as in the case of substantive consolidation, these future non-guarantor subsidiaries will pay all of their creditors and holders of preferred equity interests before they will be able to distribute any of their assets to us.

The amount that can be collected under the guarantees will be limited.

Each of the guarantees will be limited to the maximum amount that can be guaranteed by a particular guarantor without rendering the guarantee, as it relates to that guarantor, avoidable. See "-A court could deem the issuance of the notes or the guarantees to be a fraudulent conveyance and avoid all or a portion of the obligations represented by the notes or the guarantees." In general, the maximum amount that can be guaranteed by a particular guarantor may be significantly less than the principal amount of the notes. This provision may not be effective to protect the guarantees from being voided under fraudulent transfer law, or may eliminate the guarantor's obligations or reduce the guarantor's obligations to an amount that effectively makes the guarantee worthless. In a Florida bankruptcy case (which was subsequently reinstated by the applicable court of appeals on other grounds), a similar provision was found to be ineffective to protect the guarantees.

A court could deem the issuance of the notes or the guarantees to be a fraudulent conveyance and avoid all or a portion of the obligations represented by the notes or the guarantees.

In a bankruptcy proceeding, a trustee, debtor in possession, or someone else acting on behalf of the bankruptcy estate may seek to recover transfers made or avoid obligations incurred prior to the bankruptcy proceeding on the basis that such transfers and obligations constituted fraudulent conveyances. Fraudulent conveyances are generally defined to include transfers made or obligations incurred for inadequate consideration when the debtor was insolvent, inadequately capitalized or in similar financial distress, or transfers made or obligations incurred with the intent of hindering, delaying or defrauding current or future creditors. Under U.S. bankruptcy law, a trustee or such other parties having standing to sue on behalf of the estate may recover such transfers and avoid such obligations made any time within two and possibly up to six years prior to the commencement of a bankruptcy proceeding. Furthermore, under certain circumstances, creditors may recover transfers or avoid obligations under state fraudulent conveyance laws, made within the applicable look-back period, which is typically four years, even if the debtor is not in bankruptcy. In bankruptcy, a representative of the estate may also assert such state law claims. If a court were to find that either an issuer issued the notes or a guarantor issued its guarantee under circumstances constituting a fraudulent conveyance, the court could avoid all or a portion of the obligations under the notes or the guarantees, or the pledge of collateral granted in connection therewith. In addition, under such circumstances, the value of any consideration holders received with respect to the notes, including upon foreclosure of the collateral, could also be subject to recovery from such holders and possibly from subsequent transferees. If the pledge of collateral to secure the notes were avoided and the issuance of the notes and/or guarantees were not avoided, holders of the notes would be unsecured creditors with claims that ranked pari passu with all other unsubordinated creditors of the applicable obligor, including trade creditors, but effectively subordinated to the lenders under our senior credit facility to the extent of the collateral securing our senior credit facility.

A note could be avoided, claims in respect of a note could be subordinated to all other debts of an issuer, or the pledge of collateral securing the notes could be avoided, in whole or in part, if such issuer at the time the indebtedness evidenced by the notes was incurred:

- intended to hinder, delay, or defraud any existing or future creditor or contemplated insolvency with a design to prefer one or more creditors to the exclusion in whole or in part of others;
- received less than reasonably equivalent value or fair consideration for the issuance of the notes and:
- was insolvent or rendered insolvent by reason of such issuance or incurrence;
- was engaged in a business or transaction for which such issuer's remaining assets constituted unreasonably small capital; or

- intended to incur, or believed that it would incur, debts beyond the ability to pay those debts as they mature.

Similar risks apply to the incurrence by each guarantor of its guarantee of the notes and its pledge of collateral to secure its guarantee of the notes.

The measures of insolvency for purposes of these fraudulent transfer laws will vary depending upon the law applied in any proceeding to determine whether a fraudulent transfer has occurred. Generally, however, a debtor would be considered insolvent if:

- the sum of its debts, including contingent liabilities, was greater than the fair saleable value of all of its assets;

- the present fair saleable value of its assets was less than the amount that would be required to pay its probable liability on its existing debts, including contingent liabilities, as they become absolute and mature; or
- it could not pay its debts as they become due.

We cannot assure you as to what standard a court would apply in determining whether an issuer or a guarantor would be considered to be insolvent. If a court determined that an issuer or a guarantor was insolvent after giving effect to the issuance of the notes or the applicable guarantee, it could avoid the notes or the applicable guarantees of the notes (or the pledge of collateral) and require you to return any payments received in respect of the notes or guarantees (or upon the foreclosure on collateral).

USE OF PROCEEDS

We will not receive any proceeds from the exchange of outstanding New Notes pursuant to this exchange offer. In consideration for issuing the New Exchange Notes as contemplated in this prospectus, we will receive in exchange a like principal amount of the outstanding New Notes, the terms of which are substantially identical in all material respects to the New Exchange Notes. The outstanding New Notes surrendered in exchange for the New Exchange Notes will be retired and cancompared to the full year 2009

Continued investment in the entertainment business

Completion of the move of the worldwide headquarters to Duluth, Georgia, USA

Continued realization of the benefits of our cost reduction initiatives

OVERVIEW OF STRATEGIC INITIATIVES

In 2010, we continued to pursue our core strategic initiatives to provide maximum value to our stakeholders and we remain focused on these initiatives for 2011. These initiatives are summarized below.

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

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Expand into emerging growth industry segments We are focused on broadening the scope of our self-service solutions from our existing customers to expand these solution offerings to customers in newer industry-vertical markets including travel and gaming, healthcare, and entertainment. We expect to grow our business in these industries through integrated service offerings in addition to targeted acquisitions and strategic partnerships. Additionally, we continue to expand our network of DVD kiosks within our entertainment business.

Build the lowest cost structure in our industry We strive to increase the efficiency and effectiveness of our core functions and the productivity of our employees through our continuous improvement initiatives.

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

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

Enhancing the customer experience We are committed to providing a customer experience to drive loyalty focusing on product and software solutions based on the needs of our customers and sales and support service teams focused on delivery and customer interactions. During 2010, we launched the Customer Loyalty Survey to measure our current state and set a course for our future state where we aim to continuously improve with solution innovations as well as through the execution of our service delivery programs.

FUTURE TRENDS

We are encouraged by our market position for 2011 and are forecasting revenue to be slightly higher than 2010. We are projecting that our capital spending in 2011 will be lower than what was experienced in 2010 due to our initial investment in the entertainment industry in 2010. We plan to continue to manage our costs effectively and balance our investments in areas that generate high returns.

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

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

RESULTS FROM CONTINUING OPERATIONS

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

In millions	2010	2009	2008
Revenue	**$ 4,819**	$ 4,612	$ 5,315
Gross margin	**$ 964**	$ 883	$ 1,183
Gross margin as a percentage of revenue	**20.0%**	19.1%	22.3%

Operating expenses			
Selling, general, and administrative expenses	**$ 703**	$ 645	$ 713
Research and development expenses	**$ 162**	$ 141	$ 148
Income from operations	**$ 99**	$ 97	$ 322

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

In millions	2010	2009	2008
Product revenue	**$ 2,403**	$ 2,234	$ 2,861
Cost of products	**1,925**	1,811	2,113
Product gross margin	**$ 478**	$ 423	$ 748
Product gross margin as a percentage of revenue	**19.9%**	18.9%	26.1%
Services revenue	**$ 2,416**	$ 2,378	$ 2,454
Cost of services	**1,930**	1,918	2,019
Services gross margin	**$ 486**	$ 460	$ 435
Services gross margin as a percentage of revenue	**20.1%**	19.3%	17.7%

2010 compared to 2009 results discussion

Revenue

Revenue increased 4% in 2010 from 2009 due to improvement across all three of our geographic segments. The effects of foreign currency fluctuations had a 1% favorable impact on revenue. For the year ended December 31, 2010, our product revenue increased 8% and services revenue increased 2% compared to the year ended December 31, 2009. The increase in our product revenue was due to growth of the entertainment business coupled with increases in sales volumes in the financial services and retail and hospitality industries in Europe and the financial services industry in the Caribbean and Latin America. The increase in our services revenue was primarily attributable to increases in professional and installation services and maintenance services in Europe.

Gross Margin

Gross margin as a percentage of revenue was 20.0% in 2010 compared to 19.1% in 2009. Product gross margin increased 1 percentage point to 19.9% in 2010 compared to 18.9% in 2009. During 2009, product gross margin was adversely affected by approximately $22 million for the write-off of assets related to an equity investment. After considering this item, the product gross margin remained consistent as compared to the prior year due to increases from the improved sales mix offset by losses in the entertainment industry.

Services gross margin increased 0.8 percentage points to 20.1% in 2010 compared to 19.3% in 2009. In 2010, services gross margin was negatively impacted by $23 million in higher pension expense, or 1.0% as a percentage of services revenue. After considering this item, the services gross margin improvement is primarily due to lower labor and service delivery costs and continued focus on overall cost containment.

2009 compared to 2008 results discussion

Revenue

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

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Gross Margin

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

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

Restructuring and Re-engineering

Organizational Realignment In the second quarter of 2008, NCR commenced a global realignment initiative to reduce redundancies and process inefficiencies to become more customer-focused and market-driven. This initiative addressed legacy process inefficiencies and unbalanced resource allocation by focusing on organizational design, process re-engineering and business process outsourcing. The initiative resulted in reductions in employment and productivity improvements, while freeing up funds to invest in growth programs such as sales, engineering, and market development.

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

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

As of December 31, 2009, there was a related remaining accrued liability of $1 million. The organizational realignment was complete as of June 30, 2010 and the remaining accrued liability was reversed.

The actions taken to date generated annualized savings of approximately $40 million. The Company continues to identify additional opportunities focusing on organizational design, process re-engineering and business process outsourcing as part of our continuous improvement process.

Real estate consolidation and restructuring We continue to evaluate our real estate portfolio of owned and leased properties in order to lower our overall facility costs. During 2010, we sold two properties representing a 1% reduction in total properties from 2009. During 2009, we sold six properties which were offset by leases for our new manufacturing facilities and office space obtained through our 2009 acquisitions. During 2008, we sold eight properties, representing approximately 2% reduction in total properties from 2007.

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Effects of Pension, Postemployment and Postretirement Benefit Plans

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

In millions	2010	2009	2008
Pension expense	**$ 208**	$ 159	$ 25
Postemployment expense	**43**	49	91
Postretirement benefit	**(4)**	(3)	(2)
Total expense	$ 247	$ 205	$ 114

In 2010, pension expense increased to $208 million compared to $159 million in 2009 and $25 million in 2008 primarily due to the loss on invested plan assets that we experienced in 2008, which caused higher actuarial loss amortization and a lower expected return on plan assets. In 2010, approximately 44% of the pension expense was included in selling, general and administrative and research and development expenses, with the remaining 56% included in cost of products and services. We currently expect pension expense of approximately $210 million in 2011.

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

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

Postemployment expense (severance and disability medical) decreased to $43 million in 2010 compared to $49 million in 2009 and to $91 million in 2008. This decrease was primarily driven by a discrete cost of $40 million related to the organizational realignment initiative recorded during 2008. In 2010, approximately 63% of total postemployment expense was included in cost of products and services, with the balance included in selling, general and administrative and research and development expenses. The realignment initiatives are described in more detail in the Restructuring and Re-engineering section of this MD&A and Note 3, Restructuring and Real Estate Transactions, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report.

Postretirement plans provided a $4 million benefit in 2010, a $3 million benefit in 2009, and a $2 million benefit in 2008, primarily due to favorable claims experience in each of the years.

Selling, General and Administrative Expenses

Selling, general, and administrative expenses increased $58 million to $703 million in 2010 from $645 million in 2009. As a percentage of revenue, these expenses were 14.6% in 2010 and 14.0% in 2009. In 2010, selling, general, and administrative expenses included $67 million of pension costs, $18 million of incremental costs related to the relocation of our worldwide headquarters, $8 million related to a litigation charge offset by a $6 million gain related to the sale of an office building in France. In 2009, selling, general, and administrative expenses included $53 million of pension costs as well as $6 million of incremental costs related to the relocation of our worldwide headquarters. After considering these items, selling, general, and administrative expenses increased slightly as a percentage of revenue to 12.8% in 2010 from 12.7% in 2009 due to higher incentive compensation costs in 2010.

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

Research and Development Expenses

Research and development expenses increased $21 million to $162 million in 2010 from $141 million in 2009. In 2010 and 2009, research and development costs included $25 million and $17 million, respectively, of pension costs. After considering this item, research and development costs increased slightly as a percentage of revenue to 2.8% in 2010 from 2.7% in 2009 and are in line with management expectations as we continue to invest in broadening our self-service solutions.

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

Interest and Other Income Items

Interest expense decreased to $2 million in 2010, compared to $10 million in 2009 and $22 million in 2008, primarily due to the repayment of our senior unsecured notes in June 2009.

Other expense, net was $11 million in 2010 compared to other expense, net of $31 million in 2009 and other income, net of $16 million in 2008. Other expense (income) includes items such as gains or losses on equity investments and interest income. Interest income was $5 million in 2010, $6 million in 2009, and $23 million in 2008. The decrease in interest income in 2010 compared to 2009 and 2008 is due to a combination of declining interest rates and lower invested cash balances throughout the years mainly due to the repayment of our senior unsecured notes in 2009 and share repurchases in 2008. In 2010, other expense, net included $14 million related to the impairment of an investment. In 2009, other expense, net included $24 million related to the impairment of equity investments and related assets.

Income Taxes

The effective tax rate was (33%) in 2010, (9%) in 2009, and 22% in 2008. The 2010 tax rate was favorably impacted by the release of a $40 million valuation allowance in the third quarter of 2010 that is no longer required on specific deferred tax assets in NCR s subsidiary in Japan and by the mix of taxable profits and losses by country. The 2009 tax rate was favorably impacted by the non-proportional benefit of impairment charges incurred in the United States and by the mix of taxable profits and losses by country. During 2008, we favorably settled examinations with the Internal Revenue Service (IRS) for the tax years of 2000 through 2006 that resulted in a $19 million tax benefit. In addition, the effective tax rate was benefited in 2008 by $26 million from the repatriation of earnings from international subsidiaries at an effective tax rate lower than previously estimated. These favorable items were partially offset by an unfavorable mix of taxable profits and losses by country. We anticipate that our effective tax rate will be approximately 27% in 2011. However, changes in profit mix or other events, such as tax audit settlements or changes in our valuation allowances, could impact this anticipated rate.

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During the fourth quarter of 2009, the Internal Revenue Service commenced an examination of our 2007 and 2008 income tax returns which is still ongoing. While we are subject to numerous federal, state and foreign tax audits, we believe that the appropriate reserves exist for issues that might arise from these audits. Should these audits be settled, the resulting tax effect could impact the tax provision and cash flows in future periods. During 2011, the Company expects to resolve certain Canadian tax matters related to 1997 through 2001. This settlement could have a material impact on the effective tax rate and unrecognized tax benefits in 2011.

Income (Loss) from Discontinued Operations

During the second quarter of 2010, we revised our presentation of costs and insurance recoveries related to certain environmental obligations, including the Fox River matter, to classify those items as discontinued operations in the Consolidated Statement of Operations since these obligations arose at sites the Company divested in previous years. Such costs and insurance recoveries were previously classified in other (income) expense, net in the Consolidated Statement of Operations.

For the year ended December 31, 2010, income from discontinued operations was $23 million, net of tax, which includes $20 million primarily resulting from the settlement of Fox River related insurance claims with insurance carriers and $3 million related to a favorable change in uncertain tax benefits attributable to Teradata. For the year ended December 31, 2009, loss from discontinued operations was $91 million, net of tax, due to the change in estimate of the Fox River reserve associated with a fourth quarter court decision partially offset by the receipt of insurance settlements. For the year ended December 31, 2008, loss from discontinued operations was $21 million, net of tax, which included $18 million for changes in estimates of the Fox River reserve and $3 million for professional and consulting fees related to the spin-off of Teradata in 2007. There was no operating activity related to the spin-off of Teradata in 2010 and 2009.

Revenue and Gross Margin by Segment

Our products and services enable businesses to connect, interact and transact with their customers and enhance their customer relationships by addressing consumer demand for convenience, value and individual service. NCR s portfolio of self-service and assisted-service solutions serve customers in the financial services, retail and hospitality, healthcare, travel and gaming and entertainment industries and include automated teller machines (ATMs), self-service kiosks and point of sale devices as well as software application that can be used by consumers to enable them to interact with businesses from their computer or mobile device. NCR complements these product solutions by offering a complete portfolio of services to help customers design, deploy and support its technology tools, as well as offering services for third-party products.

For the years presented, we reported on three segments:

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

Each of these segments derives its revenues by selling products and services across the entire NCR product and service portfolio within their geography to the financial services, retail and hospitality, travel and gaming and healthcare industries, other than with respect to products to the entertainment industry, which are currently sold only within the Americas region. Segments are measured for profitability by the Company s chief operating decision maker based on revenue and segment gross margin. For purposes of discussing our results by segment, we exclude the impact of certain items from segment gross margin, consistent with the manner by which management views each segment and reports our operating segment results. This format is useful to investors because it allows analysis and comparability of operating trends. It also includes the same information that is used by NCR management to make decisions regarding the segments and to assess our financial performance.

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

In 2010, pension expense of $116 million.

In 2009, pension expense of $89 million and $22 million of cost for the impairment of assets related to an equity investment.

In 2008, pension expense of $11 million and $36 million related to organizational realignment and legal costs.

Our segment results are reconciled to total income from operations reported under accounting principles generally accepted in the United States of America (otherwise known as GAAP) in Note 12, Segment Information and Concentrations, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report.

Americas Segment

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

In millions	2010	2009	2008
Revenue	**$ 2,123**	$ 2,022	$ 2,269
Gross margin	**$ 457**	$ 386	$ 437
Gross margin as a percentage of revenue	**21.5%**	19.1%	19.3%

Americas revenue increased 5% in 2010 compared to 2009 primarily due to growth in the entertainment business and higher product volumes in Caribbean and Latin America in the financial services industry and in North America in the retail and hospitality industry, slightly offset by lower product volumes and service offerings in North America in the financial services industry. Foreign currency fluctuations favorably impacted the year-over-year revenue comparison by 2%.

Gross margin as a percentage of revenue increased 2.4 percentage points to 21.5% in 2010 compared to 19.1% in 2009 primarily due to an improved mix of higher value product offerings to customers in the financial services and retail and hospitality industries. This improvement was partially offset by losses generated from the entertainment business.

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

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

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Europe, Middle East & Africa (EMEA) Segment

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

In millions	2010	2009	2008
Revenue	**$ 1,714**	$ 1,649	$ 2,066
Gross margin	**$ 404**	$ 401	$ 556
Gross margin as a percentage of revenue	**23.6%**	24.3%	26.9%

EMEA revenue increased 4% in 2010 compared to 2009. The increase was primarily driven by higher product volumes and service offerings within the financial services and retail and hospitality industries in Europe. Foreign currency fluctuations negatively impacted the year-over-year revenue comparison by 2%.

Gross margin as a percentage of revenue decreased 0.7 percentage points to 23.6% in 2010 compared to 24.3% in 2009 primarily due to an unfavorable mix in product sales, mainly in Europe, partially offset by improved services margins across the region resulting from cost reductions.

EMEA revenue decreased 20% in 2009 compared to 2008. Foreign currency fluctuations negatively impacted the year-over-year comparison by 3%. The decrease in revenue was primarily driven by a reduction in product sales to customers in the financial services industry across EMEA. After taking into account foreign currency fluctuations, recurring maintenance services increased slightly in 2009 as compared to 2008 primarily due to increases in the UK, Middle East and Africa. This trend reflected the stable nature of recurring, maintenance-based services despite an adverse market for new product sales.

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

Asia Pacific & Japan (APJ) Segment

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

In millions	2010	2009	2008
Revenue	**$ 982**	$ 941	$ 980
Gross margin	**$ 219**	$ 207	$ 237
Gross margin as a percentage of revenue	**22.3%**	22.0%	24.2%

APJ revenue increased 4% in 2010 compared to 2009. As further discussed in Note 1, Description of Business and Significant Accounting Policies, of the Notes to the Consolidated Financial Statements in Item 8 of Part II of this Report, in 2009, we recorded adjustments to decrease product revenue by $10 million and cost of products by $7 million, which resulted in a net decrease in gross margin of $3 million. The adjustments related to revenue incorrectly recognized during 2008 by the Company s Japanese subsidiary. After considering the effect of the adjustments, the increase in revenue was primarily driven by higher product volumes and services offerings in the financial services industry mainly in Japan, India and China. These increases were offset by declines in the retail and hospitality industry across the region. Foreign currency fluctuations favorably impacted the year-over-year revenue comparison by 7%.

Gross margin as a percentage of revenue increased 0.3 percentage points to 22.3% in 2010 compared to 22.0% in 2009. After considering the effect of the adjustments discussed above, the gross margin remained consistent year over year.

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

Gross margin as a percentage of revenue decreased 2.2 percentage points in 2009 compared to 2008. As described above, during 2009, the Company recorded adjustments to decrease product revenue by $10 million and cost of products by $7 million, which resulted in a net decrease in gross margin of $3 million. The adjustments related to revenues incorrectly recognized during 2008 by the Company s Japanese subsidiary. Excluding the effect of this item, gross margin as a percentage of revenue decreased 2.1 percentage points which was primarily due to lower sales volumes coupled with a negative sales mix.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

For 2010, net cash provided by operating activities decreased $14 million from $256 million for the year ended December 31, 2009 to $242 million for the year ended December 31, 2010. Cash flow from operations was negatively impacted by changes in working capital, resulting primarily from an increase in accounts receivable due to higher sales and increased inventory levels associated with planned revenue roll-outs in 2011.

