

FIRST DATA CORP
Form 10-Q
November 08, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

September 30, 2011 For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number 001-11073

FIRST DATA CORPORATION

(Exact name of registrant as specified in its charter)

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www.firstdata.com

DELAWARE
(State or other jurisdiction of
incorporation or organization)

47-0731996
(I.R.S. Employer
Identification No.)

5565 GLENRIDGE CONNECTOR, N.E., SUITE 2000,

ATLANTA, GEORGIA
(Address of principal executive offices)

30342
(Zip Code)

Registrant's telephone number, including area code (404) 890-2000

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

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

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 31, 2011
Common Stock, \$0.01 par value per share	1,000 shares

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FIRST DATA CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Transaction and processing service fees:				
Merchant related services (a)	\$ 925.9	\$ 916.6	\$ 2,698.4	\$ 2,592.8
Check services	83.9	96.9	252.4	285.2
Card services (a)	441.9	432.0	1,310.7	1,296.3
Other services	132.6	123.7	399.2	400.4
Product sales and other (a)	227.7	205.3	642.0	607.6
Reimbursable debit network fees, postage and other	919.8	858.6	2,723.1	2,467.6
	2,731.8	2,633.1	8,025.8	7,649.9
Expenses:				
Cost of services (exclusive of items shown below)	745.7	743.0	2,181.7	2,251.3
Cost of products sold	92.4	98.7	275.7	273.7
Selling, general and administrative	407.7	405.1	1,258.0	1,179.7
Reimbursable debit network fees, postage and other	919.8	858.6	2,723.1	2,467.6
Depreciation and amortization	263.7	354.7	935.3	1,053.4
Other operating expenses:				
Restructuring, net	11.8	32.3	42.8	68.7
Litigation and regulatory settlements	(2.5)		(2.5)	(2.0)
	2,438.6	2,492.4	7,414.1	7,292.4
Operating profit	293.2	140.7	611.7	357.5
Interest income	1.6	2.1	5.4	5.5
Interest expense	(466.7)	(455.8)	(1,371.3)	(1,355.6)
Other income (expense)	95.4	(52.3)	67.7	(19.3)
	(369.7)	(506.0)	(1,298.2)	(1,369.4)
Loss before income taxes and equity earnings in affiliates	(76.5)	(365.3)	(686.5)	(1,011.9)
Income tax (benefit) expense	(18.9)	52.3	(255.0)	(208.2)
Equity earnings in affiliates	47.8	31.2	109.0	86.7
Net loss	(9.8)	(386.4)	(322.5)	(717.0)
Less: Net income attributable to noncontrolling interests	44.1	44.9	124.3	125.6
Net loss attributable to First Data Corporation	\$ (53.9)	\$ (431.3)	\$ (446.8)	\$ (842.6)

- (a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of \$37.1 million and \$109.3 million for the three and nine months ended September 30, 2011, respectively, and \$34.6 million and \$99.3 million for the comparable periods in 2010.

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS

(in millions, except common stock share amounts)	As of September 30, 2011 (Unaudited)	As of December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 402.4	\$ 509.5
Accounts receivable, net of allowance for doubtful accounts of \$23.0 (2011) and \$20.3 (2010)	1,895.9	2,169.6
Settlement assets	6,734.1	6,694.0
Other current assets	411.8	413.4
Total current assets	9,444.2	9,786.5
Property and equipment, net of accumulated depreciation of \$816.9 (2011) and \$691.6 (2010)	932.1	952.0
Goodwill	17,298.2	17,296.9
Customer relationships, net of accumulated amortization of \$3,059.9 (2011) and \$2,490.5 (2010)	4,670.0	5,223.7
Other intangibles, net of accumulated amortization of \$1,232.5 (2011) and \$975.8 (2010)	1,919.1	1,931.0
Investment in affiliates	1,170.9	1,208.2
Long-term settlement assets	212.7	365.1
Other long-term assets	893.6	780.7
Total assets	\$ 36,540.8	\$ 37,544.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 193.1	\$ 180.9
Short-term and current portion of long-term borrowings	249.6	270.5
Settlement obligations	6,950.5	7,058.9
Other current liabilities	1,417.0	1,353.7
Total current liabilities	8,810.2	8,864.0
Long-term borrowings	22,553.4	22,438.8
Long-term deferred tax liabilities	819.6	1,013.7
Other long-term liabilities	761.5	1,139.6
Total liabilities	32,944.7	33,456.1
Commitments and contingencies (See Note 7)		
Redeemable noncontrolling interest	45.9	28.1
First Data Corporation stockholder's equity:		
Common stock, \$.01 par value; authorized and issued 1,000 shares (2011 and 2010)		
Additional paid-in capital	7,390.4	7,395.1
Paid-in capital	7,390.4	7,395.1
Accumulated loss	(6,610.7)	(6,163.9)
Accumulated other comprehensive loss	(594.2)	(636.9)
Total First Data Corporation stockholder's equity	185.5	594.3