NCR s management uses a non-GAAP measure called free cash flow, which we define as net cash provided by operating activities and cash provided by (used in) discontinued operations related to the Fox River environmental matter, less capital expenditures for property, plant and equipment, and additions to capitalized software, to assess the financial performance of the Company. Free cash flow does not have a uniform definition under GAAP; therefore, NCR s definition may differ from other companies definitions of this measure. The components used to calculate free cash flow are GAAP measures taken directly from the Consolidated Statements of Cash Flows. We believe free cash flow information is useful for investors because it relates the operating cash flows from the Company s continuing and discontinued operations to the capital that is spent to continue and improve business operations. In particular, free cash flow indicates the amount of cash available after capital expenditures for, among other things, investments in the Company s existing business, strategic acquisitions, repurchase of NCR stock and repayment of debt obligations. Free cash flow does not represent the residual cash flow available for discretionary expenditures since there may be other non-discretionary expenditures that are not deducted from the measure. This non-GAAP measure should not be considered a substitute for, or superior to, cash flows from operating activities under GAAP. The table below reconciles net cash provided by operating activities to NCR s non-GAAP measure of free cash flow for the years ended December 31:

In millions	**2010**	**2009**	**2008**
Net cash provided by operating activities	**$ 242**	$ 256	$ 440
Less: Expenditures for property, plant and equipment, net of grant reimbursements	**(169)**	(112)	(75)
Less: Additions to capitalized software	**(57)**	(61)	(63)
Net cash provided by (used in) discontinued operations (related to the Fox River environmental matter)	**21**	(33)	(25)
Free cash flow	**$ 37**	$ 50	$ 277

In 2010, net cash provided by operating activities decreased $14 million, net capital expenditures increased $57 million, capitalized software additions decreased $4 million, and net cash provided by discontinued operations (related to the Fox River environmental matter) increased $54 million, which contributed to a net decrease in free cash flow of $13 million in comparison to 2009. Planned expenditures related to investments in the entertainment industry led to a majority of the increase in net capital expenditures. During the second quarter of 2010, we revised the presentation of costs and insurance recoveries related to certain environmental obligations, including the Fox River matter, and now classify those items as discontinued operations in the Consolidated Statements of Cash Flows. Such costs and insurance recoveries were previously classified in net cash provided by operating activities. During the year ended December 31, 2010, cash provided by discontinued operations was attributable to insurance recoveries received partially offset by remediation payments made.

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In 2009, net cash provided by operating activities decreased $184 million, net capital expenditures increased $37 million, capitalized software additions decreased $2 million, and net cash used in discontinued operations (related to the Fox River environmental matter) increased $8 million, which contributed to a net decrease in free cash flow of $227 million in comparison to 2008. Net cash provided by operating activities decreased primarily due to the decrease in income compared to 2008 and due to a more significant positive impact to our working capital position in 2008. Capital expenditures were higher mainly due to planned expenditures related to investments in the entertainment industry. During the year ended December 31, 2009, the net cash used in discontinued operations (related to the Fox River environmental matter) was attributable to the Company s initial funding of the limited liability company described in Note 11, Commitments and Contingencies, of the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, and was partially offset by insurance recoveries.

Financing activities and certain other investing activities are not included in our calculation of free cash flow. During 2010, other investing activities included the receipt of $39 million in proceeds for the sale of an office building in France, as compared to proceeds of $11 million in 2009 for the sale of property, plant, and equipment. During 2010, other investing activities also included $24 million of expenditures related to acquisition and equity investment activity, as compared to investment expenditures of $41 million in 2009. Our financing activities in 2010 included $20 million for the repurchase of approximately 2 million shares of NCR common stock, the repayment of $4 million in short-term borrowings, proceeds from employee stock plans of $11 million as well as $75 million borrowing and repayment from our revolving credit facility. Our financing activities in 2009 included the repayment of $300 million of senior unsecured notes and the receipt of proceeds from employee stock plans of $9 million.

As of December 31, 2010, our cash and cash equivalents totaled $496 million and our long-term debt was $10 million. Our ability to generate future positive cash flows from operations is dependent on general economic conditions, competitive pressures and other business and risk factors described in Part I, Item 1A of this Report. If we are unable to generate sufficient cash flows from operations, or otherwise access our credit facility, we may be required to seek additional financing alternatives. Also, as described below and in Note 9, Employee Benefit Plans, in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, we expect to make pension, postemployment, and postretirement plan contributions of approximately $185 million in 2011. During the first quarter of 2010, the Company completed a comprehensive analysis of its capital allocation strategy, with specific focus on its approach to pension management. As a result of this analysis, the Company plans to substantially reduce future volatility in the value of assets held by its U.S. pension plan by rebalancing the asset allocation to a portfolio of entirely fixed income assets by the end of 2012. Additionally, in 2011, we expect to make approximately $45 million of remediation and other payments related to the Fox River environmental matter which we expect to be partially offset by insurance recoveries. We believe that we currently have sufficient liquidity based on our current cash position, cash flows from operations and existing financing to meet our expected pension, postemployment, and postretirement plan contributions, remediation payments related to the Fox River environmental matter and our operating requirements for the next twelve months.

Contractual Obligations In the normal course of business, we enter into various contractual obligations that impact, or could impact, the liquidity of our operations. The following table and discussion outlines our material obligations as of December 31, 2010, with projected cash payments in the years shown:

In millions	Total Amounts	2011	2012-2013	2014-2015	2016 and thereafter	All Other
Debt obligations	$ 11	$ 1	$ 1	$ 1	$ 8	$
Interest on debt obligations	5	1	1	1	2	
Estimated environmental liability payments	285	45	76	51	113	
Lease obligations	214	53	82	53	26	
Uncertain tax positions	165					165
Purchase obligations	847	706	69	72		
Total obligations	**$ 1,527**	**$ 806**	**$ 229**	**$ 178**	**$ 149**	**$ 165**

As of December 31, 2010, we have short- and long-term debt totaling $11 million.

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

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

We have a $165 million liability related to our uncertain tax positions. Due to the nature of the underlying liabilities and the extended time often needed to resolve income tax uncertainties, we cannot make reliable estimates of the amount or timing of cash payments that may be required to settle these liabilities. For additional information, refer to Note 7, Income Taxes, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report.

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

Our U.S. and international employee benefit plans, which are described in Note 9, Employee Benefit Plans, of the Notes to Consolidated Financial Statements included in Item 8 of Part II of this Report, could require significant future cash payments. The funded status of NCR s U.S. pension plans is an underfunded position of $903 million as of December 31, 2010 compared to an underfunded position of $822 million as of December 31, 2009. The decrease in our funded status is primarily attributable to an increase in the liability resulting from a decrease in the discount rate. The funded status of our international retirement plans improved to an underfunded position of $94 million as of December 31, 2010 from an underfunded position of $226 million as of December 31, 2009. Strong asset returns and cash contributions more than offset the increases in the plan liabilities driven by decreases in discount rates for these plans. We did not make any contributions to our U.S. qualified pension plan in 2010, and we do not expect to be required to make any contributions in 2011. Contributions to international and executive pension plans are expected to increase from $105 million in 2010 to approximately $125 million in 2011.

Our credit facility contains certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. The key financial covenants include a total debt to consolidated EBITDA requirement for the period of four consecutive fiscal quarters not to exceed 3.00 to 1.00 and a minimum cash interest coverage ratio for the period of four consecutive fiscal quarters of not less than 4.00 to 1.00. The credit facility provides a grid-based interest rate that determines the margin charged in addition to the London Interbank Offered Rate (LIBOR) on borrowings. The rate is based on several factors including the credit rating of the Company and the amount of the Company s aggregate borrowings under the facility. Additionally, the facility allows a portion of the availability to be used for outstanding letters of credit. As of December 31, 2010, no amount was outstanding under the facility; however, the maximum borrowing available was reduced by $21 million for NCR s usage of letters of credit.

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

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

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

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

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

The allowance for doubtful accounts was $13 million as of December 31, 2010, $24 million as of December 31, 2009, and $15 million as of December 31, 2008. These allowances represent, as a percent of gross receivables, 1.4% in 2010, 2.6% in 2009, and 1.6% in 2008.

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

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

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

Our excess and obsolete reserves were $71 million as of December 31, 2010, $100 million as of December 31, 2009, and $111 million as of December 31, 2008. These reserves represent, as a percent of gross

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inventory, 8.7% in 2010, 12.7% in 2009, and 13.8% in 2008. The decrease in the excess and obsolete reserve in 2010 was due to the scrapping of fully reserved spare parts inventory as well as improved inventory management and utilization. Although we strive to achieve a balance between market demands and risk of inventory obsolescence or excess quantities caused by these factors, it is possible that, should conditions change, additional reserves may be needed. Any changes in reserves will impact operating income during a given period. The policies described are consistently applied among all of our operating segments.

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

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

Total warranty costs were $48 million in 2010, $47 million in 2009, and $51 million in 2008. Warranty costs as a percent of total product revenues were 2.0% in 2010, 2.1% in 2009, and 1.8% in 2008. Historically, the principal factor used to estimate our warranty costs has been service calls per machine. Significant changes in this factor could result in actual warranty costs differing from accrued estimates. Although no near-term changes in our estimated warranty reserves are currently anticipated, in the unlikely event of a significant increase in warranty claims by one or more of our larger customers, costs to fulfill warranty obligations would be higher than provisioned, thereby impacting results.

Goodwill Goodwill is tested for impairment annually (in the fourth quarter) or more frequently if indicators of impairment exist or if a decision is made to sell a business. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a decline in expected cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, or slower growth rates, among others.

Goodwill is evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. NCR has three reporting units, which are Americas, EMEA and APJ. Total goodwill for each reporting units is as follows: $55 million related to Americas, $33 million related to EMEA and $27 million related to APJ.

The evaluation of impairment involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. NCR uses a discounted cash flow model (DCF model) to estimate the current fair value of its reporting units when testing for impairment. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market shares, sales volumes and prices, costs to produce, tax rates, capital spending, discount rate and working capital changes. Most of these assumptions vary among reporting units. The cash flow forecasts are generally based on approved strategic operating plans.

In the fourth quarter of 2010, the estimated fair value for each of the reporting units was in excess of its carrying value, resulting in no impairment.

In the event the estimated fair value of a reporting unit based on the DCF model is less than the carrying value, an additional analysis would be required. The additional analysis would compare the carrying value of the reporting unit s goodwill with the implied fair value of that goodwill. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value amounts assigned to all of the assets and liabilities of that unit as if the reporting unit was acquired in a business combination and the fair value of the reporting unit represented the purchase price. If the carrying value of goodwill exceeds its implied fair value, an impairment loss equal to such excess would be recognized, which could significantly and adversely impact reported results of operations and stockholders equity.

Pension, Postretirement and Postemployment Benefits We sponsor domestic and foreign defined benefit pension and postemployment plans as well as domestic postretirement plans. As a result, we have significant pension, postretirement and postemployment benefit costs, which are developed from actuarial valuations. Actuarial assumptions attempt to anticipate future events and are used in calculating the expense and liability relating to these plans. These factors include assumptions we make about interest rates, expected investment return on plan assets, rate of increase in healthcare costs, total and involuntary turnover rates, and rates of future compensation increases. In addition, our actuarial consultants advise us about subjective factors such as withdrawal rates and mortality rates to use in our valuations. We generally review and update these assumptions on an annual basis at the beginning of each fiscal year. We are required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that we use may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension, postretirement or postemployment benefits expense we have recorded or may record. Postemployment expense impacts all of our segments, while postretirement expense impacts only the Americas segment, as these benefits are only offered to Americas employees. Pension expense is reported at the corporate level and is excluded from our segment results as it is not included in the evaluation of segment performance. See Note 12, Segment Information and Concentrations in the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report for a reconciliation of our segment results to total income from operations.

The key assumptions used in developing our 2010 expense were discount rates of 5.75% for our U.S. pension plans and 5.0% for our postretirement plan. We used an expected return on assets assumption of 7.5% for our U.S. plans in 2010. The U.S. plans represent 65% and 100% of total pension and postretirement plan obligations as of December 31, 2010, respectively. Holding all other assumptions constant, a 0.25% change in the discount rate used for the U.S. plans would have increased or decreased 2010 expense by approximately $6 million in pension expense and an immaterial amount in postretirement expense. A 0.25% change in the expected rate of return on plan assets assumption for the U.S. pension plan would have increased or decreased 2010 pension expense by approximately $6 million. Our expected return on plan assets has historically been and will likely continue to be material to net income. While it is required that we review our actuarial assumptions each year at the measurement date, we generally do not change them between measurement dates. We use a measurement date of December 31 for all of our plans.

We intend to use a discount rate of 5.25% and 4.25% and an expected rate of return on assets assumption of 6.75% in determining the 2011 pension and postretirement expense for the U.S. plans. The most significant assumption used in developing our 2011 postemployment plan expense was the assumed rate of involuntary turnover of 5.5%. The involuntary turnover rate is based on historical trends and projections of involuntary turnover in the future. A 0.25% change in the rate of involuntary turnover would have increased or decreased 2010 expense by approximately $3 million. The sensitivity of the assumptions described above is specific to each individual plan and not to our pension, postretirement and postemployment plans in the aggregate.

Environmental and Legal Contingencies Each quarter, we review the status of each claim and legal proceeding and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. To the extent that the amount of a probable loss is estimable only by reference to a range of equally likely outcomes, and no amount within the range appears to be a better estimate than any other amount, we accrue for the low end of the range. Because of uncertainties related to these matters, the use of estimates, assumptions and judgments, and external factors beyond our control, accruals are based on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position. Except for the sharing agreement with Appleton Papers Inc. (API) described in Note 11 in the Notes to Consolidated Financial Statements, Commitments and Contingencies, in Item 8 of Part II of this Report with respect to the Fox River matter, when insurance carriers or third parties have agreed to pay any amounts related to costs, and we believe that it is probable that we can collect such amounts, those amounts are reflected as receivables in our Consolidated Balance Sheet.

The most significant legal contingency impacting our Company relates to the Fox River matter, which is further described in detail in Note 11 in the Notes to Consolidated Financial Statements, Commitments and Contingencies, in Item 8 of Part II of this Report. NCR has been identified as a potentially responsible party (PRP) at the Fox River site in Wisconsin because of polychlorinated biphenyl (PCB) discharges from two carbonless paper manufacturing facilities previously owned by NCR, located along the Fox River.

As described below and in Note 11, while substantial progress has been made in the engineering design of the Fox River clean-up and the clean-up itself, the extent of our potential liability continues to be subject to significant uncertainties. These uncertainties include the total clean-up costs for each of the segments of the river; the total natural resource damages for the site; the extent to which clean-up and other costs will be allocated to and paid by other PRPs; the solvency of other PRPs; the extent of NCR s eventual liability and the outcome of the Company s appeal of the December 16, 2009 order described in Note 11; and the outcome of the state and federal governments lawsuit regarding the Fox River filed in October 2010 against several parties, including NCR, also described in Note 11.

Our reserve for the Fox River matter as of December 31, 2010 was approximately $199 million (after taking into consideration amounts expected to be recovered under an indemnity agreement, as further discussed in Note 11). The Company regularly re-evaluates the assumptions used in determining the appropriate reserve for the Fox River matter as additional information becomes available and, when warranted, makes appropriate adjustments.

In determining our reserve, we attempt to estimate a range of reasonably possible outcomes for relevant factors, although each range is itself highly uncertain. We use our best estimate within the range if that is possible. Where there is a range of equally likely outcomes, and there is no amount within that range that appears to be a better estimate than any other amount, we use the low end of the range. Our eventual liability for remediation, which we expect will be paid out over a period of at least 10 years (and perhaps as long as 20 years, and a still longer period for long-term monitoring), will depend on a number of factors, the most significant of which include:

- The total clean-up costs for the site (we use the best estimate within a range of reasonably possible outcomes $930 million which consists of the current estimate of the lower river clean-up and long-term monitoring costs developed in consultation with the engineering firms working on the design, the projected costs of the upper river clean-up, plus a 15% contingency for probable cost overruns and a contingency for future Government oversight costs, and the NCR-API share of the estimated natural resource damages);

- The total natural resource damages for the site (we use a best estimate of $76 million, which is based on prior negotiations);

- The share NCR and API will jointly bear of the total clean-up costs (as a result of the December 2009 judicial order discussed in Note 11, we now assume NCR and API will be responsible for the full extent of the clean-up activities they are undertaking, which is a best estimate, and for a substantial portion of the counterclaims filed against them, as to which we use the low end of a range) and of natural resource damages (we use a best estimate);

- The share NCR will bear of the joint NCR/API payments for clean-up costs and natural resource damages (based upon an agreement between NCR and API, and an arbitration award, we utilized a 45% share for NCR of the first $75 million a threshold that was reached in the second quarter of 2008 and a 40% share for amounts in excess of $75 million); and

- Our transaction costs to defend NCR in this matter, including participation in litigation to establish proper allocation shares and the lawsuit filed by the Governments on October 14, 2010 as described in

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Note 11 (we have estimated the costs we are likely to incur through 2019, the end of the time period the Governments have projected it will take to design and implement the remedy for the Fox River).

AT&T Inc. (AT&T) and Alcatel-Lucent are each responsible for indemnifying NCR for a portion of amounts NCR incurs for the Fox River matter over a certain threshold. NCR s estimate of what AT&T and Alcatel-Lucent will pay under the indemnity is recorded as a long-term asset of approximately $86 million as of December 31, 2010, and is deducted in determining the net reserve discussed above.

While it remains difficult to predict, there could be significant changes in the future to some of the above-described assumptions that could have a material effect on the amount of our reserve. Also, there are other estimates for some of these factors that are significantly higher than the estimates described above. It is the opinion of the Company that the effect of the Fox River matter will have a moderate, but manageable, impact on our liquidity and capital resources, assuming that such amounts discussed above are required to be paid over the time frame currently contemplated. However, if such an amount were required to be paid in a shorter time period, it could have a material impact on our liquidity and capital resources.

Income Taxes We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax basis of assets and liabilities. The deferred tax assets and liabilities are determined based on the enacted tax rates expected to apply in the periods in which the deferred tax assets or liabilities are anticipated to be settled or realized.

We regularly review our deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that some portion or all of a deferred tax asset will not be realized. The determination as to whether a deferred tax asset will be realized is made on a jurisdictional basis and is based on the evaluation of positive and negative evidence. This evidence includes historical taxable income, projected future taxable income, the expected timing of the reversal of existing temporary differences and the implementation of tax planning strategies. Projected future taxable income is based on our expected results and assumptions as to the jurisdiction in which the income will be earned. The expected timing of the reversals of existing temporary differences is based on current tax law and our tax methods of accounting.

If we are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates or the time period within which the underlying temporary differences become taxable or deductible, or if the tax laws change unfavorably, then we could be required to increase our valuation allowance against our deferred tax assets, resulting in an increase in our effective tax rate.

We had valuation allowances of $410 million as of December 31, 2010 and $528 million as of December 31, 2009, related to certain deferred income tax assets, primarily tax loss carryforwards, in jurisdictions where there is uncertainty as to the ultimate realization of a benefit from those tax assets. At December 31, 2010, our net deferred tax assets in the United States totaled approximately $597 million and realization of the related benefits was determined to be more likely than not.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon settlement. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law until such time that the related tax benefits are recognized.

Stock-based Compensation We measure compensation cost for stock awards at fair value and recognize compensation expense over the service period for which awards are expected to vest. We utilize the Black-Scholes option pricing model to estimate the fair value of stock-based compensation at the date of grant, which requires the input of highly subjective assumptions, including expected volatility and expected holding period. We estimate forfeitures for awards granted, which are not expected to vest. The estimation of stock awards that

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will ultimately vest requires judgment, and to the extent that actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period in which estimates are revised. We consider many factors when estimating expected forfeitures, including types of awards and historical experience. Actual results and future changes in estimates may differ from our current estimates.

In addition, we have performance-based awards that vest only if specific performance conditions are satisfied, typically at the end of a multi-year performance period. The number of shares that will be earned can vary based on actual performance. No shares will vest if the objectives are not met, and in the event the objectives are exceeded, additional shares will vest up to a maximum amount. The cost of these awards is expensed over the performance period based upon management s estimates of achievement against the performance criteria. Because the actual number of shares to be awarded is not known until the end of the performance period, the actual compensation expense related to these awards could differ from our current expectations.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

A discussion of recently issued accounting pronouncements is described in Note 1, Description of Business and Significant Accounting Policies, of the Notes to Consolidated Financial Statements in Item 8 of Part II of this Report, and we incorporate such discussion in this MD&A by reference and make it a part hereof.

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Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk, including changes in foreign currency exchange rates and interest rates. We use a variety of measures to monitor and manage these risks, including derivative financial instruments. Since a substantial portion of our operations and revenue occurs outside the United States, and in currencies other than the U.S. Dollar, our results can be significantly impacted by changes in foreign currency exchange rates. To manage our exposures and mitigate the impact of currency fluctuations on the operations of our foreign subsidiaries, we hedge our main transactional exposures through the use of foreign exchange forward contracts. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by the marketing units and of foreign currency denominated inventory sales by the manufacturing units. All of these transactions are firmly committed or forecasted. These foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses are deferred in other comprehensive income and recognized in the determination of income when the underlying hedged transaction impacts earnings. Since we hedge inventory purchases, the ultimate gain or loss from the derivative contract is recorded in cost of products when the inventory is sold to an unrelated third party.

We have exposure to approximately 50 functional currencies. Due to our global operations, weaknesses in some of these currencies are sometimes offset by strengths in others. The U.S. Dollar was slightly weaker in 2010 as compared to 2009 based on comparable weighted averages for our functional currencies. This had a favorable impact of 1% on 2010 revenue versus 2009 revenue. This excludes the effects of our hedging activities and, therefore, does not reflect the actual impact of fluctuations in exchange rates on our operating income.

Our strategy is to hedge, on behalf of each subsidiary, a portion of our non-functional currency denominated cash flows for a period of up to 15 months. As a result, some of the impact of currency fluctuations on non-functional currency denominated transactions (and hence on subsidiary operating income, as stated in the functional currency) is mitigated in the near term. The amount we hedge and the length of time hedge contracts are entered into may vary significantly. In the longer term (longer than the hedging period of up to 15 months), the subsidiaries are still subject to the impacts of foreign currency fluctuations. In addition, the subsidiary results are still subject to any impact of translating the functional currency results to U.S. Dollars. When hedging certain foreign currency transactions of a long-term investment nature (net investments in foreign operations) the gains and losses are recorded in the currency translation adjustment component of stockholders equity. Gains and losses on other foreign exchange contracts are recognized in other income or expense as exchange rates change.

For purposes of potential risk analysis, we use sensitivity analysis to quantify potential impacts that market rate changes may have on the fair values of our hedge portfolio related to firmly committed or forecasted transactions. The sensitivity analysis represents the hypothetical changes in value of the hedge position and does not reflect the related gain or loss on the forecasted underlying transaction. A 10% appreciation or depreciation in the value of the U.S. Dollar against foreign currencies from the prevailing market rates would result in a corresponding increase or decrease of $27 million as of December 31, 2010 in the fair value of the hedge portfolio. The Company expects that any increase (decrease) in the net fair value of the portfolio would be substantially offset by increases (decreases) in the underlying exposures being hedged.

Our cash and cash equivalents are not subject to significant interest rate risk due to the short maturities of these instruments. As of December 31, 2010, the carrying value of our cash and cash equivalents approximated fair value. The interest rate risk associated with our borrowing and investing activities as of December 31, 2010 was not material in relation to our consolidated financial position, results of operations or cash flows.

We utilize non-exchange traded financial instruments, such as foreign exchange forward contracts that we purchase exclusively from highly rated financial institutions. We record these contracts on our balance sheet at fair market value based upon market price quotations from the financial institutions. We do not enter into non-exchange traded contracts that require the use of fair value estimation techniques, but if we did, they could have a material impact on our financial results. Also, we do not enter into hedges for speculative purposes.

We are potentially subject to concentrations of credit risk on accounts receivable and financial instruments, such as hedging instruments and cash and cash equivalents. Credit risk includes the risk of nonperformance by

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counterparties. The maximum potential loss may exceed the amount recognized on the balance sheet. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. Our business often involves large transactions with customers for which we do not require collateral. If one or more of those customers were to default in its obligations under applicable contractual arrangements, we could be exposed to potentially significant losses. Moreover, a prolonged downturn in the global economy could have an adverse impact on the ability of our customers to pay their obligations on a timely basis. We believe that the reserves for potential losses are adequate. As of December 31, 2010, we did not have any major concentration of credit risk related to financial instruments.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of NCR Corporation:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of NCR Corporation and its subsidiaries at December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP
Atlanta, Georgia
February 24, 2011

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NCR Corporation

Consolidated Statements of Operations

In millions, except per share amounts

For the years ended December 31	2010	2009	2008
Product revenue	**$ 2,403**	$ 2,234	$ 2,861
Service revenue	**2,416**	2,378	2,454
Total revenue	**4,819**	4,612	5,315
Cost of products	**1,925**	1,811	2,113
Cost of services	**1,930**	1,918	2,019
Selling, general and administrative expenses	**703**	645	713
Research and development expenses	**162**	141	148
Total operating expenses	**4,720**	4,515	4,993
Income from operations	**99**	97	322
Interest expense	**2**	10	22
Other expense (income), net	**11**	31	(16)
Income from continuing operations before income taxes	**86**	56	316
Income tax (benefit) expense	**(28)**	(5)	68
Income from continuing operations	**114**	61	248
Income (loss) from discontinued operations, net of tax	**23**	(91)	(21)
Net income (loss)	**137**	(30)	227
Net income (loss) attributable to noncontrolling interests	**3**	3	(1)
Net income (loss) attributable to NCR	**$ 134**	$ (33)	$ 228
Amounts attributable to NCR common stockholders:			
Income from continuing operations	**$ 111**	$ 58	$ 249
Income (loss) from discontinued operations, net of tax	**23**	(91)	(21)
Net income (loss)	**$ 134**	$ (33)	$ 228
Net income per share attributable to NCR common stockholders:			
Net income per common share from continuing operations			
Basic	**$ 0.69**	$ 0.37	$ 1.51
Diluted	**$ 0.69**	$ 0.36	$ 1.48
Net income (loss) per common share			
Basic	**$ 0.84**	$ (0.21)	$ 1.38
Diluted	**$ 0.83**	$ (0.21)	$ 1.36

Weighted average common shares outstanding			
Basic	**159.8**	158.9	165.3
Diluted	**161.2**	160.1	167.9

The accompanying notes are an integral part of the Consolidated Financial Statements.

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NCR Corporation

Consolidated Balance Sheets

In millions, except per share amounts

As of December 31	2010	2009
Assets		
Current assets		
Cash and cash equivalents	**$ 496**	$ 451
Accounts receivable, net	**928**	896
Inventories, net	**741**	686
Other current assets	**313**	266
Total current assets	**2,478**	2,299
Property, plant and equipment, net	**429**	356
Goodwill	**115**	100
Prepaid pension cost	**286**	244
Deferred income taxes	**630**	617
Other assets	**423**	478
Total assets	**$ 4,361**	$ 4,094
Liabilities and stockholders equity		
Current liabilities		
Short-term borrowings	**$ 1**	$ 4
Accounts payable	**499**	557
Payroll and benefits liabilities	**175**	125
Deferred service revenue and customer deposits	**362**	329
Other current liabilities	**379**	367
Total current liabilities	**1,416**	1,382
Long-term debt	**10**	11
Pension and indemnity plan liabilities	**1,259**	1,268
Postretirement and postemployment benefits liabilities	**309**	355
Income tax accruals	**165**	165
Environmental liabilities	**244**	279
Other liabilities	**42**	42
Total liabilities	**3,445**	3,502
Commitments and contingencies (Note 11)		
Stockholders equity		
NCR stockholders equity		
Preferred stock: par value $0.01 per share, 100.0 shares authorized, no shares issued and outstanding as of December 31, 2010 and December 31, 2009		
Common stock: par value $0.01 per share, 500.0 shares authorized, 159.7 and 159.6 shares issued and outstanding as of December 31, 2010 and December 31, 2009, respectively	**2**	2
Paid-in capital	**281**	270
Retained earnings	**1,935**	1,801
Accumulated other comprehensive loss	**(1,335)**	(1,509)

Total NCR stockholders equity	**883**	564
Noncontrolling interests in subsidiaries	**33**	28
Total stockholders equity	**916**	592
Total liabilities and stockholders equity	**$ 4,361**	$ 4,094

The accompanying notes are an integral part of the Consolidated Financial Statements.

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NCR Corporation

Consolidated Statements of Cash Flows

In millions

For the years ended December 31	2010	2009	2008
Operating activities			
Net income (loss)	**$ 137**	$ (30)	$ 227
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
(Income) loss from discontinued operations	**(23)**	91	21
Depreciation and amortization	**138**	128	114
Stock-based compensation expense	**21**	12	41
Excess tax benefit from stock-based compensation			(2)
Deferred income taxes	**(65)**	(80)	10
Gain on sale of property, plant and equipment	**(10)**	(12)	(30)
Impairment of equity investments	**14**	39	
Changes in operating assets and liabilities:			
Receivables	**(26)**	27	249
Inventories	**(54)**	5	25
Current payables and accrued expenses	**(12)**	(28)	(56)
Deferred service revenue and customer deposits	**34**	18	(42)
Employee severance and pension	**80**	49	(43)
Other assets and liabilities	**8**	37	(74)
Net cash provided by operating activities	**242**	256	440
Investing activities			
Grant reimbursements from capital expenditures	**5**	9	
Expenditures for property, plant and equipment	**(174)**	(121)	(75)
Proceeds from sales of property, plant and equipment	**39**	11	59
Additions to capitalized software	**(57)**	(61)	(63)
Other investing activities and business acquisitions, net	**(24)**	(41)	(65)
Net cash used in investing activities	**(211)**	(203)	(144)
Financing activities			
Repurchases of Company common stock	**(20)**	(1)	(494)
Excess tax benefit from stock-based compensation			2
Short-term borrowings, net	**(4)**	4	
Repayment of senior unsecured notes		(300)	
Repayment of long term debt	**(1)**		
Payments on revolving credit facility	**(75)**	(30)	
Borrowings on revolving credit facility	**75**	30	
Proceeds from employee stock plans	**11**	9	17
Net cash used in financing activities	**(14)**	(288)	(475)
Cash flows from discontinued operations			
Net cash provided by (used in) operating activities	**21**	(33)	(44)
Effect of exchange rate changes on cash and cash equivalents	**7**	8	(18)

Increase (decrease) in cash and cash equivalents	**45**	(260)	(241)
Cash and cash equivalents at beginning of year	**451**	711	952
Cash and cash equivalents at end of year	**$ 496**	$ 451	$ 711
Supplemental data			
Cash paid during the year for:			
Income taxes	**$ 34**	$ 49	$ 108
Interest	**$ 2**	$ 10	$ 22

The accompanying notes are an integral part of the Consolidated Financial Statements.

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NCR Corporation

Consolidated Statements of Changes in Stockholders Equity

In millions

	NCR Stockholders						
	Common Stock				Accumulated Other Comprehensive (Loss) Income		
	Shares	**Amount**	**Paid-in Capital**	**Retained Earnings**		**Noncontrolling Interests in Subsidiaries**	**Total**
December 31, 2007	**178**	**$ 2**	**$ 683**	**$ 1,608**	**$ (536)**	**$ 19**	**$ 1,776**
Comprehensive income (loss):							
Net income (loss)				228		(1)	227
Other comprehensive income (loss):							
Foreign currency translation					(201)		(201)
Unrealized gains (losses) from securities, net of tax benefit of $1					(7)		(7)
Cash flow hedging gains (losses), net of tax benefit of $0					(7)		(7)
Changes to unrecognized losses and prior service cost related to pension, postretirement and postemployment benefits, net of tax benefit of $477					(893)		(893)
Total other comprehensive income (loss)					(1,108)		(1,108)
Total comprehensive income (loss)				228	(1,108)	(1)	(881)
Spin-off of Teradata (Note 1)				(2)			(2)
Employee stock purchase and stock compensation plans	2		59				59
Repurchase of Company common stock	(22)		(494)				(494)
Increase in noncontrolling interests						7	7
December 31, 2008	**158**	**$ 2**	**$ 248**	**$ 1,834**	**$ (1,644)**	**$ 25**	**$ 465**
Comprehensive income (loss):							
Net income (loss)				(33)		3	(30)
Other comprehensive income (loss):							
Foreign currency translation					28		28
Unrealized gains (losses) from securities, net of tax expense of $0					1		1
Cash flow hedging gains (losses), net of tax expense of $0					8		8
Changes to unrecognized losses and prior service cost related to pension, postretirement and postemployment benefits, net of tax expense of $110					98		98
Total other comprehensive income (loss)					135		135
Total comprehensive (loss) income				(33)	135	3	105
Employee stock purchase and stock compensation plans	2		23				23
Repurchase of Company common stock			(1)				(1)
December 31, 2009	**160**	**$ 2**	**$ 270**	**$ 1,801**	**$ (1,509)**	**$ 28**	**$ 592**
Comprehensive income (loss):							
Net income (loss)				134		3	137
Other comprehensive income (loss):							
Foreign currency translation					30	2	32
					(1)		(1)

Unrealized gains (losses) from securities, net of tax expense of $0							
Cash flow hedging gains (losses), net of tax expense of $1					5		5
Changes to unrecognized losses and prior service cost related to pension, postretirement and postemployment benefits, net of tax expense of $27					140		140
Total other comprehensive income (loss)					174	2	176
Total comprehensive income (loss)				134	174	5	313
Employee stock purchase and stock compensation plans	2		31				31
Repurchase of Company common stock	(2)		(20)				(20)
December 31, 2010	**160**	**$ 2**	**$ 281**	**$ 1,935**	**$ (1,335)**	**$ 33**	**$ 916**

The accompanying notes are an integral part of the Consolidated Financial Statements.

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NCR CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 Description of Business and Significant Accounting Policies

Description of Business NCR Corporation (NCR or the Company, also referred to as we, us or our) and its subsidiaries provide innovative products and services that are designed specifically to enable NCR s customers to connect, interact and transact with their customers and enhance their customer relationships by addressing consumer demand for convenience, value and individual service. NCR s portfolio of self-service and assisted-service solutions serve customers in the financial services, retail and hospitality, healthcare, travel and gaming and entertainment industries and include automated teller machines (ATMs), self-service kiosks and point of sale devices as well as software application that can be used by consumers to enable them to interact with businesses from their computer or mobile device. NCR complements these product solutions by offering a complete portfolio of services to help customers design, deploy and support its technology tools, as well as offering services for third-party products.

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

Discontinued Operations Income (loss) from discontinued operations, net of tax includes activity related to the Fox River environmental matter as well as the spin-off of the Teradata Data Warehousing (Teradata) business.

Fox River environmental matter In 2010, the Company revised its presentation of costs and insurance recoveries related to certain environmental obligations, including the Fox River matter, to classify those items as discontinued operations in the Consolidated Statement of Operations and Consolidated Statement of Cash Flows. Such costs and insurance recoveries were previously classified in other expense (income), net in the Consolidated Statement of Operations, and within cash flow from operating activities in the Consolidated Statement of Cash Flows. Presentation of these items as discontinued operations is appropriate because the environmental obligations arose at properties which the Company has divested, and is consistent with the guidance of the SEC, including SEC Staff Accounting Bulletin Topic 5Z(5), Classification and Disclosure of Contingencies Relating to Discontinued Operations. The revised presentation has been applied for similar items in all periods presented. See Note 11, Commitments and Contingencies for additional information.

For the years ended December 31, 2009 and 2008, loss from discontinued operations, net of tax, related to the Fox River environmental matter of $91 million and $18 million, respectively, was previously reported as $143 million and $28 million included in other income (expense), net, respectively, and $52 million and $10 million was included in income tax expense (benefit), respectively. The revision in presentation did not change net income or net income per common share in either period. For the years ended December 31, 2009 and 2008, the cash flows from discontinued operations related to the Fox River environmental matter included $33 million and $25 million of cash used, respectively, which was previously included in net cash provided by operating activities.

For the year ended December, 31, 2010, income from discontinued operations of $31 million or $20 million, net of tax, was primarily due to the settlement of insurance claims with insurance carriers and net cash provided by discontinued operations was $21 million.

Spin-off of Teradata On September 30, 2007, NCR completed the spin-off of Teradata through the distribution of a tax-free stock dividend to its stockholders. The results of operations and cash flows of Teradata have been presented as a discontinued operation. There was no operating activity related to the spin-off of Teradata in 2010 and 2009. For the year ended December 31, 2010, $3 million was included in income from discontinued operations, net of tax, related to a favorable change in uncertain tax benefits attributable to Teradata. For the year ended December 31, 2008, $3 million was included in income (loss) from discontinued operations, which was comprised of $4 million of expenses related to professional and consulting fees directly associated with the spin-off of Teradata, net of $1 million income tax benefit recognized.

Evaluation of Subsequent Events The Company evaluated subsequent events through the date our Consolidated Financial Statements were issued. Except as described below, no matters were identified that required adjustment of the Consolidated Financial Statements or additional disclosure.

On January 1, 2011, NCR began management of its business on a line of business basis, changing from the previous model of geographic business segments. In accordance with accounting principles generally accepted in the United States (otherwise referred to as GAAP), the Company expects to report its results for line of business segments beginning in the first quarter of 2011. The new model is intended to align with our operational organization along lines of business, and is expected to improve profitability.

Out of Period Adjustments During 2009, the Company recorded adjustments to decrease product revenue by $10 million and cost of products by $7 million, which resulted in a net decrease in gross margin and net income of $3 million. The adjustments related to revenue incorrectly recorded during 2008 by the Company s Japanese subsidiary. Also during 2009, the Company recorded an adjustment to operating expenses to recognize additional employee benefits at its Italian subsidiary. These costs, which were incurred in 2007 and 2008, reduced 2009 net income by $3 million. The Company determined the impact of these errors was not material to the annual or interim financial statements of previous periods and the effect of correcting these errors in 2009 was not material to the 2009 annual or interim financial statements.

Basis of Consolidation The consolidated financial statements include the accounts of NCR and its majority-owned subsidiaries. Long-term investments in affiliated companies in which NCR owns between 20% and 50%, and therefore, exercises significant influence, but which it does not control, are accounted for using the equity method. Investments in which NCR does not exercise significant influence (generally, when NCR has an investment of less than 20% and no significant influence, such as representation on the investee s board of directors) are accounted for using the cost method. All significant inter-company transactions and accounts have been eliminated. In addition, the Company is required to determine whether it is the primary beneficiary of economic income or losses that may be generated by variable interest entities in which the Company has such an interest. In circumstances where the Company determined it is the primary beneficiary, consolidation of that entity would be required. For the periods presented, no variable interest entities have been consolidated.

Reclassifications Certain prior-period amounts have been reclassified in the accompanying Consolidated Financial Statements and Notes thereto in order to conform to the current period presentation. None of the reclassifications affected previously reported net income or net income per common share.

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

Revenue Recognition The Company records revenue, net of taxes, when it is realized, or realizable, and earned. The Company considers these criteria met when persuasive evidence of an arrangement exists, the products or services have been provided to the customer, the sales price is fixed or determinable, and collectability is reasonably assured. For product sales, delivery is deemed to have occurred when the customer has assumed risk of loss of the goods sold and all performance obligations are complete. For services sales, revenue is recognized as the services are provided or ratably over the service period, or, if applicable, after customer acceptance of the services.

NCR frequently enters into multiple-element arrangements with its customers including hardware, software, professional consulting services and maintenance support services. For arrangements involving multiple deliverables, where the delivered items have stand-alone value, verifiable objective evidence of selling price exists for the undelivered items, and the customer has no general right of return, NCR separates the deliverables and allocates the total arrangement consideration among the units of accounting. Each unit of accounting is then accounted for under the applicable revenue recognition guidance.

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In situations where NCR s solutions contain software that is more than incidental to the hardware and services, revenue related to the software and software-related elements is supported by vendor-specific objective evidence (VSOE). VSOE of selling price is established by the price charged when each element is sold separately. In situations where there is appropriate evidence for all undelivered elements, but not for delivered elements, the residual method is used to allocate the arrangement s consideration. Under the residual method, the selling price of undelivered elements is deferred and the remaining portion of the arrangement fee is allocated to the delivered elements and recognized as revenue.

NCR s customers may request that delivery and passage of title and risk of loss occur on a bill and hold basis. For the years ended December 31, 2010, 2009 and 2008, the revenue recognized from bill and hold transactions approximated 1% or less of total revenue.

In addition to the standard product warranty, the Company periodically offers extended warranties to its customers in the form of product maintenance services. For contracts that are not separately priced but include product maintenance, the Company defers revenue at an amount equal to the selling price, based on objective and reliable evidence and recognizes the deferred revenue over the service term. For separately priced product maintenance contracts, NCR defers the stated amount of the separately priced contract and recognizes the deferred revenue ratably over the service term.

Net revenue from DVD movie rentals is recognized on a ratable basis during the term of a consumer s rental transaction. Revenue from a direct sale out of the kiosk of previously rented movies is recognized at the time of sale. On rental transactions for which the related DVDs have not yet been returned to the kiosk at month-end, revenue is recognized with a corresponding receivable recorded in the Consolidated Balance Sheet, net of a reserve for potentially uncollectible amounts. We record revenue net of refunds and applicable sales taxes collected from consumers.

Shipping and Handling Costs related to shipping and handling are included in cost of products in the Consolidated Statements of Operations.

Cash and Cash Equivalents All short-term, highly liquid investments having original maturities of three months or less, including time deposits, are considered to be cash equivalents.

Allowance for Doubtful Accounts NCR establishes provisions for doubtful accounts using percentages of accounts receivable balances to reflect historical average credit losses and specific provisions for known issues.

Inventories Inventories are stated at the lower of cost or market, using the average cost method. Cost includes materials, labor and manufacturing overhead related to the purchase and production of inventories. Service parts are included in inventories and include reworkable and non-reworkable service parts. The Company regularly reviews inventory quantities on hand, future purchase commitments with suppliers and the estimated utility of inventory. If the review indicates a reduction in utility below carrying value, inventory is reduced to a new cost basis. Excess and obsolete reserves are established based on forecasted usage, orders, technological obsolescence and inventory aging.

Long-Lived Assets

Capitalized Software Certain direct development costs associated with internal-use software are capitalized within other assets and amortized over the estimated useful lives of the resulting software. NCR typically amortizes capitalized internal-use software on a straight-line basis over four years beginning when the asset is substantially ready for use, as this is considered to approximate the usage pattern of the software.

Costs incurred for the development of software that will be sold, leased or otherwise marketed are capitalized when technological feasibility has been established. These costs are included within other assets and are amortized over the estimated useful lives of the resulting software. The Company amortizes capitalized software on a sum-of- the-years digits basis over three years beginning when the product is available for general release, as this approximates the sales pattern of the software. Costs capitalized include direct labor and related overhead costs. Costs incurred prior to technological feasibility or after general release are expensed as incurred. The following table identifies the activity relating to total capitalized software:

In millions	2010	2009	2008
Beginning balance as of January 1	**$ 102**	$ 92	$ 75
Capitalization	**57**	61	63
Amortization	**(52)**	(51)	(46)
Ending balance as of December 31	**$ 107**	$ 102	$ 92

Goodwill and Other Intangible Assets Goodwill represents the excess of purchase price over the value assigned to the net tangible and identifiable intangible assets of businesses acquired. Goodwill is tested annually for impairment or more frequently if certain events occur indicating that the carrying value of goodwill may be impaired. A significant amount of judgment is involved in determining if an indicator of impairment has occurred. Such indicators may include a decline in expected cash flows, a significant adverse change in legal factors or in the business climate, unanticipated competition, or slower growth rates, among others.

Goodwill is evaluated for impairment at the reporting unit level, which is defined as an operating segment or one level below an operating segment. NCR has three reporting units which are: Americas; Europe, Middle East and Africa (EMEA); and Asia Pacific and Japan (APJ). Total goodwill for each reporting unit is as follows: $55 million related to Americas, $33 million related to EMEA and $27 million related to APJ.

NCR s annual impairment test is performed during the fourth quarter. The evaluation of impairment involves comparing the current fair value of each reporting unit to its carrying value, including goodwill. NCR uses a discounted cash flow model (DCF model) to estimate the current fair value of its reporting units when testing for impairment. A number of significant assumptions and estimates are involved in the application of the DCF model to forecast operating cash flows, including markets and market shares, sales volumes and prices, costs to produce, tax rates, capital spending, discount rates and working capital changes. Most of these assumptions vary among reporting units. The cash flow forecasts are generally based on approved strategic operating plans.

In the event the estimated fair value of a reporting unit based on the DCF model is less than the carrying value, an additional analysis would be required. The additional analysis would compare the carrying value of the reporting unit s goodwill with the implied fair value of that goodwill. The implied fair value of goodwill is the excess of the fair value of the reporting unit over the fair value amounts assigned to all of the assets and liabilities of that unit as if the reporting unit was acquired in a business combination and the fair value of the reporting unit represented the purchase price. If the carrying value of goodwill exceeds its implied fair value, an impairment loss equal to such excess would be recognized.

Acquired intangible assets other than goodwill are amortized over their estimated useful lives unless the lives are determined to be indefinite. Acquired intangible assets are carried at cost, less accumulated amortization. For intangible assets purchased in a business combination, the estimated fair values of the assets received are used to establish the carrying value. The fair value of acquired intangible assets is determined using common techniques, and the Company employs assumptions developed using the perspective of a market participant.

Property, Plant and Equipment Property, plant and equipment, and leasehold improvements are stated at cost less accumulated depreciation. Depreciation is computed over the estimated useful lives of the related assets primarily on a straight-line basis. Machinery and other equipment are depreciated over 3 to 20 years and buildings over 25 to 45 years. Leasehold improvements are depreciated over the life of the lease or the asset, whichever is shorter. Assets classified as held for sale are not depreciated. Upon retirement or disposition of property, plant and equipment, the related cost and accumulated depreciation or amortization are removed from the Company s accounts, and a gain or loss is recorded. Depreciation expense related to property, plant and equipment was $77 million, $68 million, and $58 million for the years ended December 31, 2010, 2009, and 2008, respectively.