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Noncontrolling interests		3,364.7		3,465.6
Total equity		3,550.2		4,059.9
Total liabilities and equity		\$ 36,540.8		\$ 37,544.1

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Nine months ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (322.5)	\$ (717.0)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1,004.3	1,136.5
Charges related to other operating expenses and other income (expense)	(24.9)	86.0
Other non-cash and non-operating items, net	38.2	241.9
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	230.7	323.0
Other assets, current and long-term	148.8	271.5
Accounts payable and other liabilities, current and long-term	(235.4)	(522.6)
Income tax accounts	(300.3)	(291.8)
Net cash provided by operating activities	538.9	527.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Current period acquisitions	(19.9)	(1.2)
Payments related to other businesses previously acquired	3.2	(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed	1.7	21.2
Additions to property and equipment	(143.7)	(157.5)
Proceeds from sale of property and equipment	17.7	1.8
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(150.1)	(121.8)
Other investing activities	(0.7)	18.6
Net cash used in investing activities	(291.8)	(240.3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(24.7)	23.4
Debt modifications and related financing costs	(39.7)	(24.1)
Principal payments on long-term debt	(53.2)	(204.6)
Proceeds from sale-leaseback transactions	7.3	
Contributions from noncontrolling interests	0.8	
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(228.0)	(155.5)
Purchase of noncontrolling interest		(213.3)
Redemption of Parent's redeemable common stock	(0.3)	(1.0)
Cash dividends		(14.9)
Net cash used in financing activities	(337.8)	(590.0)
Effect of exchange rate changes on cash and cash equivalents	(16.4)	7.8
Change in cash and cash equivalents	(107.1)	(295.0)
Cash and cash equivalents at beginning of period	509.5	737.0

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Cash and cash equivalents at end of period

\$ 402.4 \$ 442.0

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

Nine months ended September 30, 2011	First Data Corporation Shareholder						
	Total	Comprehensive Income (Loss)	Accumulated Loss	Comprehensive Other Income (Loss)	Common Shares	Paid-In Capital	Noncontrolling Interests
(in millions)							
Balance, December 31, 2010	\$ 4,059.9		\$ (6,163.9)	\$ (636.9)	0.0	\$ 7,395.1	\$ 3,465.6
Dividends and distributions paid to noncontrolling interests	(204.3)						(204.3)
Contributions from noncontrolling interests	0.8						0.8
Comprehensive loss:							
Net (loss) income (a)	(345.2)	\$ (345.2)	(446.8)				101.6
Other comprehensive income, net of taxes:							
Unrealized losses on securities	(2.4)	(2.4)		(2.4)			
Unrealized gains on hedging activities	75.3	75.3		75.3			
Foreign currency translation adjustment	(29.6)	(29.6)		(30.6)			1.0
Pension liability adjustment	0.4	0.4		0.4			
Other comprehensive income		43.7					
Comprehensive loss		\$ (301.5)					
Adjustment to redemption value of redeemable noncontrolling interest	(18.9)					(18.9)	
Stock compensation expense and other	14.2					14.2	
Balance, September 30, 2011	\$ 3,550.2		\$ (6,610.7)	\$ (594.2)	0.0	\$ 7,390.4	\$ 3,364.7
Nine months ended September 30, 2010							
(in millions)							
Balance, December 31, 2009	\$ 5,100.1		\$ (5,127.3)	\$ (681.7)	0.0	\$ 7,394.3	\$ 3,514.8
Dividends and distributions paid to noncontrolling interests	(136.2)						(136.2)
Purchase of noncontrolling interest						(2.5)	2.5
Comprehensive loss:							
Net (loss) income (a)	(743.4)	\$ (743.4)	(842.6)				99.2
Other comprehensive loss, net of taxes:							
Unrealized gains on securities	10.2	10.2		10.2			
Unrealized gains on hedging activities	45.5	45.5		45.5			
Foreign currency translation adjustment	(60.7)	(60.7)		(60.3)			(0.4)
Pension liability adjustment	1.3	1.3		1.3			
Other comprehensive loss		(3.7)					
Comprehensive loss		\$ (747.1)					
	(7.0)					(7.0)	