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Valuation of Long-Lived Assets Long-lived assets such as property, plant and equipment, and software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable in the period in which the held for sale criteria is met. This analysis consists of comparing the asset s carrying value to the expected future cash flows to be generated from the asset on an undiscounted basis. If the carrying amount of the asset is determined not to be recoverable, a write-down to fair value is recorded. Fair values are determined based on quoted market values, discounted cash flows, or external appraisals, as applicable. Long-lived assets are reviewed for impairment at the individual asset or the asset group level for which the lowest level of independent cash flows can be identified.

Warranty and Sales Returns Provisions for product warranties and sales returns and allowances are recorded in the period in which NCR becomes obligated to honor the related right, which generally is the period in which the related product revenue is recognized. The Company accrues warranty reserves based upon historical factors such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. When a sale is consummated, a warranty reserve is recorded based upon the estimated cost to provide the service over the warranty period. The Company accrues sales returns and allowances using percentages of revenue to reflect the Company s historical average of sales return claims.

Research and Development Costs Research and development costs primarily include payroll and benefit-related costs, contractor fees, facilities costs, infrastructure costs, and administrative expenses directly related to research and development support and are expensed as incurred, except certain software development costs capitalized after technological feasibility of the software is established.

Leases The Company accounts for material escalation clauses, free or reduced rents and landlord incentives contained in operating type leases on a straight-line basis over the lease term, including any reasonably assured lease renewals. For leasehold improvements that are funded by the landlord, the Company records the incentive as deferred rent. The deferred rent is then amortized as reductions to lease expense over the lease term.

For capital leases where NCR is the lessee, it records an amortizable debt and a related fixed asset in the Consolidated Balance Sheet.

Pension, Postretirement and Postemployment Benefits NCR has significant pension, postretirement and postemployment benefit costs, which are developed from actuarial valuations. Actuarial assumptions are established to anticipate future events and are used in calculating the expense and liabilities relating to these plans. These factors include assumptions the Company makes about interest rates, expected investment return on plan assets, rate of increase in healthcare costs, total and involuntary turnover rates, and rates of future compensation increases. In addition, NCR also uses subjective factors, such as withdrawal rates and mortality rates to develop the Company s valuations. NCR generally reviews and updates these assumptions on an annual basis. NCR is required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that NCR uses may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact to the amount of pension, postretirement or postemployment benefits expense, and the related assets and liabilities, the Company has recorded or may record.

Foreign Currency For many NCR international operations, the local currency is designated as the functional currency. Accordingly, assets and liabilities are translated into U.S. Dollars at year-end exchange rates, and revenues and expenses are translated at average exchange rates prevailing during the year. Currency translation adjustments from local functional currency countries resulting from fluctuations in exchange rates are recorded in other comprehensive income. Where the U.S. Dollar is the functional currency, translation adjustments are recorded in other income and expense.

Derivative Instruments In the normal course of business, NCR enters into various financial instruments, including derivative financial instruments. The Company accounts for derivatives as either assets or liabilities in the Consolidated Balance Sheets at fair value and recognizes the resulting gains or losses as adjustments to earnings or other comprehensive income. The Company formally documents all relationships between hedging

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instruments and hedged items, as well as the risk management objective and strategy for undertaking various hedge transactions. Hedging activities are transacted only with highly rated institutions, reducing exposure to credit risk in the event of nonperformance. Additionally, the Company completes assessments related to the risk of counterparty nonperformance on a regular basis.

The accounting for changes in fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company has designated the hedging instrument, based on the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation. For derivative instruments designated as fair value hedges, the effective portion of the hedge is recorded as an offset to the change in the fair value of the hedged item, and the ineffective portion of the hedge, if any, is recorded in the Consolidated Statement of Operations. For derivative instruments designated as cash flow hedges and determined to be highly effective, the gains or losses are deferred in other comprehensive income and recognized in the determination of income as adjustments of carrying amounts when the underlying hedged transaction is realized, canceled or otherwise terminated. When hedging certain foreign currency transactions of a long-term investment nature (net investments in foreign operations) gains and losses are recorded in the currency translation adjustment component of accumulated other comprehensive income (loss). Gains and losses on foreign exchange contracts that are not used to hedge currency transactions of a long-term investment nature, or that are not designated as cash flow or fair value hedges, are recognized in other income or expense as exchange rates change.

Fair Value of Assets and Liabilities Fair value is defined as an exit price, representing an amount that would be received to sell an asset or the amount paid to transfer a liability in an orderly transaction between market participants at the measurement date. As such, fair value is a market-based measurement determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the guidance prioritizes the inputs used to measure fair value into the following three-tier fair value hierarchy:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs, other than quoted prices in active markets, that are observable either directly or indirectly

Level 3: Unobservable inputs for which there is little or no market data

Assets and liabilities are classified based on the lowest level of input that is significant to the fair value measurements. The Company reviews the fair value hierarchy classification on a quarterly basis. Changes to the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

NCR measures its financial assets and financial liabilities at fair value based on one or more of the following three valuation techniques:

Market approach: Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

Cost approach: Amount that would be required to replace the service capacity of an asset (replacement cost).

Income approach: Techniques to convert future amounts to a single present amount based upon market expectations (including present value techniques, option pricing and excess earnings models).

We regularly review our investments to determine whether a decline in fair value, if any, below the cost basis is other than temporary. If the decline in the fair value is determined to be other than temporary, the cost basis of the security is written down to fair value and the amount of the write-down is included in the Consolidated Statement of Operations. For qualifying investments in debt or equity securities, a temporary impairment charge would be recognized in other comprehensive income (loss).

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Environmental and Legal Contingencies In the normal course of business, NCR is subject to various proceedings, lawsuits, claims and other matters, including, for example, those that relate to the environment and health and safety, employee benefits, import/export compliance, intellectual property, data privacy, product liability, commercial disputes and regulatory compliance, among others. Additionally, NCR is subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, environmental safety and the discharge of materials into the environment, product safety import and export compliance, data privacy and security, antitrust and competition, government contracting, anti-corruption, and labor and human resources, which are rapidly changing and subject to many possible changes in the future. Compliance with these laws and regulations, including changes in accounting standards, taxation requirements, and federal securities laws among others, may create a substantial burden on, and substantially increase the costs to NCR or could have an impact on NCR s future operating results. NCR believes that the amounts provided in its consolidated financial statements are adequate in light of the probable and estimable liabilities. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including the Fox River environmental matter discussed in Note 11, Commitments and Contingencies, 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 the Company s consolidated results of operations, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of December 31, 2010 cannot currently be reasonably determined or are not currently considered probable.

Legal costs related to loss contingencies are typically expensed as incurred, except for certain costs associated with NCR s environmental remediation obligations. Costs and fees associated with litigating the extent and type of required remedial actions and the allocation of remediation costs among potentially responsible parties are typically included in the measurement of the environmental remediation liabilities.

Advertising Advertising costs are recognized in selling, general and administrative expenses when incurred.

Income Taxes Income tax expense is provided based on income before income taxes. Deferred income taxes reflect the impact of temporary differences between assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are determined based on the enacted tax rates expected to apply in the periods in which the deferred assets or liabilities are expected to be settled or realized. NCR records valuation allowances related to its deferred income tax assets when it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

The Company recognizes the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the consolidated financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being sustained upon examination by authorities. Interest and penalties related to uncertain tax positions are recognized as part of the provision for income taxes and are accrued beginning in the period that such interest and penalties would be applicable under relevant tax law and until such time that the related tax benefits are recognized.

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 earnings per share, except that the weighted average number of shares outstanding includes the dilution from potential shares resulting from stock options and restricted stock awards. When calculating diluted earnings per share, the Company includes the potential windfall or shortfall tax benefits as well as average unrecognized compensation expense as part of the assumed proceeds from exercises of stock options. The Company uses the tax law ordering approach to determine the potential utilization of windfall benefits. The holders of unvested restricted stock awards do not have nonforfeitable rights to dividends or dividend equivalents and therefore, such unvested awards do not qualify as participating securities. See Note 8, Employee Stock Compensation Plans, for share information on NCR s stock compensation plans.

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The components of basic and diluted earnings per share attributable to NCR common stockholders are as follows (in millions, except earnings per share) for the years ended December 31:

	2010	2009	2008
Income from continuing operations	**$ 111**	$ 58	$ 249
Income (loss) from discontinued operations, net of tax	**23**	(91)	(21)
Net income (loss) attributable to NCR common stockholders	**$ 134**	$ (33)	$ 228
Weighted average outstanding shares of common stock	**159.8**	158.9	165.3
Dilutive effect of employee stock options and restricted stock	**1.4**	1.2	2.6
Common stock and common stock equivalents	**161.2**	160.1	167.9
Basic earnings (loss) per share:			
From continuing operations	**$ 0.69**	$ 0.37	$ 1.51
From discontinued operations	**0.15**	(0.58)	(0.13)
Total basic earnings (loss) per share	**$ 0.84**	$ (0.21)	$ 1.38
Diluted earnings (loss) per share:			
From continuing operations	**$ 0.69**	$ 0.36	$ 1.48
From discontinued operations	**0.14**	(0.57)	(0.12)
Total diluted earnings (loss) per share	**$ 0.83**	$ (0.21)	$ 1.36

Options to purchase 5.6 million, 7.0 million and 7.2 million shares of common stock for 2010, 2009 and 2008, respectively, were outstanding but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares and, therefore, the effect would have been anti-dilutive.

Stock Compensation Stock-based compensation represents the costs related to share-based awards granted to employees and non-employee directors. For all periods presented, the Company s outstanding stock-based compensation awards are classified as equity except for certain awards granted to non-employee directors. The Company measures stock-based compensation cost at the grant date, based on the estimated fair value of the award and recognizes the cost on a straight-line basis (net of estimated forfeitures) over the requisite service period. See Note 8, Employee Stock Compensation Plans, for more information on NCR s stock-based compensation plans.

Recently Issued Accounting Pronouncements

In September 2009, the FASB ratified the final consensus reached by the Emerging Issues Task Force (EITF) that revised the authoritative guidance for revenue arrangements with multiple deliverables. The guidance addresses how to determine whether an arrangement involving multiple deliverables contains more than one unit of accounting and how the arrangement consideration should be allocated among the separate units of accounting. NCR is adopting this guidance effective January 1, 2011 and will apply it prospectively for new or materially modified arrangements. Under the consensus adopted by the EITF, use of the residual method, which the Company applies to many of its customer arrangements, will no longer be permitted. The new guidance will require the Company to use its best estimate of a deliverable s selling price whenever it lacks objective evidence. The result of this change is that any discount in a customer arrangement which previously would have been allocated to delivered items, will instead be allocated on a relative fair value basis among all the deliverables. Management does not anticipate that the adoption of the guidance will have a material impact on its consolidated financial statements.

In September 2009, the FASB also ratified the final consensus reached by the EITF that modifies the scope of the software revenue recognition guidance to exclude (a) non-software components of tangible products and (b) software components of tangible products that are sold, licensed or leased with tangible products when the software components and non-software components of the tangible product function together to deliver the

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tangible product s essential functionality. NCR is adopting this guidance effective January 1, 2011 and will apply it prospectively for new or materially modified arrangements. Management does not anticipate that the adoption of the guidance will have a material impact on its consolidated financial statements.

Note 2 Supplemental Financial Information (in millions)

For the years ended December 31	2010	2009	2008
Other (income) expense, net			
Interest income	**$ (5)**	$ (6)	$ (23)
Impairment of an investment (Note 14)	**14**	24	
Other, net	**2**	13	7
Total other (income) expense, net	**$ 11**	$ 31	$ (16)

At December 31	2010	2009
Accounts Receivable		
Trade	**$ 878**	$ 867
Other	**63**	53
Accounts Receivable, gross	**941**	920
Less: allowance for doubtful accounts	**(13)**	(24)
Total accounts receivable, net	**$ 928**	$ 896
Inventories		
Work in process and raw materials, net	**$ 143**	$ 118
Finished goods, net	**180**	167
Service parts, net	**418**	401
Total inventories, net	**$ 741**	$ 686
Other current assets		
Current deferred tax assets	**$ 125**	$ 104
Other	**188**	162
Total other current assets	**$ 313**	$ 266
Property, plant and equipment		
Land and improvements	**$ 43**	$ 40
Buildings and improvements	**234**	275
Machinery and other equipment	**818**	695
Property, plant and equipment, gross	**1,095**	1,010
Less: accumulated depreciation	**(666)**	(654)
Total property, plant and equipment, net	**$ 429**	$ 356
Accumulated other comprehensive loss, net of tax		
Currency translation adjustments	**$ (54)**	$ (84)
Unrealized gain on securities	**2**	3
Unrealized gain on derivatives	**5**	
Actuarial losses and prior service costs on employee benefit plans	**(1,288)**	(1,428)

Total accumulated other comprehensive loss	**$ (1,335)**	$ (1,509)

Note 3 Restructuring and Real Estate Transactions

Organizational Realignment In the second quarter of 2008, NCR commenced a global realignment initiative to reduce redundancies and process inefficiencies to become more customer-focused and market-driven. This initiative addressed legacy process inefficiencies and unbalanced resource allocation by focusing on

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organizational design, process re-engineering and business process outsourcing. The initiative resulted in reductions in employment and productivity improvements, while freeing up funds to invest in growth programs.

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

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

As of December 31, 2009, there was a related remaining accrued liability of $1 million. The organizational realignment was complete as of June 30, 2010 and the remaining accrued liability was reversed.

The actions taken generated annualized savings of approximately $40 million. The Company continues to identify additional opportunities focusing on organizational design, process re-engineering and business process outsourcing as part of our continuous improvement process.

Real Estate Transactions During the year ended December 31, 2010, the Company recognized $10 million in gains from the sale of real estate in the Consolidated Statement of Operations which were recorded as a reduction to selling, general and administrative expenses, which includes $3 million of gains previously deferred. The net proceeds of $39 million from these sales were recorded in investing activities and the net gains are recorded in operating activities in the Consolidated Statement of Cash Flows.

During the year ended December 31, 2009, the Company recognized $12 million in gains from the sale of real estate in the Consolidated Statement of Operations which were recorded as a reduction to selling, general and administrative expenses, which includes $3 million of gains previously deferred. The net proceeds of $11 million from these sales were recorded in investing activities and the net gains are recorded in operating activities in the Consolidated Statement of Cash Flows.

During the year ended December 31, 2008, the Company recognized $30 million in gains from the sale of real estate in the Consolidated Statement of Operations, which includes $3 million of gains previously deferred. The net proceeds of $52 million from these sales were recorded in investing activities and the net gains are recorded in operating activities in the Consolidated Statement of Cash Flows. Of the total gains recognized, $23 million related to the sale of properties in Canada which were recorded as a reduction to selling, general, and administrative expenses in the Consolidated Statement of Operations.

During the fourth quarter of 2002, in connection with announced restructuring efforts, NCR s management approved a real estate consolidation and restructuring plan designed to accelerate the Company s re-engineering strategies. A pre-tax restructuring cost of $16 million was recorded in the fourth quarter of 2002 to provide for contractual lease termination costs. The remaining lease obligations will expire over various dates through 2015. The Company reviews this reserve on a quarterly basis to determine whether the reserve is adequate based on current market conditions. The balance of this liability at December 31, 2010 and 2009 was $3 million. During 2010, the reserve decreased due to ongoing lease payments, which was offset by an increase due to a change in estimated sublease income based on current market conditions.

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Note 4 Business Combinations and Investments

During 2010, the Company completed one acquisition and several strategic investments, for total cash consideration of approximately $24 million. In 2009, NCR completed two acquisitions and acquired the remaining 80.4% interest in an equity investment, for total cash consideration of $41 million. In 2008, the Company completed several strategic investments and acquisitions and acquired the remaining 3% minority interest in one of our subsidiaries, for a total cost of approximately $65 million. A description of each acquisition and investment, all of which were paid primarily in cash, is as follows:

2010 Acquisitions and Investments

1% minority investment in ViVOtech Inc. on March 18, 2010, bringing the Company s total investment in ViVOtech Inc. to 6%. This additional investment was recorded as a cost method investment.

17% minority investment in Document Capture Technologies Inc. (DCT), a provider of imaging technology solutions on August 5, 2010. DCT s product is designed to facilitate the way information is stored, shared and managed for business and personal use. The Company recorded this transaction as an equity method investment.

8% minority investment in MOD Systems Inc. on August 20, 2010, bringing the Company s total investment in MOD Systems Inc. to 16%. Of this additional investment, 5% was recorded as an equity method investment and 3% was recorded as a cost method investment.

Acquisition of Mobiqa Limited on October 15, 2010, to enhance NCR s self-service portfolio by incorporating mobile content optimization into the Company s products.

2009 Acquisitions and Investments

Acquisition of the remaining 80.4% interest in TNR Holdings Corporation (TNR) on April 21, 2009 which provided the Company with access to additional markets for its DVD kiosks and enhanced kiosk technologies.

Acquisition of Netkey, Inc. on October 31, 2009, to extend NCR s self-service portfolio into the digital media merchandising market.

Acquisition of DVDPlay on December 8, 2009, to extend NCR s self-service portfolio in the entertainment line of business by increasing our DVD kiosk installations and enabling expansion into new markets.

2008 Acquisitions and Investments

Acquisition of Ambient Partners, LLC on April 18, 2008, to extend NCR s self-service portfolio into the digital media merchandising market.

10% minority investment and exclusive licensing agreement with e-Play, LLC on June 17, 2008 to add bare-disc technology to NCR s existing global self-service technology portfolio. The Company recorded this transaction as a cost method investment.

19.6% minority investment and exclusive supply and services agreements with TNR, an operator of movie rental kiosks, on July 28, 2008. The Company recorded this transaction as an equity method investment.

Acquisition of NCI Ltd. (NCI), a United Kingdom-based company on August 19, 2008. NCI is a leading provider of teller connectivity software used by financial institutions.

8% minority investment in MOD Systems, Inc., a leading provider of digital media delivery systems on October 17, 2008. MOD Systems technology is designed to offer consumers one of the fastest, most convenient ways to access high-quality digital entertainment. The Company recorded this transaction as a cost method investment.

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In 2010, goodwill recognized in the acquisition was $14 million, none of which is expected to be deductible for tax purposes. In 2009, goodwill recognized in these transactions amounted to $15 million, of which, $11 million is expected to be fully deductible for tax purposes. In 2008, goodwill recognized was $19 million, of which, $2 million is expected to be fully deductible for tax purposes.

As a result of the acquisition in 2010, NCR recorded $2 million related to identifiable intangible assets consisting primarily of proprietary technology and customer relationships, which have a weighted-average amortization period of 3.9 years. In connection with business combinations in 2009, the Company recorded $16 million for identifiable intangible assets for intellectual property associated with software, customer contracts and trade names, which have a weighted-average amortization period of 3.8 years. As a result of the acquisitions in 2008, NCR recorded $3 million related to identifiable intangible assets consisting primarily of intellectual property associated with software and hardware as well as non-compete arrangements which have a weighted-average amortization period of approximately 3 years.

The operating results of these businesses have been included within NCR s results as of the respective closing dates of the acquisitions. The pro forma disclosures are not being provided because the impact of the acquisitions, both individually and in the aggregate, are not considered material to the periods in which they occurred. The purchase prices of these businesses, reported in other investing activities and business acquisitions, net in the Consolidated Statements of Cash Flows, have been allocated based on the estimated fair value of net tangible and intangible assets acquired, with any excess recorded as goodwill.

Note 5 Goodwill and Other Identifiable Intangible Assets

The carrying amounts of goodwill by segment as of December 31, 2010 and 2009 are as follows:

In millions	Goodwill	January 1, 2010 Accumulated Impairment Losses	Total	Additions	Foreign Currency Translation Adjustment	Goodwill	December 31, 2010 Accumulated Impairment Losses	Total
Americas	**$ 50**	**$ (3)**	**$ 47**	**$ 8**	**$**	**$ 58**	**$ (3)**	**$ 55**
EMEA	**28**		**28**	**5**		**33**		**33**
APJ	**25**		**25**	**1**	**1**	**27**		**27**
Total	**$ 103**	**$ (3)**	**$ 100**	**$ 14**	**$ 1**	**$ 118**	**$ (3)**	**$ 115**

In millions	Goodwill	January 1, 2009 Accumulated Impairment Losses	Total	Additions	Foreign Currency Translation Adjustment	Goodwill	December 31, 2009 Accumulated Impairment Losses	Total
Americas	$ 35	$ (3)	$ 32	$ 15	$	$ 50	$ (3)	$ 47
EMEA	27		27		1	28		28
APJ	25		25			25		25
Total	$ 87	$ (3)	$ 84	$ 15	$ 1	$ 103	$ (3)	$ 100

NCR s identifiable intangible assets, reported in other assets in the Consolidated Balance Sheets, were specifically identified when acquired, and are deemed to have finite lives. The gross carrying amount and accumulated amortization for NCR s identifiable intangible assets were as follows:

In millions	Original Amortization Life (in Years)	December 31, 2010 Gross Carrying Amount	December 31, 2010 Accumulated Amortization	December 31, 2009 Gross Carrying Amount	December 31, 2009 Accumulated Amortization
Identifiable intangible assets					
Non-compete arrangements	3 - 5	**$ 6**	**$ (6)**	$ 5	$ (5)

Intellectual property	1 - 5	**66**		**(51)**	65	(43)
Total identifiable intangible assets		**$ 72**	**$**	**(57)**	$ 70	$ (48)

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The increase in the gross carrying amount is primarily due to the acquisitions detailed in Note 4, Business Combinations and Investments.

The aggregate amortization expense (actual and estimated) for identifiable intangible assets for the following periods is:

In millions	December 31, 2010	For the years ended December 31 (estimated) 2011	2012	2013	2014	2015
Amortization Expense	**$ 9**	$ 5	$ 4	$ 3	$ 3	$

Note 6 Debt Obligations

As of December 31, 2010, the Company s long term debt was $10 million. The Company s long-term debt mainly consists of $5 million in notes payable and $4 million related to the capital lease obligation described below as the Industrial Revenue Bond. The $5 million notes payable matures in 2020 and bears interest at a rate of 9.49% per annum.

During the second quarter of 2009, at their maturity date, the Company repaid the $300 million of senior unsecured notes, which had previously been classified as short-term debt on the Consolidated Balance Sheet.

Industrial Revenue Bond During the third quarter of 2009, NCR entered into a transaction with the Development Authority of Columbus, Georgia (the Development Authority). The transaction resulted in the issuance of approximately $5 million in taxable revenue bonds by the Development Authority. The Development Authority used the proceeds to purchase a manufacturing facility consisting of a building and fixtures. NCR and the Development Authority entered into a lease agreement, whose terms provide NCR with a ten year lease of the facility for manufacturing purposes. Under the terms of the lease agreement, the rental payments made by NCR will be utilized by the Development Authority to repay the principal and interest (at a rate of 5%) of the bonds and NCR will have the option of acquiring the facility for a nominal amount at the end of the lease term. Based on the terms of the lease agreement, the transaction was accounted for as a capital lease, which resulted in the capitalization of the purchase price of the facility as an asset and recording of the capital lease obligation as long-term debt on NCR s Consolidated Balance Sheet.

Revolving Credit Facility On August 6, 2007, the Company amended and renewed its $500 million, five-year unsecured revolving credit facility to update certain terms and conditions. This replacement facility contains certain representations and warranties; conditions; affirmative, negative and financial covenants; and events of default customary for such facilities. NCR was in compliance with these covenants as of December 31, 2010. The key financial covenants include a total debt to consolidated EBITDA requirement for the period of four consecutive fiscal quarters not to exceed 3.00 to 1.00 and a minimum cash interest coverage ratio for the period of four consecutive fiscal quarters of not less than 4.00 to 1.00. The credit facility provides a grid-based interest rate that determines the margin charged in addition to the London Interbank Offered Rate (LIBOR) on borrowings. The rate is based on several factors including the credit rating of the Company and the amount of the Company s aggregate borrowings under the facility. As of December 31, 2010, LIBOR margin would have been 42.5 basis points. Additionally, the facility allows a portion of the availability to be used for outstanding letters of credit. As of December 31, 2010 and 2009, no amount was outstanding under the facility; however, the maximum borrowing available was reduced by $21 million for NCR s usage of letters of credit.

Fair Value of Debt The fair value of debt is based on a discounted cash flow model that incorporates a market yield curve based on the Company s credit rating with adjustments for duration. As of December 31, 2010 and 2009, the fair value of debt was $13 million and $16 million, respectively. The decrease in the fair value of debt was primarily due to the repayment of short-term debt during 2010.

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Note 7 Income Taxes

For the years ended December 31, income from continuing operations before income taxes consisted of the following:

In millions	2010	2009	2008
(Loss) income before income taxes			
United States	**$ (109)**	$ (172)	$ 108
Foreign	**195**	228	208
Total income from continuing operations before income taxes	**$ 86**	$ 56	$ 316

For the years ended December 31, income tax (benefit) expense consisted of the following:

In millions	2010	2009	2008
Income tax (benefit) expense			
Current			
Federal	**$ (8)**	$ 1	$ (15)
State	**1**	7	(1)
Foreign	**44**	67	74
Deferred			
Federal	**(25)**	(52)	35
State	**(1)**	(6)	1
Foreign	**(39)**	(22)	(26)
Total income tax (benefit) expense	**$ (28)**	$ (5)	$ 68

The following table presents the principal components of the difference between the effective tax rate and the U.S. federal statutory income tax rate for the years ended December 31:

In millions	2010	2009	2008
Income tax (benefit) expense at the U.S. federal tax rate of 35%	**$ 30**	$ 20	$ 111
Foreign income tax differential	**(23)**	(33)	(42)
U.S. permanent book/tax differences	**2**	(1)	1
Tax audit settlements			(19)
Change in liability for unrecognized tax benefits	**4**	11	18
Japan valuation allowance release	**(40)**		
Other, net	**(1)**	(2)	(1)
Total income tax (benefit) expense	**$ (28)**	$ (5)	$ 68

NCR s tax provisions include a provision for income taxes in certain tax jurisdictions where its subsidiaries are profitable, but reflect only a portion of the tax benefits related to certain foreign subsidiaries tax losses due to the uncertainty of the ultimate realization of future benefits from these losses. The 2010 tax benefit was favorably impacted by the release of a $40 million valuation allowance in the third quarter of 2010 that is no longer required on specific deferred tax assets in NCR s subsidiary in Japan and by the mix of taxable profits and losses by country. The 2009 tax benefit was favorably impacted by the non-proportional benefit of the impairment charges incurred in the United States and by the mix of taxable profits and losses by country. During 2008, we favorably settled examinations with the Internal Revenue Service (IRS) for the tax years of 2000 through 2006 that resulted in a $19 million tax benefit. In addition, income tax expense was benefited in 2008 by $26 million from the repatriation of earnings from international subsidiaries at an effective tax rate lower than previously estimated.

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Deferred income tax assets and liabilities included in the Consolidated Balance Sheets as of December 31 were as follows:

In millions	2010	2009
Deferred income tax assets		
Employee pensions and other benefits	**$ 540**	$ 550
Other balance sheet reserves and allowances	**170**	160
Tax loss and credit carryforwards	**341**	429
Capitalized research and development	**57**	59
Property, plant and equipment	**23**	27
Other	**47**	43
Total deferred income tax assets	**1,178**	1,268
Valuation allowance	**(410)**	(528)
Net deferred income tax assets	**768**	740
Deferred income tax liabilities		
Capitalized software	**11**	12
Other	**7**	7
Total deferred income tax liabilities	**18**	19
Total net deferred income tax assets	**$ 750**	$ 721

NCR recorded valuation allowances related to certain deferred income tax assets due to the uncertainty of the ultimate realization of the future benefits from those assets. The valuation allowances cover deferred tax assets, primarily tax loss carryforwards, in tax jurisdictions where there is uncertainty as to the ultimate realization of a benefit from those tax losses. At December 31, 2010, our net deferred tax assets in the United States totaled approximately $597 million and realization of the related benefits was determined to be more likely than not. As of December 31, 2010, NCR had U.S. federal and foreign tax attribute carryforwards of approximately $925 million. The tax attribute carryforwards, subject to expiration, expire in the years 2011 through 2030.

The aggregate changes in the balance of our gross unrecognized tax benefits were as follows for the years ended December 31:

In millions	2010	2009
Gross unrecognized tax benefits January 1	**$ 288**	$ 287
Increases related to tax positions from prior years	**16**	17
Decreases related to tax positions from prior years	**(23)**	(49)
Increases related to tax positions taken during the current year	**30**	55
Settlements with tax authorities	**(11)**	(2)
Lapses of statutes of limitation	**(15)**	(20)
Total gross unrecognized tax benefits December 31	**$ 285**	$ 288

Of the total amount of gross unrecognized tax benefits as of December 31, 2010 up to $137 million would affect NCR s effective tax rate if realized. The Company s liability arising from uncertain tax positions is recorded in income tax accruals in the Consolidated Balance Sheet.

We recognized interest and penalties associated with uncertain tax positions as part of the provision for income taxes in our Consolidated Statements of Operations of $9 million of benefit, $6 million of expense, and $4 million of expense for the years ended December 31, 2010, 2009, and 2008, respectively. The gross amount of interest and penalties accrued as of December 31, 2010 and 2009 was $60 million and $68 million, respectively.

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In the U.S., NCR files consolidated federal and state income tax returns where statutes of limitations generally range from three to five years. Although the Company resolved examinations for the tax years of 2000 through 2006 with the IRS in 2008, U.S. federal tax years are open from 2006 forward. In 2009, the IRS commenced an examination of our 2007 and 2008 income tax returns which is still ongoing. NCR and its subsidiaries also file income tax returns in international jurisdictions where statutes of limitations generally range from three to five years. Years beginning after 1996 are still open to examination by certain foreign taxing authorities, including several major taxing jurisdictions. In Japan, we are open to examination from 2001 onward. In Canada, we are open to examination from 1997 onward. During 2011, the Company expects to resolve certain Canadian tax matters related to 1997 through 2001. The settlement for these tax years could have a material impact on the effective tax rate and unrecognized tax benefits in 2011. Other than the Canada examination settlement, the Company does not expect any significant changes in unrecognized tax benefits in 2011.

NCR did not provide for U.S. federal income taxes or foreign withholding taxes in 2010 on approximately $1 billion of undistributed earnings of its foreign subsidiaries as such earnings are intended to be reinvested indefinitely. Quantification of the deferred tax liability, if any, associated with these undistributed earnings is not practicable.

See the Consolidated Statements of Changes in Stockholders Equity for details of the tax effects on the components of other comprehensive income and Note 9, Employee Benefit Plans.

Note 8 Employee Stock Compensation Plans

The Company recognizes all share-based payments, including grants of stock options, as compensation expense in the financial statements based on their fair value.

As of December 31, 2010, the Company s primary types of share-based compensation were stock options and restricted stock. The Company recorded stock-based compensation expense, the components of which are further described below, for the years ended December 31 as follows:

In millions	2010	2009	2008
Stock options	**$ 6**	$ 14	$ 17
Restricted stock	**15**	(2)	24
Total stock-based compensation (pre-tax)	**21**	12	41
Tax benefit	**(7)**	(3)	(12)
Total stock-based compensation (net of tax)	**$ 14**	$ 9	$ 29

Stock-based compensation expense for the years ended December 31, 2010, 2009, and 2008 was computed using the fair value of options as calculated using the Black-Scholes option-pricing model. The weighted average fair value of options granted was $5.49 per share in 2010, $4.78 per share in 2009, and $7.11 per share in 2008 and was estimated based on the following weighted average assumptions:

	2010	2009	2008
Dividend yield			
Risk-free interest rate	**2.27%**	1.98%	2.49%
Expected volatility	**46.8%**	44.1%	33.1%
Expected holding period (years)	**4.8**	5.0	5.1

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

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Approximately 17 million shares are authorized to be issued under the 2006 Stock Incentive Plan (SIP). Details of the Company s stock-based compensation plans are discussed below.

Stock Options

The SIP provides for the grant of several different forms of stock-based compensation, including stock options to purchase shares of NCR common stock. The Compensation and Human Resource Committee of the Board of Directors has discretion to determine the material terms and conditions of option awards under the SIP, provided that (i) the exercise price must be no less than the fair market value of NCR common stock (defined as the closing price) on the date of grant, (ii) the term must be no longer than ten years, and (iii) in no event shall the normal vesting schedule provide for vesting in less than one year. Other terms and conditions of an award of stock options will be determined by the Compensation and Human Resource Committee of the Board of Directors as set forth in the agreement relating to that award. The Compensation and Human Resource Committee has authority to administer the SIP, except that the Committee on Directors and Governance will administer the SIP with respect to non-employee members of the Board of Directors. New shares of the Company s common stock are issued as a result of stock option exercises.

The following table summarizes the Company s stock option activity for the year ended December 31, 2010:

Shares in thousands	Shares Under Option	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding as of January 1	9,643	$ 15.94		
Granted	1,368	$ 12.96		
Exercised	(654)	$ 9.89		
Forfeited or expired	(798)	$ 18.34		
Outstanding as of December 31	9,559	$ 15.72	5.81	$ 18
Fully vested and expected to vest as of December 31	9,394	$ 15.74	5.76	$ 18
Exercisable as of December 31	6,858	$ 15.69	4.84	$ 13

The total intrinsic value of all options exercised was $3 million in 2010, $1 million in 2009, and $12 million in 2008. Cash received from option exercises under all share-based payment arrangements was $6 million in 2010, $4 million in 2009, and $11 million in 2008. The tax benefit realized from these exercises was $1 million in 2010, minimal in 2009, and $3 million in 2008. As of December 31, 2010, there was $12 million of total unrecognized compensation cost related to unvested stock option grants. The cost is expected to be recognized over a weighted-average period of 2.2 years.

Restricted Stock and Restricted Stock Units

The SIP also provides for the issuance of restricted stock, as well as restricted stock units. These types of awards can have either service-based or performance-based vesting with performance goals being established by the Compensation and Human Resource Committee. Any grant of restricted stock or restricted stock units is subject to a vesting period of at least three years, except that a one-year term of service may be required if vesting is conditioned upon achievement of performance goals. Performance-based grants are subject to future performance measurements, which include NCR s achievement of specific return on capital and cumulative net operating profit levels (as defined in the SIP) during the performance period. Performance-based grants must be earned, based on performance, before the actual number of shares to be awarded is known. The Company considers the likelihood of meeting the performance criteria based upon management s estimates and analysis of achievement against the performance criteria. At the date of grant, a recipient of restricted stock has all the rights of a stockholder subject to certain restrictions on transferability and a risk of forfeiture. A recipient of restricted stock units does not have the

rights of a stockholder and is subject to restrictions on transferability and risk of forfeiture. Other terms and conditions applicable to any award of restricted stock or restricted stock units will be determined by the Compensation and Human Resource Committee and set forth in the agreement relating to that award.

The following table reports restricted stock activity during the year ended December 31, 2010:

Shares in thousands	Number of Shares	Weighted Average Grant-Date Fair Value per Share
Unvested shares as of January 1	4,192	$ 13.45
Shares granted	3,049	$ 12.93
Shares vested	(726)	$ 21.53
Shares forfeited	(2,688)	$ 10.47
Unvested shares as of December 31	3,827	$ 13.79

The total intrinsic value of shares vested and distributed was $9 million in 2010, $5 million in 2009, and $5 million in 2008. As of December 31, 2010, there was $31 million of unrecognized compensation cost related to unvested restricted stock grants. The unrecognized compensation cost is expected to be recognized over a remaining weighted-average period of 2.1 years.

The following table represents the composition of restricted stock grants in 2010:

Shares in thousands	Number of Shares	Weighted Average Grant-Date Fair Value
Service-based shares	1,682	$ 12.99
Performance-based shares	1,367	$ 12.86
Total restricted stock grants	3,049	$ 12.93

Other Share-based Plans

The Employee Stock Purchase Plan (ESPP) enables eligible employees to purchase NCR s common stock at a discount to the average of the highest and lowest sale prices on the last trading day of each month. The ESPP discount is 5% of the average market price. Accordingly, this plan is considered non-compensatory. Employees may authorize payroll deductions of up to 10% of eligible compensation for common stock purchases. Employees purchased approximately 0.4 million shares in 2010, 0.5 million shares in 2009, and 0.3 million shares in 2008 for approximately $5 million in 2010, $5 million in 2009, and $6 million in 2008. A total of 4 million shares were originally authorized to be issued under the new ESPP and approximately 2.5 million authorized shares remain unissued as of December 31, 2010.

Note 9 Employee Benefit Plans

Pension, Postretirement and Postemployment Plans NCR sponsors defined benefit plans for many of its U.S. and international employees. For salaried employees, the defined benefit plans are based primarily upon compensation and years of service. For certain hourly employees in the U.S., the benefits are based on a fixed dollar amount per years of service. NCR s U.S. pension plans ceased the accrual of additional benefits after December 31, 2006 and are closed to new participants. Certain international plans are also closed to new participants. NCR s funding policy is to contribute annually not less than the minimum required by applicable laws and regulations. Assets of NCR s defined benefit plans are primarily invested in publicly traded common stocks, corporate and government debt securities, real estate investments, and cash or cash equivalents.

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NCR recognizes the funded status of each applicable plan on the Consolidated Balance Sheets. Each overfunded plan is recognized as an asset and each underfunded plan is recognized as a liability. Changes to the funded status are recognized as a component of accumulated other comprehensive loss in stockholders equity.

Prior to September 1998, substantially all U.S. employees who reached retirement age while working for NCR were eligible to participate in a postretirement benefit plan. The plan provides medical care and life insurance benefits to retirees and their eligible dependents. In September 1998, the plan was amended whereby U.S. participants who had not reached a certain age and years of service with NCR were no longer eligible for such benefits. Non-U.S. employees are typically covered under government-sponsored programs, and NCR generally does not provide postretirement benefits other than pensions to non-U.S. retirees. NCR generally funds these benefits on a pay-as-you-go basis.

NCR offers various postemployment benefits to involuntarily terminated and certain inactive employees after employment but before retirement. These benefits are paid in accordance with NCR s established postemployment benefit practices and policies. Postemployment benefits may include disability benefits, supplemental unemployment benefits, severance, workers compensation benefits, and continuation of healthcare benefits and life insurance coverage. NCR provides appropriate accruals for these postemployment benefits. These postemployment benefits are funded on a pay-as-you-go basis.

Amounts to be Recognized

The amounts in accumulated other comprehensive loss that are expected to be recognized as components of net periodic benefit cost (income) during 2011 are as follows:

In millions	U.S. Pension Benefits	International Pension Benefits	Total Pension Benefits	Postretirement Benefits	Postemployment Benefits
Prior service cost (income)	$	$ 6	$ 6	$ (18)	$ (2)
Actuarial loss	$ 116	$ 61	$ 177	$ 4	$ 13

Pension Plans

Reconciliation of the beginning and ending balances of the benefit obligations for NCR s pension plans are as follows:

	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
In millions	2010	2009	2010	2009	2010	2009
Change in benefit obligation						
Benefit obligation as of January 1	**$ 3,404**	$ 3,227	**$ 1,963**	$ 1,645	**$ 5,367**	$ 4,872
Gross Service Cost			**17**	18	**17**	18
Interest Cost	**190**	195	**89**	92	**279**	287
Amendment			**9**	(1)	**9**	(1)
Actuarial loss (gain)	**203**	178		211	**203**	389
Benefits paid	**(202)**	(196)	**(114)**	(111)	**(316)**	(307)
Currency translation adjustments			**(37)**	109	**(37)**	109
Benefit obligation as of December 31	**$ 3,595**	$ 3,404	**$ 1,927**	$ 1,963	**$ 5,522**	$ 5,367
Accumulated benefit obligation as of December 31	**$ 3,595**	$ 3,404	**$ 1,850**	$ 1,886	**$ 5,445**	$ 5,290

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A reconciliation of the beginning and ending balances of the fair value of the plan assets of NCR s pension plans are as follows:

In millions	U.S. Pension Benefits 2010	U.S. Pension Benefits 2009	International Pension Benefits 2010	International Pension Benefits 2009	Total Pension Benefits 2010	Total Pension Benefits 2009
Change in plan assets						
Fair value of plan assets as of January 1	**$ 2,582**	$ 2,208	**$ 1,737**	$ 1,467	**$ 4,319**	$ 3,675
Actual return on plan assets	**303**	561	**136**	190	**439**	751
Company contributions	**9**	9	**96**	74	**105**	83
Benefits paid	**(202)**	(196)	**(114)**	(111)	**(316)**	(307)
Currency translation adjustments			**(25)**	115	**(25)**	115
Plan participant contributions			**3**	2	**3**	2
Fair value of plan assets as of December 31	**$ 2,692**	$ 2,582	**$ 1,833**	$ 1,737	**$ 4,525**	$ 4,319

The following table presents the funded status and the reconciliation of the funded status to amounts recognized in the Consolidated Balance Sheets and in accumulated other comprehensive loss as of December 31:

In millions	U.S. Pension Benefits 2010	U.S. Pension Benefits 2009	International Pension Benefits 2010	International Pension Benefits 2009	Total Pension Benefits 2010	Total Pension Benefits 2009
Funded Status	**$ (903)**	$ (822)	**$ (94)**	$ (226)	**$ (997)**	$ (1,048)
Amounts recognized in the Consolidated Balance Sheets						
Noncurrent assets	**$**	$	**$ 286**	$ 244	**$ 286**	$ 244
Current liabilities	**(8)**	(8)	**(16)**	(16)	**(24)**	(24)
Noncurrent liabilities	**(895)**	(814)	**(364)**	(454)	**(1,259)**	(1,268)
Net amounts recognized	**$ (903)**	$ (822)	**$ (94)**	$ (226)	**$ (997)**	$ (1,048)
Amounts recognized in the accumulated other comprehensive loss						
Net actuarial loss	**$ 1,021**	$ 1,074	**$ 765**	$ 883	**$ 1,786**	$ 1,957
Prior service cost		1	**9**	(1)	**9**	
Total	**$ 1,021**	$ 1,075	**$ 774**	$ 882	**$ 1,795**	$ 1,957

For pension plans with accumulated benefit obligations in excess of plan assets, the projected benefit obligation, accumulated benefit obligation and fair value of assets were $4,376 million, $4,431 million, and $3,162 million, respectively, as of December 31, 2010, and $4,310 million, $4,254 million and $3,030 million, respectively, as of December 31, 2009.

The net periodic benefit (income) cost of the pension plans for years ended December 31 was as follows:

In millions	U.S. Pension Benefits 2010	U.S. Pension Benefits 2009	U.S. Pension Benefits 2008	International Pension Benefits 2010	International Pension Benefits 2009	International Pension Benefits 2008	Total Pension Benefits 2010	Total Pension Benefits 2009	Total Pension Benefits 2008
Net service cost	**$**	$	$	**$ 15**	$ 17	$ 27	**$ 15**	$ 17	$ 27
Interest cost	**190**	195	195	**89**	92	103	**279**	287	298
Expected return on plan assets	**(166)**	(180)	(248)	**(109)**	(110)	(124)	**(275)**	(290)	(372)
Settlement charge				**8**	3	4	**8**	3	4

Amortization of:									
Prior service cost					1	7		1	7
Actuarial loss	**119**	94	1	**62**	47	60	**181**	141	61
Net periodic benefit (income) cost	**$ 143**	$ 109	$ (52)	**$ 65**	$ 50	$ 77	**$ 208**	$ 159	$ 25

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

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

The weighted average rates and assumptions used to determine benefit obligations as of December 31 were as follows:

	U.S. Pension Benefits		International Pension Benefits		Total Pension Benefits	
	2010	2009	2010	2009	2010	2009
Discount rate	**5.3%**	5.8%	**4.6%**	4.9%	**5.0%**	5.4%
Rate of compensation increase	**N/A**	N/A	**3.5%**	3.7%	**3.5%**	3.7%

The weighted average rates and assumptions used to determine net periodic benefit cost for years ended December 31 were as follows:

	U.S. Pension Benefits			International Pension Benefits			Total Pension Benefits		
	2010	2009	2008	2010	2009	2008	2010	2009	2008
Discount rate	**5.8%**	6.3%	6.3%	**4.9%**	5.3%	5.4%	**5.4%**	5.9%	5.9%
Expected return on plan assets	**7.5%**	7.8%	7.8%	**6.0%**	6.1%	6.3%	**6.9%**	7.1%	7.2%
Rate of compensation increase	**N/A**	N/A	N/A	**3.7%**	3.9%	4.1%	**3.7%**	3.9%	4.1%

The discount rate used to determine December 31, 2010 U.S. benefit obligations was derived by matching the plans expected future cash flows to the corresponding yields from the Citigroup Pension Discount Curve. This yield curve has been constructed to represent the available yields on high-quality, fixed-income investments across a broad range of future maturities. International discount rates were determined by examining interest rate levels and trends within each country, particularly yields on high-quality, long-term corporate bonds, relative to our future expected cash flows.

NCR employs a building block approach as its primary approach in determining the long-term expected rate of return assumptions for plan assets. Historical market returns are studied and long-term relationships between equities and fixed income are preserved consistent with the widely accepted capital market principle that assets with higher volatilities generate higher returns over the long run. Current market factors, such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. The expected long-term portfolio return is established for each plan via a building block approach with proper rebalancing consideration. The result is then adjusted to reflect additional expected return from active management net of plan expenses. Historical plan returns, the expectations of other capital market participants, and peer data are all used to review and assess the results for reasonableness and appropriateness.