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Adjustment to redemption value of redeemable noncontrolling interests							
Stock compensation expense and other	10.4					10.4	
Cash dividends paid by First Data Corporation to Parent	(14.9)	(14.9)					
Balance, September 30, 2010	\$ 4,205.3	\$ (5,984.8)	\$ (685.0)	0.0	\$ 7,395.2	\$ 3,479.9	

- (a) The total net loss presented in the Consolidated Statements of Equity for the nine months ended September 30, 2011 and 2010 is \$22.7 million and \$26.4 million, respectively, greater than the amount presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interests not included in equity.

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST DATA CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

(in millions)	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Net loss (a)	\$ (17.2)	\$ (394.5)	\$ (345.2)	\$ (743.4)
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on securities	(3.0)	4.2	(2.4)	10.2
Unrealized gains on hedging activities	28.5	15.9	75.3	45.5
Foreign currency translation adjustment	(192.6)	212.7	(29.6)	(60.7)
Pension liability adjustment	0.4	(0.9)	0.4	1.3
Total other comprehensive (loss) income, net of tax	(166.7)	231.9	43.7	(3.7)
Comprehensive loss	(183.9)	(162.6)	(301.5)	(747.1)
Less: Comprehensive income attributable to noncontrolling interests	28.1	45.0	102.6	98.8
Comprehensive loss attributable to First Data Corporation	\$ (212.0)	\$ (207.6)	\$ (404.1)	\$ (845.9)

- (a) The net loss presented in the Consolidated Statements of Comprehensive Income (Loss) is greater than the amounts presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interests not included in equity which totaled \$7.4 million and \$22.7 million for the three and nine months ended September 30, 2011, respectively and \$8.1 million and \$26.4 million for the three and nine months ended September 30, 2010, respectively.

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Note 1: Basis of Presentation**

The accompanying Consolidated Financial Statements of First Data Corporation (FDC or the Company) should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2010. Significant accounting policies disclosed therein have not changed.

The accompanying Consolidated Financial Statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company as of September 30, 2011, the consolidated results of its operations and comprehensive income (loss) for the three and nine months ended September 30, 2011 and 2010 and the consolidated cash flows and changes in equity for the nine months ended September 30, 2011 and 2010. Results of operations reported for interim periods are not necessarily indicative of results for the entire year due in part to the seasonality of certain business units.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from these estimates.

Presentation

In the third quarter of 2011, the Company recorded a net \$55.4 million pretax (\$31.5 million after tax) benefit in the Consolidated Statement of Operations to correct cumulative depreciation and amortization errors related to purchase accounting associated with the Company s 2007 merger with an affiliate of Kohlberg Kravis Roberts & Co. The corrections impacted amortization of initial payments for new contracts within Transaction and processing service fees (\$1.6 million contra-revenue), Costs of services (\$10.2 million expense), Depreciation and amortization (\$54.5 million benefit) and amortization of equity method investments within Equity earnings in affiliates (\$12.7 million benefit). The errors and the cumulative correction, which totaled \$55.4 million in aggregate and occurred over a four year period, were deemed immaterial to prior years and the current year, respectively.