The expected return on plan assets component of pension expense for our U.S. pension plan was determined using the expected rate of return and a calculated value of assets, referred to as the market-related value. The market-related value for this plan was $2,421 million and $2,322 million as of December 31, 2010 and 2009, respectively, which is less than the fair value of plan assets by $269 million and less than the fair value of plan assets by $258 million, respectively. Differences between the assumed and actual returns are amortized to the

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market-related value on a straight-line basis over a five-year period. Differences in excess of 10% of the market value are recognized immediately. Similar approaches are employed in determining expense for NCR s international plans.

Gains and losses have resulted from changes in actuarial assumptions and from differences between assumed and actual experience, including, among other items, changes in discount rates and differences between actual and assumed asset returns. These gains and losses (except those differences being amortized to the market-related value) are only amortized to the extent that they exceed 10% of the higher of the market-related value or the projected benefit obligation of each respective plan. As a result, for the U.S. pension plan, unrecognized net losses of $349 million are not expected to be amortized during fiscal 2011. The remaining unrecognized net losses in excess of the corridor are $915 million and are being amortized over the expected remaining service periods of active plan participants (approximately 8.0 years during fiscal 2011). Similar approaches are employed in amortizing gains and losses for NCR s other U.S. and international plans.

Plan Assets The weighted average asset allocations as of December 31, 2010 and 2009 by asset category are as follows:

	U.S. Pension Fund			International Pension Funds		
	Actual Allocation of Plan Assets as of December 31		Target Asset Allocation	Actual Allocation of Plan Assets as of December 31		Target Asset Allocation
	2010	2009		2010	2009	
Equity securities	**38%**	56%	32-41%	**45%**	50%	43-56%
Debt securities	**59%**	39%	54-66%	**44%**	39%	34-46%
Real estate	**3%**	5%	2-4%	**5%**	6%	4-7%
Other	**0%**	0%	0-1%	**6%**	5%	4-7%
Total	**100%**	100%		**100%**	100%	

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The fair value of plan assets as of December 31, 2010 and 2009 by asset category is as follows:

		U.S.				International			
In millions	**Notes**	**Fair Value as of December 31, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observ-able Inputs (Level 2)**	**Significant Unobserv-able Inputs (Level 3)**	**Fair Value as of December 31, 2010**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observ-able Inputs (Level 2)**	**Significant Unobserv-able Inputs (Level 3)**
Assets									
Equity securities:									
Preferred stock	1	$ 3	$ 3	$	$	$	$	$	$
Common stock	1	554	553		1	483	483		
Fixed income securities:									
Government securities	2	138		138					
Corporate debt	3	351		351		178		178	
Other types of investments:									
Money market funds		35		35		38		38	
Common and commingled trusts Equities	4	365		365		317		317	
Common and commingled trusts Bonds	4	872		872		521		521	
Common and commingled trusts Short Term Investments	4	53		53					
Common and commingled trusts Balanced	4	1		1		36		36	
Partnership/joint venture interests Real estate	5	30			30				
Partnership/joint venture interests Other	5	75			75	55			55
Mutual funds	4	178	178			35	35		
Insurance products	4					51		51	
Real estate and other	5	37	34		3	119			119
Total		$ 2,692	$ 768	$ 1,815	$ 109	$ 1,833	$ 518	$ 1,141	$ 174

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		U.S.				International			
In millions	Notes	Fair Value as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observ-able Inputs (Level 2)	Significant Unobserv-able Inputs (Level 3)	Fair Value as of December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observ-able Inputs (Level 2)	Significant Unobserv-able Inputs (Level 3)
Assets									
Equity securities:									
Preferred stock	1	$ 6	$ 6	$	$	$	$	$	$
Common stock	1	879	870		9	439	439		
Fixed income securities:									
Government securities	2	31		31					
Corporate debt	3	230		220	10	78		78	
Other types of investments:									
Money market funds		48		48		22		22	
Common and commingled trusts Equities	4	467		467		408	33	375	
Common and commingled trusts Bonds	4	632		632		538		538	
Common and commingled trusts Short Term Investments	4	19		19					
Common and commingled trusts Balanced	4					33		33	
Partnership/joint venture interests Real estate	5	28			28	54			54
Partnership/joint venture interests Other	5	73			73				
Mutual funds	4	96	96			9	9		
Insurance products	4					50		50	
Real estate and other	5	73	68	1	4	106		17	89
Total		$ 2,582	$ 1,040	$ 1,418	$ 124	$ 1,737	$ 481	$ 1,113	$ 143

Notes:

1 - Common and preferred stocks are valued based on quoted market prices at the closing price as reported on the active market on which the individual securities are traded.

2 - Government securities are valued based on yields currently available on comparable securities of issuers with similar credit ratings. When quoted prices are not available for identical or similar securities, the security is valued under a discounted cash flows approach that maximizes observable inputs, such as current yields on similar instruments but includes adjustments for certain risks that may not be observable, such as credit and liquidity risks.

3 - Corporate debt is valued primarily based on observable market quotations for similar bonds at the closing price reported on the active market on which the individual securities are traded. When such quoted prices are not available, the bonds are valued using a discounted cash flows approach using current yields on similar instruments of issuers with similar credit ratings.

4 - Common/collective trusts and registered investment companies (RICs) such as mutual funds are valued using a Net Asset Value (NAV) provided by the manager of each fund. The NAV is based on the underlying net assets owned by the fund, divided by the number of shares or units outstanding. The fair value of the underlying securities within the fund, which are generally traded on an active market, are valued at the closing price reported on the active market on which those individual securities are traded. For investments

not traded on an active market, or for which a quoted price is not publicly available, a variety of unobservable valuation methodologies, including discounted cash flow, market multiple and cost valuation approaches, are employed by the fund manager to value investments. This valuation approach is often used in valuing insurance products with underlying investments in mutual funds, commingled funds and pooled separate accounts.

5 - Partnership/joint ventures and hedge funds are valued based on the fair value of the underlying securities within the fund, which include investments both traded on an active market and not traded on an active market. For those investments that are traded on an active market, the values are based on the closing price reported on the active market on which those individual securities are traded and in the case of hedge funds they are valued using a Net Asset Value (NAV) provided by the manager of each fund. For investments not traded on an active market, or for which a quoted price is not publicly available, a variety of unobservable valuation methodologies, including discounted cash flow, market multiples and cost valuation approaches, are employed by the fund manager to value investments.

The following table presents the reconciliation of the beginning and ending balances of those plan assets classified within Level 3 of the valuation hierarchy. When the determination is made to classify the plan assets within Level 3, the determination is based upon the significance of the unobservable inputs to the overall fair value measurement.

In millions	U.S. Pension Plans	International Pension Plans
Balance, December 31, 2008	$ 91	$ 134
Realized and unrealized gains and losses, net	11	12
Purchases, sales and settlements, net	20	(3)
Transfers in, net	2	
Balance, December 31, 2009	$ 124	$ 143
Realized and unrealized gains and losses, net	10	16
Purchases, sales and settlements, net	(7)	(2)
Transfers in, net	(18)	17
Balance, December 31, 2010	$ 109	$ 174

Investment Strategy NCR has historically employed a total return investment approach, whereby a mix of equities, fixed-income and real estate investments are used to maximize the long-term return of plan assets subject to a prudent level of risk. The risk tolerance is established for each plan through a careful consideration of plan liabilities, plan funded status and corporate financial condition. During the first quarter of 2010, the Company completed a comprehensive analysis of its capital allocation strategy, with specific focus on its approach to pension management. As a result of this analysis, the Company plans to substantially reduce future volatility in the value of assets held by the U.S. pension plan by rebalancing the asset allocation to a portfolio of entirely fixed income assets by the end of 2012. Similar investment strategy changes are under consideration or being implemented in a number of NCR s international plans.

The investment portfolios contain a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks, small and large capitalization stocks, and growth and value stocks. Fixed-income assets are also diversified across U.S. and non-U.S. issuers, type of fixed-income security (i.e., government bonds, corporate bonds, mortgage-backed securities) and credit quality. Where applicable, real estate investments are made through real estate securities, partnership interests or direct investment and are diversified by property type and location. Other assets, such as cash or private equity are used judiciously to improve portfolio diversification and enhance risk-adjusted portfolio returns. Derivatives may be used to adjust market exposures in an efficient and timely manner. Due to the timing of security purchases and sales, cash held by fund managers is classified in the same asset category as the related investment. Rebalancing algorithms are applied to keep the asset mix of the plans from deviating excessively from their targets. Investment risk is measured and monitored on an ongoing basis through regular performance reporting, investment manager reviews, actuarial liability measurements and periodic investment strategy reviews.

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Postretirement Plans

Reconciliation of the beginning and ending balances of the benefit obligation for NCR s U.S. postretirement plan is as follows:

In millions	Postretirement Benefits 2010	2009
Change in benefit obligation		
Benefit obligation as of January 1	**$ 111**	$ 116
Gross service cost		
Interest cost	**5**	6
Amendment	**(44)**	
Actuarial (gain) loss	**(6)**	6
Plan participant contributions	**5**	6
Benefits paid	**(16)**	(23)
Benefit obligation as of December 31	**$ 55**	$ 111

In December 2010, the Company approved and announced changes in the benefits provided under its previously closed U.S. Post-65 Retiree Medical Plan effective February 1, 2011. With these changes, the majority of the Plan s participants will receive a fixed subsidy instead of the indemnity benefit previously provided. This change reduced the Company s postretirement plan liability and accumulated other comprehensive loss by $44 million.

The following table presents the funded status and the reconciliation of the funded status to amounts recognized in the Consolidated Balance Sheets and in accumulated other comprehensive loss as of December 31:

In millions	Postretirement Benefits 2010	2009
Benefit obligation	**$ (55)**	$ (111)
Amounts recognized in the Consolidated Balance Sheets		
Current liabilities	**$ (10)**	$ (15)
Noncurrent liabilities	**(45)**	(96)
Net amounts recognized	**$ (55)**	$ (111)
Amounts recognized in accumulated other comprehensive loss		
Net actuarial loss	**$ 42**	$ 51
Prior service credit	**(120)**	(88)
Total	**$ (78)**	$ (37)

The net periodic benefit (income) cost of the postretirement plan for the years ended December 31 was:

In millions	Postretirement Benefits 2010	2009	2008
Interest cost	**$ 5**	$ 7	$ 7

Net service cost			
Amortization of:			
Prior service benefit	(13)	(13)	(13)
Actuarial loss	4	3	4
Net periodic benefit (income) cost	**$ (4)**	$ (3)	$ (2)

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The assumptions utilized in accounting for postretirement benefit obligations as of December 31 and for postretirement benefit income for the years ended December 31 were:

	Postretirement Benefit Obligations		Postretirement Benefit Costs		
	2010	2009	2010	2009	2008
Discount rate	**4.3%**	5.0%	**5.0%**	6.3%	6.0%

Assumed healthcare cost trend rates as of December 31 were:

	2010		2009	
	Pre-65 Coverage	Post-65 Coverage	Pre-65 Coverage	Post-65 Coverage
Healthcare cost trend rate assumed for next year	**9.0%**	**7.0%**	9.0%	7.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.0%**	**5.0%**	5.0%	5.0%
Year that the rate reaches the ultimate rate	**2018**	**2018**	2018	2018

In addition, a one percentage point change in assumed healthcare cost trend rates would have the following effects on the postretirement benefit income and obligation:

In millions	1% Increase	1% Decrease
Service cost and interest cost for the year ended December 31, 2010	$	$
Postretirement benefit obligation as of December 31, 2010	$ 2	$ (2)

Postemployment Benefits

Reconciliation of the beginning and ending balances of the benefit obligation for NCR s postemployment plan was:

In millions	Postemployment Benefits 2010	2009
Change in benefit obligation		
Benefit obligation as of January 1	**$ 307**	$ 327
Restructuring program cost	**(1)**	
Service cost	**22**	25
Interest cost	**11**	13
Amendments	**(5)**	
Benefits paid	**(51)**	(56)
Foreign currency exchange		6
Actuarial (gain) loss	**30**	(8)
Benefit obligation as of December 31	**$ 313**	$ 307

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The following tables present the funded status and the reconciliation of the funded status to amounts recognized in the Consolidated Balance Sheets and in accumulated other comprehensive loss at December 31:

In millions	Postemployment Benefits 2010	2009
Benefit obligation	**$ (313)**	$ (307)
Amounts recognized in the Consolidated Balance Sheets		
Current liabilities	**$ (49)**	$ (48)
Noncurrent liabilities	**(264)**	(259)
Net amounts recognized	**$ (313)**	$ (307)
Amounts recognized in accumulated other comprehensive loss		
Net actuarial loss	**$ 129**	$ 112
Prior service credit	**(6)**	(2)
Total	**$ 123**	$ 110

The net periodic benefit cost of the postemployment plan for years ended December 31 was:

In millions	Postemployment Benefits 2010	2009	2008
Service cost	**$ 22**	$ 25	$ 23
Interest cost	**11**	13	15
Amortization of:			
Prior service cost	**(1)**	(1)	
Actuarial loss	**12**	12	13
Net benefit cost	**$ 44**	$ 49	$ 51
Restructuring severance cost	**(1)**		40
Net periodic benefit cost	**$ 43**	$ 49	$ 91

The weighted average assumptions utilized in accounting for postemployment benefit obligations as of December 31 and for postemployment benefit costs for the years ended December 31 were:

	Postemployment Benefit Obligations		Postemployment Benefit Costs		
	2010	2009	2010	2009	2008
Discount rate	**3.9%**	4.3%	**4.3%**	4.6%	5.3%
Salary increase rate	**3.4%**	3.6%	**3.6%**	3.6%	4.1%
Involuntary turnover rate	**5.5%**	5.0%	**5.0%**	5.0%	5.0%

The below table presents each relevant component of other comprehensive income related to NCR s benefit plans as of December 31, 2010, including the tax effects of each component:

In millions	Before-Tax Amount	Tax Benefit (Expense)	Net-of-Tax amount
Prior service cost during year	$ 40	$ (16)	$ 24
Amortization of prior service cost	(14)	5	(9)
Net loss arising during year	(62)	36	(26)
Actuarial gain (loss) included in benefits expense	203	(52)	151
Total benefit plans	$ 167	$ (27)	$ 140

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Cash Flows Related to Employee Benefit Plans

Cash Contributions NCR does not expect to be required to contribute to the U.S. qualified pension plan in 2011; however, the Company plans to contribute approximately $115 million to the international pension plans and $10 million to the executive pension plan in 2011. Due to the decline in the fair value of our pension plan assets in 2008, we continue to have a significant, underfunded pension obligation that may require material increases in cash contributions in future years. The Company also expects to make contributions of $10 million to the U.S. postretirement plan and $50 million to the postemployment plan in 2011.

Estimated Future Benefit Payments NCR expects to make the following benefit payments reflecting past and future service from its pension, postretirement and postemployment plans:

In millions	U.S. Pension Benefits	International Pension Benefits	Total Pension Benefits	Postretirement Benefits	Postemployment Benefits
Year					
2011	$ 225	$ 99	$ 324	$ 10	$ 50
2012	$ 228	$ 100	$ 328	$ 8	$ 47
2013	$ 231	$ 100	$ 331	$ 7	$ 45
2014	$ 233	$ 101	$ 334	$ 6	$ 43
2015	$ 234	$ 99	$ 333	$ 6	$ 41
2016-2020	$ 1,214	$ 510	$ 1,724	$ 18	$ 173

Savings Plans U.S. employees and many international employees participate in defined contribution savings plans. These plans generally provide either a specified percent of pay or a matching contribution on participating employees voluntary elections. NCR s matching contributions typically are subject to a maximum percentage or level of compensation. Employee contributions can be made pre-tax, after-tax or a combination thereof. The expense under the U.S. plan was approximately $8 million in 2010, $8 million in 2009, and $19 million in 2008. The expense under international and subsidiary savings plans was $14 million in 2010, $15 million in 2009, and $15 million in 2008.

Note 10 Derivatives and Hedging Instruments

NCR is exposed to risks associated with changes in foreign currency exchange rates and interest rates. NCR utilizes a variety of measures to monitor and manage these risks, including the use of derivative financial instruments. NCR has exposure to approximately 50 functional currencies. Due to our global operations, weakness in some of these currencies is sometimes offset by strengths in others. Since a substantial portion of our operations and revenues occur outside the United States (U.S.), and in currencies other than the U.S. Dollar, our results can be significantly impacted, both positively and negatively, by changes in foreign currency exchange rates.

Foreign Currency Exchange Risk Our risk management strategy includes hedging, on behalf of each subsidiary, a portion of our forecasted, non-functional currency denominated cash flows for a period of up to 15 months. As a result, some of the impact of currency fluctuations on non-functional currency denominated transactions (and hence on subsidiary operating income, as stated in the functional currency), is mitigated in the near term. The amount we hedge and the duration of hedge contracts may vary significantly. In the longer term (greater than 15 months), the subsidiaries are still subject to the effect of translating the functional currency results to U.S. Dollars. To manage our exposures and mitigate the impact of currency fluctuations on the operations of our foreign subsidiaries, we hedge our main transactional exposures through the use of foreign exchange forward contracts. This is primarily done through the hedging of foreign currency denominated inter-company inventory purchases by NCR s marketing units and of foreign currency denominated sales by our manufacturing units. As these transactions are firmly committed and forecasted, the related foreign exchange contracts are designated as highly effective cash flow hedges. The gains or losses on these hedges are deferred in accumulated other comprehensive income (loss) (AOCI) and reclassified to income when the underlying hedged transaction has been completed and is recorded in earnings. As of December 31, 2010, the balance in accumulated other comprehensive income related to foreign exchange forward derivative transactions was $5

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million, all of which related to instruments expiring in 2011. The gains or losses from derivative contracts related to inventory purchases are recorded in cost of products when the inventory is sold to an unrelated third party.

We also utilize foreign exchange contracts to hedge our exposure of assets and liabilities denominated in non-functional currencies. We generally recognize the gains and losses on these types of hedges in earnings as exchange rates change. We do not enter into hedges for speculative purposes.

Interest Rate Risk Interest rate risk associated with our borrowing is not considered material to our consolidated financial position, results of operations or cash flows as of December 31, 2010 based on the level of current borrowings and maturity dates. As such, we held no derivative financial instruments related to interest rate risk as of December 31, 2010.

The following tables provide information on the location and amounts of derivative fair values in the Consolidated Balance Sheets:

In millions	Fair Values of Derivative Instruments					
	Asset Derivatives December 31, 2010			Liability Derivatives December 31, 2010		
	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedging instruments						
Foreign exchange forward contracts	Other assets	$ 96	$ 7	Other liabilities	$ 105	$ 2
Total derivatives designated as hedging instruments			$ 7			$ 2
Derivatives not designated as hedging instruments						
Foreign exchange forward contracts	Other assets	$ 79	$ 2	Other liabilities	$ 70	$ 1
Total derivatives not designated as hedging instruments			$ 2			$ 1
Total derivatives			$ 9			$ 3

In millions	Fair Values of Derivative Instruments					
	Asset Derivatives December 31, 2009			Liability Derivatives December 31, 2009		
	Balance Sheet Location	Notional Amount	Fair Value	Balance Sheet Location	Notional Amount	Fair Value
Derivatives designated as hedging instruments						
Foreign exchange forward contracts	Other assets	$	$	Other liabilities	$	$
Total derivatives designated as hedging instruments			$			$
Derivatives not designated as hedging instruments						
Foreign exchange forward contracts	Other assets	$ 56	$ 1	Other liabilities	$ 53	$ 1
Total derivatives not designated as hedging instruments			$ 1			$ 1
Total derivatives			$ 1			$ 1

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The effect of derivative instruments on the Consolidated Statements of Operations for the years ended December 31, 2010 and December 31, 2009 are as follows:

In millions	Amount of Gain (Loss) Recognized in Other Comprehensive Income (OCI) on Derivative (Effective Portion)			Amount of Gain (Loss) Reclassified from AOCI into the Consolidated Statement of Operations (Effective Portion)			Amount of Gain (Loss) Recognized in the Consolidated Statement of Operations (Ineffective Portion and Amount Excluded from Effectiveness Testing)	
Derivatives in Cash Flow Hedging Relationships	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2009**	**Location of Gain (Loss) Reclassified from AOCI into the Consolidated Statement of Operations (Effective Portion)**	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2009**	**Location of Gain (Loss) Recognized in the Consolidated Statement of Operations (Ineffective Portion and Amount Excluded from Effectiveness Testing)**	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2009**
Foreign exchange forward contracts	**$ 5**	$ 8	Cost of Products	**$ 3**	$ (9)	Other income (expense)	**$**	$ 1

In millions		Amount of Gain (Loss) Recognized in the Consolidated Statement of Operations	
Derivatives not Designated as Hedging Instruments	**Location of Gain (Loss) Recognized in the Consolidated Statement of Operations**	**For the Year Ended December 31, 2010**	**For the Year Ended December 31, 2009**
Foreign exchange forward contracts	Other income (expense)	**$**	$ (6)
Foreign exchange forward contracts	Cost of products	**$ (1)**	$ 6

Refer to Note 14, Fair Value of Assets and Liabilities, for further information on derivative assets and liabilities recorded at fair value on a recurring basis.

Concentration of Credit Risk NCR is potentially subject to concentrations of credit risk on accounts receivable and financial instruments such as hedging instruments and cash and cash equivalents. Credit risk includes the risk of nonperformance by counterparties. The maximum potential loss may exceed the amount recognized on the Consolidated Balance Sheets. Exposure to credit risk is managed through credit approvals, credit limits, selecting major international financial institutions (as counterparties to hedging transactions) and monitoring procedures. NCR s business often involves large transactions with customers, and if one or more of those customers were to default on its obligations under applicable contractual arrangements, the Company could be exposed to potentially significant losses. However, management believes that the reserves for potential losses are adequate. As of December 31, 2010 and 2009, NCR did not have any major concentration of credit risk related to financial instruments.

Note 11 Commitments and Contingencies

In the normal course of business, NCR is subject to various proceedings, lawsuits, claims and other matters, including, for example, those that relate to the environment and health and safety, employee benefits, import/export compliance, intellectual property, data privacy, product liability, commercial disputes and regulatory compliance, among others. Additionally, NCR is subject to diverse and complex laws and regulations, including those relating to corporate governance, public disclosure and reporting, environmental safety and the discharge of materials into the environment, product safety import and export compliance, data privacy and security, antitrust and competition, government contracting, anti-corruption, and labor and human resources, which are rapidly changing and subject to many possible changes in the future. Compliance with these laws and regulations, including changes in accounting standards, taxation requirements, and federal securities laws among others, may create a substantial burden on, and substantially increase the costs to NCR or could have an impact on NCR s future operating results. NCR believes the amounts provided in its consolidated financial statements, as prescribed by GAAP, are currently adequate in light of the probable and estimable liabilities with respect to such matters, but there can be no assurances that the amounts required to satisfy alleged liabilities from such matters will not impact future operating results. Other than as stated below, the Company does not currently expect to incur material capital expenditures related to such matters. However, there can be no assurances that the actual amounts required to satisfy alleged liabilities from various lawsuits, claims, legal proceedings and other matters, including, but not limited to the Fox River environmental matter and other matters discussed below, and to comply with applicable laws and regulations, will not exceed the amounts reflected in NCR s consolidated financial statements or will not have a material adverse effect on its consolidated results of operations, capital expenditures, competitive position, financial condition or cash flows. Any costs that may be incurred in excess of those amounts provided as of December 31, 2010 cannot currently be reasonably determined.

The United States Department of Justice is conducting an investigation regarding the propriety of the Company s former Teradata Data Warehousing business s arrangements and understandings with others in connection with certain federal contracts. In connection with the spin-off of Teradata on September 30, 2007, the responsibility for this matter, together with the related reserve, was distributed to Teradata Corporation. While the Company may be subject to ostensible exposure inasmuch as it was the contracting party in the matter at issue, Teradata Corporation is generally obligated to indemnify the Company for any losses arising out of this matter.

A separate portion of the government s investigation relates to the adequacy of pricing disclosures made to the government in connection with negotiation of the Company s General Services Administration Federal Supply Schedule and to whether certain subsequent price reductions were properly passed on to the government. Both Teradata Corporation and the Company are participating in this aspect of the investigation, with respect to certain products and services of each of them, and each will assume financial responsibility for its own exposures, if any, without indemnification from the other. At this time, the Company is unable to determine whether it has probable liability with respect to this aspect of the investigation.

In August 2009, a federal court in Ohio granted motions for summary judgment against NCR in two companion class actions brought on behalf of certain unionized retirees who claimed that the Company s 2003 decision to terminate certain benefits payable on death violated collective bargaining agreements and other rights. The Company has appealed the decision to the Sixth Circuit Court of Appeals. If affirmed on appeal, the decision will require the Company to restore the death benefit, at an approximate cost of $6 million, which NCR recognized as other expense during 2009. A settlement of approximately $3 million has been preliminarily approved by the federal district court, and a final hearing to approve the settlement and to consider any objections from class members, is set for March 2011.

In December 2010, a jury in a New York federal court awarded approximately $8 million, which NCR recognized as selling, general and administrative expense during 2010, to a plaintiff in a suit over a commission arrangement purportedly entered into by the Company s consumables business in 2003. The Company has moved to set aside the jury verdict, and if that motion is not granted the Company plans to appeal.

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

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

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

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

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

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

In April 2009, the NCR Board of Directors approved the terms of a contract with Tetra Tech, an environmental remediation contractor, to perform the remediation work at the Fox River consistent with the

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requirements of the Amended ROD. Prior to this, Tetra Tech had performed certain preparatory work pursuant to an interim contract with API. Also in April 2009, the Board of Directors approved the formation of a limited liability company (LLC), which NCR and API formed on April 27, 2009, for purposes of, among other things, entering into the Tetra Tech remediation contract. Other PRPs may join the LLC in the future, if and as they enter into settlements or otherwise agree to join in funding the remediation efforts. The LLC entered into the remediation contract with Tetra Tech on April 27, 2009, and in-water dredging and remediation by Tetra Tech commenced thereafter. The Company and API fund the LLC s operations on a regular basis in accordance with the remediation schedule, consistent with the Company s Fox River reserve, discussed below. The Tetra Tech contract also requires that the LLC members provide promissory notes to provide Tetra Tech financial assurance against the prospect that the LLC will terminate the contract before completion of the remediation for reasons other than cause. The maximum obligation under the Company s note, formerly $20 million, is now approximately $16 million; the amount will vary based on a formula tied to conditions set forth in the contract, and generally is expected to decrease over time.

NCR and API share their portion of the cost of the Fox River clean-up and natural resource damages based upon an agreement and an arbitration award, which result in a 45% share for NCR of the first $75 million of such costs a threshold that was reached in the second quarter of 2008 and a 40% share for amounts in excess of $75 million.

In 2008, NCR and API filed a lawsuit in federal court in Green Bay, Wisconsin, seeking a judicial ruling determining the allocable responsibility of several PRPs for the cost of performing the remedial work at the Fox River (the allocation litigation). As of December 31, 2010, there were a total of 28 defendants in that case and a companion consolidated case. A number of counterclaims seeking contribution under CERCLA and under various state law theories have been filed and are pending against NCR and API. On September 23, 2008, the court issued a Case Management Decision and Scheduling Order setting a Phase I trial limited to the questions of (i) when each party knew or should have known that recycling NCR-brand carbonless copy paper would result in the discharge of PCBs to a waterbody, thereby risking environmental damage; and (ii) what, if any, actions each party took upon acquiring such knowledge to avoid the risk of further PCB contamination. The court s order also limited initial discovery proceedings to the same questions.

On December 16, 2009, the court issued a ruling cancelling the Phase I trial and granting motions for summary judgment filed by certain of the defendants against NCR and API. The court held that NCR and API could not recover from these defendants any costs that NCR and API have incurred in the Fox River clean-up (the ruling does not affect the Governments potential claims against such parties). The court based this ruling on a finding that NCR should have known, in the late 1960s, that the use of PCBs in carbonless copy paper presented an appreciable risk of serious and long-lasting damage, whereas, it concluded, defendants did not know of PCB risks until after the majority of PCBs were released to the river. The court s ruling was also based on a finding that because NCR chose to use and introduce PCBs into the stream of commerce, it should bear the financial consequences of that decision. The Company intends to appeal the ruling to the United States Court of Appeals for the Seventh Circuit. In light of a subsequent February 2010 order by the district court denying a request to initiate an immediate appeal, the Company currently does not expect to be able to prosecute its appeal until the remaining claims in the litigation, including counterclaims brought by the defendants against NCR and API for reimbursement of previously incurred expenses and other matters, are resolved. Potentially dispositive motions regarding those counterclaims were argued on September 1, 2010. No decision on these motions has been issued as yet.

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

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approved the consent decrees. NCR/API appealed both of these rulings to the United States Court of Appeals for the Seventh Circuit and the matter was argued on January 12, 2011. A decision is pending.

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

In the quarter ended December 31, 2010, the Governments publicly announced proposed monetary settlements of Fox-River-related claims with four entities: GP, Brown County (Wisconsin), the City of Green Bay, and the United States itself (with respect to potential liabilities asserted against the Army Corps of Engineers for certain dredging and disposal activities, and against other federal agencies for certain carbonless copy paper recycling activities). All of those entities are defendants in the allocation litigation case described above. The GP settlement, if approved, would release GP from liability and provide contribution protection for claims relating to government oversight costs and for claims relating to clean-up actions upriver of GP s facilities (it does not affect claims for clean-up actions in that portion of the river near those facilities). The settlement with Brown County, the City of Green Bay and the United States would release these entities and provide contribution protection for all claims relating to the Fox River site. The Company filed administrative objections to the proposed settlement with GP, and expects to file similar administrative comments with respect to the other settlements. The United States and the State of Wisconsin moved the Court to enter the GP consent decree and the Company has opposed the motion.

The extent of NCR s potential liability remains subject to many uncertainties. NCR s eventual remediation liability which is expected to be paid out over a period extending through at least approximately 2019, followed by long-term monitoring for several decades will depend on a number of factors. In general, the most significant factors include: (1) the total clean-up costs for each of the segments of the river; (2) the total natural resource damages for the site; (3) the shares NCR and API will jointly bear of future clean-up costs and natural resource damages; (4) the share NCR will bear of the joint NCR/API payments for such clean-up costs and natural resource damages; and (5) NCR s transaction and litigation costs to defend itself in this matter, including participation in the allocation litigation and the October 2010 litigation filed by the Governments. In establishing the reserve, NCR attempts to estimate a range of reasonably possible outcomes for each of these factors, although each range is itself highly uncertain. NCR uses its best estimate within the range, if that is possible. Where there is a range of equally possible outcomes, and there is no amount within that range that is considered to be a better estimate than any other amount, NCR uses the low end of the range. These factors are discussed below.

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

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

Third, for the NCR/API shares of NRD, which is discussed above, NCR uses a best estimate. The joint NCR/API share of future clean-up costs is expected to be determined in the allocation litigation or possibly in or as a result of the government litigation filed in October 2010. NCR has modified the basis previously used for this component of the reserve (in the past, the Company used the low end of a range of outcomes, based primarily on the proximity of areas to be remediated to the locations at which PCBs were released into the river). In light of the Wisconsin federal court s December 16, 2009 ruling described above, NCR s reserve at December 31, 2010 assumes that NCR and API will be responsible for the full extent of the clean-up activities they are undertaking, which the Company considers a best estimate, and for a substantial portion of the counterclaims filed against NCR and API, as to which the Company uses the low end of a range of equally possible outcomes, the high end of which could increase the Company s reserve up to $25 million. The Company will seek to overturn the December 16, 2009 ruling on appeal, and believes that the NCR/API allocable share of total site costs is less than 100%, based on, among other things, equitable factors, principles of divisibility as developed under applicable law, and/or an apportionment of the claimed harm. Until such time, if any, that such a result is achieved, however, the Company assumes in its reserve that NCR and API will pay for the full extent of the clean-up. At this point the Company is unable to determine whether the defendants in the allocation litigation will pay portions of the Fox River liability and, if so, in what amount. NCR s reserve does not at present assume any payments or reduction of exposure based either on the appeal or on Government enforcement against the other Order recipients or defendants.

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

Finally, NCR estimated the transaction costs it is likely to incur to defend this matter through 2019, the time period NCR s engineering consultants believe it will take to implement the remedy for the river. This estimate is based on an analysis of NCR s costs since this matter first arose in 1995 and on estimates of what NCR s defense and transaction costs will be in the future. NCR expects that the bulk of these transaction costs have been and will be incurred in the 2008-2012 time period. The costs incurred and expected to be incurred during that period include, in particular, transaction costs and fees related to completion of the design work, equipment purchases, commencement and continuation of clean-up activities in the river, and the allocation litigation and October 2010 litigation filed by the Governments discussed above.

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

As of December 31, 2010, the net reserve for the Fox River matter was approximately $199 million, compared to $202 million as of December 31, 2009. This decrease in the reserve is due primarily to payments for clean-up activities and legal fees during 2010. NCR regularly re-evaluates the assumptions used in determining the appropriate reserve for the Fox River matter as additional information becomes available and, when warranted, makes appropriate adjustments. NCR contributes to the LLC in order to fund remediation activities and generally, by contract, funds three months worth of remediation activities in advance. As of December 31, 2010 and 2009, approximately $5 million and $3 million, respectively, remained from this funding and was recorded in other current assets in the Consolidated Balance Sheet. NCR s reserve for the Fox River matter is reduced as the LLC makes payments to Tetra Tech and other vendors with respect to remediation activities.

Under a 1996 agreement, AT&T and Alcatel-Lucent are responsible severally (not jointly) for indemnifying NCR for certain portions of the amounts paid by NCR for the Fox River matter over a defined threshold. (The agreement governs certain aspects of AT&T Corp. s divestiture of NCR, then known as AT&T Global Information Solutions Company, and what was formerly known as Lucent Technologies, and specifically relates to shared contingent gains and liabilities of the former constituent companies within AT&T.) NCR s estimate of what AT&T and Alcatel-Lucent will pay under the indemnity is recorded as a long-term asset of approximately $86 million as of December 31, 2010 and $120 million as of December 31, 2009, and is deducted in determining the net reserve discussed above. The asset balance can fluctuate not only with respect to total clean-up and other costs, but also with respect to insurance recoveries and certain tax impacts as measured by a contractual formula using prior-year effective tax rates. Such insurance recoveries and tax impacts are netted against the asset in proportions specified under the indemnity agreement (i.e., they typically decrease its amount). Insurance recoveries, whether by judgment or settlement, are the subjects of ongoing litigation, which is now nearly concluded, and have the effect of reducing the Company s expected receipts under the indemnity, and therefore insurance recoveries are not expected to materially reduce the Company s aggregate expenditures for the Fox River matter. The tax impact within the indemnity calculation is subject to substantial volatility regarding the Company s effective tax rate from year to year, rendering the future tax impacts highly uncertain. When actual payments, net of insurance recoveries and tax impacts, reach the indemnity threshold, the Company expects to commence collection of the related portions of the asset. The Company does not expect to achieve the threshold before late 2011 or 2012.

In connection with the Fox River and other matters, through December 31, 2010, NCR has received a combined total of approximately $148 million in connection with settlements reached with its principal insurance carriers; and an additional $10 million is expected to be received in the future under the contractual terms of some of the settlements. Portions of most of these settlements are payable to a law firm that litigated the claims on the Company s behalf. Some of the settlements cover not only the Fox River, but also other environmental sites. Of the total amount collected to date, $9 million is subject to competing claims by another party, and NCR and the other party have agreed that these funds will be used for Fox River costs and will be shared on an agreed-upon basis (subject to reallocation at a later date). NCR s agreed-upon share of the $9 million is estimated to be $4 million.

In the year ended December 31, 2010, NCR reached settlements with several insurers which resulted in income of $31 million, or $20 million after tax, which is included in income (loss) from discontinued operations in the accompanying Consolidated Statement of Operations. In the year ended December 31, 2009, NCR reached settlements with several insurers totaling $13 million, offset by a $156 million increase in NCR s estimated liability due to an update for estimated total costs driven primarily by the December 16, 2009 court decision which resulted in a net charge of $143 million, or $91 million after tax, included in income (loss) from discontinued operations in the accompanying Consolidated Statement of Operations.

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As of December 31, 2010, NCR had reached settlement with all but one of the insurance companies against which it had advanced claims with respect to the Fox River. That remaining company entered into certain stipulations which obviated the need for a trial and caused judgment to be entered against it in the amount of $5 million; an appeal is pending.

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

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

It is difficult to estimate the future financial impact of environmental laws, including potential liabilities. NCR records environmental provisions when it is probable that a liability has been incurred and the amount or range of the liability is reasonably estimable. Provisions for estimated losses from environmental restoration and remediation are, depending on the site, based primarily on internal and third-party environmental studies (except for the Fox River site, where the estimated costs and natural resource damages are estimated as described above), estimates as to the number and participation level of any other PRPs, the extent of the contamination, and the nature of required clean-up and restoration actions. Reserves are adjusted as further information develops or circumstances change. Management expects that the amounts reserved from time to time will be paid out over the period of investigation, negotiation, remediation and restoration for the applicable sites. The amounts provided for environmental matters in NCR s consolidated financial statements are the estimated gross undiscounted amounts of such liabilities, without deductions for insurance, third-party indemnity claims or recoveries from the other PRPs, except as qualified in the following sentences. Except for the sharing agreement with API described above with respect to the Fox River site, in those cases where insurance carriers or third-party indemnitors have agreed to pay any amounts and management believes that collectability of such amounts is probable, the amounts are recorded in the Consolidated Financial Statements. For the Fox River site, as described above, an asset relating to the AT&T and Alcatel-Lucent indemnity is recorded because payment is considered probable and is supported by contractual agreements.

Guarantees and Product Warranties Guarantees associated with NCR s business activities are reviewed for appropriateness and impact to the Company s consolidated financial statements. NCR had no obligations related to such guarantees and therefore, its consolidated financial statements do not have any associated liability balance as of December 31, 2010 or 2009.

NCR provides its customers a standard manufacturer s warranty and records, at the time of the sale, a corresponding estimated liability for potential warranty costs. Estimated future obligations due to warranty claims are based upon historical factors, such as labor rates, average repair time, travel time, number of service calls per machine and cost of replacement parts. Upon consummating a sale, we recognize the total customer revenue and record the associated warranty liability using pre-established warranty percentages for that product class. From time to time, product design or quality corrections are accomplished through modification programs. When identified, associated costs of labor and parts for such programs are estimated and accrued as part of the warranty reserve.

The following table identifies the activity relating to the warranty reserve for the following years:

In millions	2010	2009	2008
Warranty reserve liability			
Beginning balance as of January 1	**$ 25**	$ 24	$ 13
Accruals for warranties issued	**48**	47	51
Settlements (in cash or in kind)	**(49)**	(46)	(40)
Ending balance as of December 31	**$ 24**	$ 25	$ 24

In addition, NCR provides its customers with certain indemnification rights. In general, NCR agrees to indemnify the customer if a third party asserts patent or other infringement on the part of the customer for its use of the Company s products. From time to time, NCR also enters into agreements in connection with its acquisition and divesture activities that include indemnification obligations by the Company. The fair value of these indemnification obligations is not readily determinable due to the conditional nature of the Company s potential obligations and the specific facts and circumstances involved with each particular agreement. The Company has not recorded a liability in connection with these indemnifications. Historically, payments made by the Company under these types of agreements have not had a material effect on the Company s consolidated financial position, results of operations or cash flows.

Purchase Commitments The Company has purchase commitments for materials, supplies, services, and property, plant and equipment as part of the normal course of business. This includes a long-term service agreement with Accenture under which many of NCR s key transaction processing activities and functions are performed.

Leases NCR conducts certain of its sales and manufacturing operations using leased facilities, the initial lease terms of which vary in length. Many of the leases contain renewal options and escalation clauses that are not material to the overall lease portfolio. Future minimum lease payments under non-cancelable operating leases as of December 31, 2010, for the following fiscal years were:

In millions	2011	2012	2013	2014	2015	Thereafter
Minimum lease obligations	$ 53	$ 45	$ 37	$ 31	$ 22	$ 26

Total rental expense for operating leases was $53 million in 2010, $54 million in 2009, and $58 million in 2008.

Note 12 Segment Information and Concentrations

Operating Segment Information For the year ended December 31, 2010, 2009 and 2008, NCR managed and reported its business in the following three segments:

Americas;

Europe, Middle East and Africa (EMEA); and

Asia Pacific and Japan (APJ).

Each of these segments derives revenue by selling products and services to the financial services, retail and hospitality, travel and gaming and healthcare industries. The Americas region also includes revenues from sales in the entertainment industry. The Company s products, services and solutions enable NCR s customers to connect, interact and transact with their customers, and include: ATM hardware and software; traditional

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point-of-sale and self-checkout solutions; self-service kiosk solutions; business consumables; solutions that digitally capture, process and retain item-based transactions; maintenance of NCR solutions; consulting, installation and customer support services; as well as the maintenance and sale of third-party products and services. The Company s chief operating decision maker regularly assesses information relating to these segments to make decisions, including the allocation of resources. Management evaluates the performance of the segments based on revenue and segment gross margin. Segment assets are not included in this assessment of segment performance. The accounting policies used to determine the results of the operating segments are the same as those utilized for the consolidated financial statements as a whole. Intersegment sales and transfers are not material.

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

The following table presents revenue and gross margin by segment:

In millions	2010	2009	2008
Revenue by segment			
Americas	**$ 2,123**	$ 2,022	$ 2,269
EMEA	**1,714**	1,649	2,066
APJ	**982**	941	980
Total revenue	**4,819**	4,612	5,315
Gross margin by segment			
Americas	**457**	386	437
EMEA	**404**	401	556
APJ	**219**	207	237
Total segment gross margin	**1,080**	994	1,230
Selling, general and administrative expenses	**609**	586	696
Research and development expenses	**138**	124	134
Pension expense	**208**	159	25
Other adjustments (1)	**26**	28	53
Income from operations	**$ 99**	$ 97	$ 322

(1) Other adjustments in 2010 include $8 million litigation charge and $18 million for incremental costs directly related to the relocation of the worldwide headquarters. Other adjustments in 2009 include $22 million charge for the impairment of assets related to an equity investment and $6 million of incremental costs directly related to the relocation of the worldwide headquarters. Other adjustments in 2008 include $57 million of organizational realignment costs, $12 million of legal costs, and a $16 million gain on the sale of a manufacturing facility in Canada.

The following table presents revenue from products and services for NCR for the years ended December 31:

In millions	2010	2009	2008
Product revenue	**$ 2,403**	$ 2,234	$ 2,861
Professional and installation services revenue	**586**	578	638
Total solution revenue	**2,989**	2,812	3,499
Support services revenue	**1,830**	1,800	1,816

Total revenue	**$ 4,819**	$ 4,612	$ 5,315

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NCR allocates assets to its operating segments based on the primary segment benefitting from the assets. The assets attributable to NCR s operating segments consist primarily of accounts receivable, inventories, property, plant, and equipment, capitalized software and goodwill dedicated to a specific operating segment. Assets not attributable to operating segments because they are not dedicated to a specific segment consist primarily of deferred tax assets, prepaid pension costs, and cash and cash equivalents.

Segment assets as of December 31 were:

In millions	2010	2009
Segment assets		
Americas	**$ 1,147**	$ 936
EMEA	**630**	677
APJ	**481**	486
Total segment assets	**2,258**	2,099
Assets not allocated to the segments:		
Cash and cash equivalents	**496**	451
Prepaid pension cost	**286**	244
Deferred income taxes	**630**	617
Other assets not attributable to segments	**691**	683
Consolidated total assets	**$ 4,361**	$ 4,094

Revenues are attributed to the geographic area/country to which the product is delivered or in which the service is provided. The following table presents revenue by geographic area for NCR for the years ended December 31:

In millions	2010	%	2009	%	2008	%
Revenue by Geographic Area						
United States	**$ 1,551**	**32%**	$ 1,609	35%	$ 1,787	33%
Americas (excluding United States)	**572**	**12%**	413	9%	482	9%
Europe, Middle East, and Africa	**1,714**	**36%**	1,649	36%	2,066	39%
Japan	**336**	**7%**	328	7%	352	7%
Asia Pacific (excluding Japan)	**646**	**13%**	613	13%	628	12%
Consolidated revenue	**$ 4,819**	**100%**	$ 4,612	100%	$ 5,315	100%

The following table presents property, plant and equipment by geographic area as of December 31:

In millions	2010	2009
Property, plant and equipment, net		
United States	**$ 128**	$ 181
Americas (excluding United States)	**165**	21
Europe, Middle East, and Africa	**43**	71
Japan	**59**	55
Asia Pacific (excluding Japan)	**34**	28
Consolidated property, plant and equipment, net	**$ 429**	$ 356

Concentrations No single customer accounts for more than 10% of NCR s consolidated revenue. As of December 31, 2010, NCR is not aware of any significant concentration of business transacted with a particular customer that could, if suddenly eliminated, have a material adverse effect on NCR s operations. NCR also lacks a concentration of available sources of labor, services, licenses or other rights that could, if suddenly eliminated, have a material adverse effect on its operations.

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A number of NCR s products, systems and solutions rely primarily on specific suppliers for microprocessors and other component products, manufactured assemblies, operating systems, commercial software and other central components. NCR also utilizes contract manufacturers in order to complete manufacturing activities. There can be no assurances that any sudden impact to the availability or cost of these technologies or services would not have a material adverse effect on NCR s operations.

Note 13 Quarterly Information (unaudited)

In millions, except per share amounts	First	Second	Third	Fourth
2010				
Total revenues	**$ 1,029**	**$ 1,177**	**$ 1,207**	**$ 1,406**
Gross margin	**$ 191**	**$ 241**	**$ 246**	**$ 286**
Operating (loss) income	**$ (18)**	**$ 31**	**$ 34**	**$ 52**
(Loss) income from continuing operations, net of tax	**$ (17)**	**$ 20**	**$ 80**	**$ 31**
Income from discontinued operations, net of tax	**$**	**$ 11**	**$ 5**	**$ 7**
Net income (loss) attributable to noncontrolling interests	**$ 2**	**$**	**$ 2**	**$ (1)**
Net (loss) income attributable to NCR	**$ (19)**	**$ 31**	**$ 83**	**$ 39**
Income (loss) per share attributable to NCR common stockholders:				
Income (loss) per common share from continuing operations				
Basic	**$ (0.11)**	**$ 0.12**	**$ 0.49**	**$ 0.20**
Diluted	**$ (0.11)**	**$ 0.12**	**$ 0.48**	**$ 0.20**
Net (loss) income per common share:				
Basic	**$ (0.12)**	**$ 0.19**	**$ 0.52**	**$ 0.24**
Diluted	**$ (0.12)**	**$ 0.19**	**$ 0.51**	**$ 0.24**
2009				
Total revenues	$ 1,008	$ 1,124	$ 1,135	$ 1,345
Gross margin	$ 184	$ 229	$ 224	$ 246
Operating (loss) income	$ (10)	$ 39	$ 29	$ 39
(Loss) income from continuing operations, net of tax	$ (17)	$ 21	$ 17	$ 40
Income (loss) from discontinued operations, net of tax	$ 3	$ 3	$	$ (97)
Net income (loss) attributable to noncontrolling interests	$ 1	$ 1	$ 2	$ (1)
Net (loss) income attributable to NCR	$ (15)	$ 23	$ 15	$ (56)
Income (loss) per share attributable to NCR common stockholders:				
Income (loss) per common share from continuing operations				
Basic	$ (0.11)	$ 0.13	$ 0.09	$ 0.26
Diluted	$ (0.11)	$ 0.13	$ 0.09	$ 0.25
Net (loss) income per common share:				
Basic	$ (0.09)	$ 0.14	$ 0.09	$ (0.35)
Diluted	$ (0.09)	$ 0.14	$ 0.09	$ (0.35)

Net income per share in each quarter is computed using the weighted-average number of shares outstanding during that quarter while net income per share for the full year is computed using the weighted-average number of shares outstanding during the year. Thus, the sum of the four quarters net income per share will not necessarily equal the full-year net income per share.

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Note 14 Fair Value of Assets and Liabilities

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets and liabilities recorded at fair value on a recurring basis as of December 31, 2010 and 2009 are set forth as follows:

In millions	Fair Value as of December 31, 2010	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deposits held in money market funds *	$ 155	$ 155	$	$
Available for sale securities **	11	11		
Foreign exchange forward contracts ***	9		9	
Total	**$ 175**	**$ 166**	**$ 9**	**$**
Liabilities:				
Foreign exchange forward contracts ***	$ 3	$	$ 3	$
Total	**$ 3**	**$**	**$ 3**	**$**

In millions	Fair Value as of December 31, 2009	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Deposits held in money market funds *	$ 134	$ 134	$	$
Available for sale securities **	13	13		
Foreign exchange forward contracts ***	1		1	
Total	**$ 148**	**$ 147**	**$ 1**	**$**
Liabilities:				
Foreign exchange forward contracts ***	$ 1	$	$ 1	$
Total	**$ 1**	**$**	**$ 1**	**$**

* *Deposits Held in Money Market Funds* A portion of the Company s excess cash is held in money market funds which generate interest income based on prevailing market rates. Money market fund holdings are measured at fair value using quoted market prices

and are classified within Level 1 of the valuation hierarchy.

** *Available-For-Sale Securities* The Company has investments in mutual funds and equity securities that are valued using the market approach with quotations from the NASDAQ stock exchange and two stock exchanges in Japan. As a result, available-for-sale securities are classified within Level 1 of the valuation hierarchy.

*** *Foreign Exchange Forward Contracts* As a result of our global operating activities, we are exposed to risks from changes in foreign currency exchange rates, which may adversely affect our financial condition. To manage our exposures and mitigate the impact of currency fluctuations on our financial results, we hedge our primary transactional exposures through the use of foreign exchange forward contracts. The foreign exchange forward contracts are valued using the market approach based on observable market transactions of forward rates and are classified within Level 2 of the valuation hierarchy.

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Assets Measured at Fair Value on a Non-recurring Basis

The following table presents the Company s assets that were measured at fair value on a non-recurring basis:

In millions		Fair Value Measurements at Reporting Date Using			Total Losses
Description	Fair Value Measurements During the Year Ended December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	For the Year Ended December 31, 2010
Intellectual property	$ 1	$	$	$ 1	$
Customer contract and trade names	$ 1	$	$	$ 1	$
Investment in MOD Systems	$	$	$	$	$ (14)
Total	$ 2	$	$	$ 2	$ (14)

In millions		Fair Value Measurements at Reporting Date Using			Total Losses
Description	Fair Value Measurements During the Year Ended December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	For the Year Ended December 31, 2009
Intellectual property	$ 8	$	$	$ 8	$
Customer contract and trade names	$ 8	$	$	$ 8	$
Investment in TNR	$	$	$	$	$ (5)
Investment in ePlay	$	$	$	$	$ (19)
Total	$ 16	$	$	$ 16	$ (24)

NCR measures certain assets including intangible assets and cost and equity method investments at fair value on a nonrecurring basis. These assets are recognized at fair value when initially valued and when they are deemed to be other-than-temporarily impaired.

NCR reviews the carrying values of investments when events and circumstances warrant and considers all available evidence in evaluating when declines in fair value are other-than-temporary declines. NCR carries equity investments in privately-held companies at cost or at fair value when NCR recognizes an other-than-temporary impairment charge. We measured the fair value of our investment in MOD Systems Inc. in 2010 and TNR and ePlay in 2009 utilizing the income approach based on the use of discounted cash flows. The discounted cash flows are based on unobservable inputs, including assumptions of projected revenues, expenses, earnings, capital spending, as well as a discount rate determined by management s estimates of risk associated with each investment. For the years ended December 31, 2010 and 2009, we recorded $14 million and $24 million, respectively, in other-than-temporary impairment charges in other (income) expense, net in the Consolidated Statements of Operations.

In conjunction with an acquisition in 2010 as described in Note 4, Business Combinations and Investments , NCR recognized intangible assets for proprietary technology and customer relationships of $2 million. In conjunction with 2009 acquisitions, NCR recognized intangible assets for customer contracts, trade names and intellectual property of $16 million. We measured the fair value of the customer contracts and intellectual property through the use of discounted cash flows expected to be earned by the contracts, which required the use of unobservable inputs, including assumptions on projected revenue, expenses, and earnings, as well as a discount rate determined by management s estimates of the risk profile associated with the contract. We measured the fair value of trade names acquired in the transaction based on a relief from royalty approach, which required the use of unobservable inputs, including comparable royalty rates in the media and entertainment industry as well as expected revenues over the estimated life of the trade names.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

Item 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

NCR has established disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)) to ensure that information required to be disclosed by NCR in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by NCR in the reports that it files or submits under the Exchange Act is accumulated and communicated to NCR s management, including its Chief Executive and Chief Financial Officers, as appropriate to allow timely decisions regarding required disclosure. Based on their evaluation as of the end of the period covered by this report, conducted under their supervision and with the participation of management, the Company s Chief Executive and Chief Financial Officers have concluded that NCR s disclosure controls and procedures are effective to meet such objective and that NCR s disclosure controls and procedures adequately alert them on a timely basis to material information relating to the Company (including its consolidated subsidiaries) required to be included in NCR s Exchange Act filings.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations due to, for example, the potential for human error or circumvention of controls, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company s management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2010. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control Integrated Framework*. Based on our assessment, we determined that, as of December 31, 2010, the Company s internal control over financial reporting was effective based on those criteria.

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PricewaterhouseCoopers LLP, our independent registered public accounting firm, has audited the effectiveness of the Company s internal control over financial reporting as of December 31, 2010 as stated in their report which appears in this Form 10-K.

/s/ WILLIAM NUTI	/s/ ROBERT FISHMAN
William Nuti	**Robert Fishman**
Chairman of the Board,	**Senior Vice President and**
Chief Executive Officer and President	**Chief Financial Officer**

Item 9B. OTHER INFORMATION

None.

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PART III

Item 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth in the following paragraphs of this Item 10, the information required by this Item 10 will be set forth under the headings Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance, and Committees of the Board in the Definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal 2010 year, and is incorporated herein by reference. The information required by this Item 10 regarding our executive officers is set forth under the heading Executive Officers of the Registrant in Part I of this Form 10-K and is incorporated herein by reference.

We have not materially changed the procedures by which stockholders may recommend nominees to the Company s Board of Directors.

We have a Code of Conduct that sets the standard for ethics and compliance for all of our employees. Our Code of Conduct is available on the Corporate Governance page at our website at *http://investor.ncr.com* under the heading Code of Conduct. We intend to disclose any amendments to or waivers of the Code of Conduct on behalf of the Executive Officers on the Corporate Governance page of our website promptly following the date of such amendment or waiver.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item 11 will be set forth under the headings Executive Compensation, Compensation and Human Resource Committee, and Board Compensation and Human Resource Committee Report on Executive Compensation in the Definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal 2010 year, and is incorporated herein by reference.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item 12 will be set forth under the headings Stock Ownership and Equity Compensation Plan Information in the Definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal 2010 year, and is incorporated herein by reference.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item 13 will be set forth under the headings Related Person Transactions and Corporate Governance in the Definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal 2010 year, is incorporated herein by reference.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item 14 will be set forth under the heading Fees Paid to Independent Registered Public Accounting Firm in the Definitive Proxy Statement for our 2011 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the end of our fiscal 2010 year, and is incorporated herein by reference.

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PART IV

Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES
(a) Index

1. *Financial Statements*: The consolidated financial statements of the Company and the Report of Independent Registered Public Accounting Firm as set forth in Part II, Item 8 of this Form 10-K report:

2. *Financial Statement Schedule*: Financial Statement Schedule II Valuation and Qualifying Accounts is included in this Form 10-K report on page 98. All other schedules are not required under the related instructions or are not applicable.

3. *Exhibits*: See Index of Exhibits below for a listing of all exhibits to this Form 10-K report.

(b) Exhibits identified in parentheses below, on file with the SEC, are incorporated herein by reference as exhibits hereto.

Exhibit No.	Description
2.1	Separation and Distribution Agreement, dated as of August 27, 2007 between NCR Corporation and Teradata Corporation (Exhibit 2.1 to the Form 10 of Teradata Corporation (the Teradata Form 10)).
3.1	Articles of Amendment and Restatement of NCR Corporation, as amended May 14, 1999 (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 January 26, 2011 (Exhibit 3(ii) to the NCR Corporation Current Report on Form 8-K filed January 31, 2011).
4.1	Common Stock Certificate of NCR Corporation (Exhibit 4.1 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1999).
4.2	Indenture, dated as of June 1, 2002, between NCR Corporation and The Bank of New York (Exhibit 3.2 to the NCR Corporation Quarterly Report on Form 10-Q for the period ended June 30, 2002).
10.1	Separation and Distribution Agreement, dated as of February 1, 1996 and amended and restated as of March 29, 1996 (Exhibit 10.1 to the Lucent Technologies Inc. Registration Statement on Form S-1 (No. 333-00703) (the Lucent Registration Statement)).
10.2	Employee Benefits Agreement, dated as of November 20, 1996, by and between AT&T Corp. and NCR Corporation (Exhibit 10.2 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 1996 (the 1996 Annual Report).
10.3	Patent License Agreement, effective as of March 29, 1996, by and among AT&T Corp., NCR Corporation, and Lucent Technologies Inc. (Exhibit 10.7 to the Lucent Registration Statement).

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Exhibit No.	Description
10.4	Amended and Restated Technology License Agreement, effective as of March 29, 1996, by and among AT&T Corp., NCR Corporation, and Lucent Technologies Inc. (Exhibit 10.8 to the Lucent Registration Statement).
10.5	Tax Sharing Agreement, dated as of February 1, 1996, and amended and restated as of March 29, 1996, by and among AT&T Corp., NCR Corporation, and Lucent Technologies Inc. (Exhibit 10.6 to the Lucent Registration Statement).
10.6	Purchase and Manufacturing Services Agreement effective as of January 19, 2007, between NCR Corporation and Solectron Corporation (now Flextronics International Ltd.) (incorporated by reference to Exhibit 10.6 to the Form 10-K/A for the fiscal year ended December 31, 2006, filed June 4, 2008). Certain portions of this exhibit were granted confidential treatment by the Securities and Exchange Commission on October 2, 2008.
10.7	Tax Sharing Agreement, dated as of September 21, 2007, between NCR Corporation and Teradata Corporation (Exhibit 10.1 to the Current Report on Form 8-K of NCR Corporation dated September 21, 2007 (the September 21, 2007 Form 8-K)).
10.8	Employee Benefits Agreement, dated as of September 21, 2007, between NCR Corporation and Teradata Corporation (Exhibit 10.2 to the September 21, 2007 Form 8-K).
10.9	Form of Exclusive Patent License Agreement between NCR Corporation and Teradata US, Inc. (Exhibit 10.4 to the Teradata Form 10).
10.10	Form of Patent License Agreement between NCR Corporation and Teradata US, Inc. (Exhibit 10.5 to the Teradata Form 10).
10.11	Form of Technology Agreement between NCR Corporation and Teradata US, Inc. (Exhibit 10.6 to the Teradata Form 10).
10.12	Form of Master Agreement between NCR Corporation and Teradata Corporation for Enterprise Data Warehousing Sales and Support (Exhibit 10.16 to the Teradata Form 10).
10.13	Form of Network Support Agreement between NCR Corporation and Teradata Corporation (Exhibit 10.17 to the Teradata Form 10).
10.14	Form of Service Provider Agreement between NCR Corporation and Teradata Corporation (Exhibit 10.18 to the Teradata Form 10).
10.15	Form of Master Reseller Agreement for Middle East and Africa between NCR Corporation and Teradata Corporation (Exhibit 10.19 to the Teradata Form 10).
10.16	NCR Management Stock Plan (Exhibit 10.8 to the 1996 Annual Report). *
10.16.1	First Amendment to the NCR Management Stock Plan dated April 30, 2003 (Exhibit 10.4 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2003). *
10.16.2	Amendment to NCR Management Stock Plan effective as of December 31, 2008 (Exhibit 10.17.2 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 2008 (the 2008 Annual Report)). *
10.16.3	Form of Stock Option Agreement under the NCR Management Stock Plan (Exhibit 10.6.3 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 2005 (the 2005 Annual Report)). *
10.16.4	Form of Restricted Stock Agreement under the NCR Management Stock Plan (Exhibit 10.6.4 to the 2005 Annual Report). *
10.17	NCR Corporation 2006 Stock Incentive Plan, as amended and restated effective as of December 31, 2008 (Exhibit 10.18.3 to the 2008 Annual Report). *

Exhibit No.	Description
10.17.1	Form of 2009 Stock Option Agreement under the NCR 2006 Stock Incentive Plan, as amended and restated (the 2006 Stock Plan) (Exhibit 10.5 to the Current Report on Form 8-K dated December 12, 2008). *
10.17.2	Form of 2009 Restricted Stock Unit Agreement under the 2006 Stock Plan (Exhibit 10.2 to the Current Report on Form 8-K dated December 12, 2008).
10.17.3	Form of 2010 Stock Option Agreement under the 2006 Stock Plan (Exhibit 10.2 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended March 31, 2010 (the First Quarter 2010 Quarterly Report)). *
10.17.4	Form of 2010 Restricted Stock Agreement under the 2006 Stock Plan (Exhibit 10.3 to the First Quarter 2010 Quarterly Report). *
10.17.5	Form of 2010 Restricted Stock Unit Agreement under the 2006 Stock Plan (Exhibit 10.4 to the First Quarter 2010 Quarterly Report). *
10.17.6	Form of 2010 Performance Based Restricted Stock Agreement under the 2006 Stock Plan (Exhibit 10.5 to the First Quarter 2010 Quarterly Report). *
10.17.7	Form of 2010 Performance Based Restricted Stock Unit Agreement under the 2006 Stock Plan (Exhibit 10.6 to the March 31, 2010 Quarterly Report). *
10.18	NCR Management Incentive Program for Executive Officers (Exhibit 10.19 to the 1996 Annual Report). *
10.19	NCR Management Incentive Plan (Exhibit A to the Company s Proxy Statement filed on March 10, 2006). *
10.20	NCR Director Compensation Program effective April 21, 2009 (Exhibit 10.7 to the Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (the First Quarter 2009 Form 10-Q)). *
10.20.1	2009 Director Option Grant Statement under the NCR Director Compensation Program (Exhibit 10.8 to the First Quarter 2009 Form 10-Q). *
10.20.2	2009 Director Restricted Stock Unit Grant Statement under the NCR Director Compensation Program (Exhibit 10.9 to the First Quarter 2009 Form 10-Q). *
10.21	The Retirement Plan for Officers of NCR, Amended and Restated effective December 31, 2008 (Exhibit 10.22.5 to the 2008 Annual Report). *
10.22	Amended and Restated NCR Change in Control Severance Plan effective December 31, 2008 (Exhibit 10.24.2 to the 2008 Annual Report). *
10.23	Amended and Restated NCR Nonqualified Excess Plan, effective December 31, 2008 (Exhibit 10.26.6 to the 2008 Annual Report). *
10.24	Employment Agreement with William Nuti, dated July 29, 2005 (Exhibit 10.1 to the NCR Corporation Current Report on Form 8-K filed August 2, 2005). *
10.24.1	Letter agreement dated July 26, 2006 with William Nuti (Exhibit 10.4 to the NCR Corporation Current Report on Form 8-K filed July 27, 2006). *
10.24.2	Second Amendment effective as of December 12, 2008 to Letter Agreement with William Nuti dated July 29, 2005, as amended July 26, 2006 (Exhibit 10.30.2 to the 2008 Annual Report). *
10.25	NCR Director Compensation Program Effective April 27, 2010 (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (the Second Quarter 2010 Quarterly Report)). *

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Exhibit No.	Description
10.25.1	Form of 2010 Stock Director Option Grant Statement (Exhibit 10.2 to the Second Quarter 2010 Quarterly Report). *
10.25.2	Form of 2010 Director Restricted Stock Unit Grant Statement (Exhibit 10.3 to the Second Quarter 2010 Quarterly Report). *
10.26	Letter Agreement with Robert Fishman dated March 17, 2010 (Exhibit 10.7 to the First Quarter 2010 Quarterly Report). *
10.27	Letter Agreement with John Bruno dated October 27, 2008 (Exhibit 10.8 to the First Quarter 2010 Quarterly Report). *
10.28	Letter Agreement with Peter Leav dated December 28, 2008 (Exhibit 10.9 to the First Quarter 2010 Quarterly Report). *
10.29	Letter Agreement with Peter Dorsman dated April 4, 2006 (Exhibit 10.1 to the NCR Corporation Quarterly Report on Form 10-Q for the quarter ended September 30, 2010). *
14	Code of conduct for associates for NCR Corporation (Exhibit 14 to the NCR Corporation Annual Report on Form 10-K for the year ended December 31, 2007).
21	Subsidiaries of NCR Corporation.
23.1	Consent of Independent Registered Public Accounting Firm.
31.1	Certification pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, dated February 24, 2011.
31.2	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act of 1934, dated February 24, 2011.
32	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, dated February 24, 2011.
99.1	Tax Opinion of Wachtell, Lipton, Rosen & Katz in connection with the Spin off of Teradata, dated August 27, 2007 (Exhibit 99.2 to the Current Report on Form 8-K of NCR Corporation dated September 30, 2007).
101	Financials in XBRL format.

* Management contracts or compensatory plans/arrangements

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NCR Corporation

SCHEDULE II VALUATION AND QUALIFYING ACCOUNTS

(In millions)

Column A	Column B	Column C Additions		Column D	Column E
Description	Balance at Beginning of Period	Charged to Costs & Expenses	Charged to Other Accounts	Deductions	Balance at End of Period
Year Ended December 31, 2010					
Allowance for doubtful accounts	**$ 24**	**$**	**$**	**$ 11**	**$ 13**
Deferred tax asset valuation allowance	**$ 528**	**$**	**$**	**$ 118**	**$ 410**
Inventory excess and obsolete reserves	**$ 100**	**$ 80**	**$**	**$ 109**	**$ 71**
Reserves related to business restructuring	**$ 4**	**$**	**$**	**$ 1**	**$ 3**
Year Ended December 31, 2009					
Allowance for doubtful accounts	$ 15	$ 10	$	$ 1	$ 24
Deferred tax asset valuation allowance	$ 478	$ 50	$	$	$ 528
Inventory excess and obsolete reserves	$ 111	$ 97	$	$ 108	$ 100
Reserves related to business restructuring	$ 31	$	$	$ 27	$ 4
Year Ended December 31, 2008					
Allowance for doubtful accounts	$ 19	$ 3	$	$ 7	$ 15
Deferred tax asset valuation allowance	$ 441	$ 37	$	$	$ 478
Inventory excess and obsolete reserves	$ 147	$ 115	$	$ 151	$ 111
Reserves related to business restructuring	$ 25	$ 57	$ (2)	$ 49	$ 31

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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.

Date: February 24, 2011

NCR CORPORATION

By: /s/ ROBERT FISHMAN
Robert Fishman
Senior Vice President and Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signature	Title
/s/ WILLIAM NUTI	Chairman of the Board of Directors,
William Nuti	Chief Executive Officer and President
/s/ ROBERT FISHMAN	Senior Vice President and Chief Financial Officer
Robert Fishman	(Principal Financial and Accounting Officer)
/s/ LINDA FAYNE LEVINSON	Director
Linda Fayne Levinson	
/s/ QUINCY ALLEN	Director
Quincy Allen	
/s/ EDWARD P. BOYKIN	Director
Edward P. Boykin	
/s/ RICHARD L. CLEMMER	Director
Richard L. Clemmer	
/s/ GARY DAICHENDT	Director
Gary Daichendt	
/s/ ROBERT P. DERODES	Director
Robert P. DeRodes	

Date: February 24, 2011