Depreciation and amortization presented as a separate line item on the Company s Consolidated Statements of Operations does not include amortization of initial payments for new contracts which is recorded as a contra-revenue within Transaction and processing service fees. Also not included is amortization related to equity method investments which is netted within the Equity earnings in affiliates line. The following table presents the amounts associated with such amortization:

(in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Amortization of initial payments for new contracts	\$ 11.5	\$ 9.8	\$ 31.2	\$ 28.5
Amortization related to equity method investments	\$ 4.1	\$ 18.2	\$ 37.8	\$ 54.6

Revenue Recognition

The Company recognizes revenues from its processing services as such services are performed. Revenue is recorded net of certain costs such as credit and offline debit interchange fees and assessments charged by credit card associations. Debit network fees related to acquired personal identification number based debit (PIN-debit) transactions are recognized in the Reimbursable debit network fees, postage and other revenue and expense lines of the Consolidated Statements of Operations. The following table presents the amounts associated with processing services revenue:

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(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Interchange fees and assessments	\$ 4,936.6	\$ 4,532.3	\$ 14,318.6	\$ 13,067.7
Debit network fees	\$ 775.4	\$ 713.6	\$ 2,298.6	\$ 2,027.1

New Accounting Guidance

In May 2011, the Financial Accounting Standards Board revised its guidance on fair value measurements. The amendment clarifies certain aspects of the Board's intent for the application of existing fair value measurement requirements and additionally changes certain requirements for measuring fair value or for disclosing information about fair value measurements. The amendments will be effective for the Company during the first quarter of 2012. Management is currently assessing the impact of the revised guidance on its fair value measurements.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

In September 2011, the Financial Accounting Standards Board issued guidance related to testing goodwill for impairment. Under the amended guidance, an entity has the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined that the fair value is more likely than not greater than the carrying amount then the two-step impairment test is unnecessary. The amendments will be effective for the Company's 2012 annual impairment test with early adoption permitted. Management is currently assessing the impact of the revised guidance on its testing goodwill for impairment and is considering early adoption for its 2011 annual impairment test.

Note 2: Supplemental Financial Information**Supplemental Statement of Operations Information**

The following table details the components of Other income (expense) on the Consolidated Statements of Operations:

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Investment gains	\$	\$ 0.5	\$	\$ 2.3
Derivative financial instruments gains and (losses)	79.4	(31.3)	74.3	(58.1)
Divestitures, net	(0.1)	(1.3)	(1.0)	18.7
Non-operating foreign currency gains and (losses)	12.9	(20.2)	(8.8)	17.8
Other	3.2		3.2	
Other income (expense)	\$ 95.4	\$ (52.3)	\$ 67.7	\$ (19.3)

Supplemental Cash Flow Information

During the nine months ended September 30, 2011 and 2010, the principal amount of FDC's senior Payment In-Kind (PIK) notes due 2015 increased by \$73.1 million and \$362.5 million, respectively, resulting from the payment of accrued interest expense. Beginning October 1, 2011, the interest on FDC's senior PIK notes due 2015 will be required to be paid in cash and the first such payment will be due in March 2012.

During the nine months ended September 30, 2011 and 2010, the Company entered into capital leases totaling approximately \$130 million and \$50 million, respectively.

Refer to Note 9 of these Consolidated Financial Statements for information concerning the Company's stock-based compensation plans.

Note 3: Restructuring**Restructuring Charges and Reversal of Restructuring Accruals**

A summary of net pretax benefits (charges), incurred by segment, for each period is as follows:

Pretax Benefit (Charge)

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(in millions)	Approximate Number of Employees	Retail and Alliance Services	Financial Services	International	All Other and Corporate	Totals
<u>Three months ended September 30, 2011</u>						
Restructuring charges	140	\$ (0.1)	\$ (4.9)	\$ (6.8)	\$ (0.6)	\$ (12.4)
Restructuring accrual reversal		0.1		0.3	0.2	0.6
Total pretax charge, net of reversals		\$	\$ (4.9)	\$ (6.5)	\$ (0.4)	\$ (11.8)
<u>Nine months ended September 30, 2011</u>						
Restructuring charges	660	\$ (2.8)	\$ (10.5)	\$ (29.3)	\$ (3.4)	\$ (46.0)
Restructuring accrual reversal		0.9		1.2	1.1	3.2
Total pretax charge, net of reversals		\$ (1.9)	\$ (10.5)	\$ (28.1)	\$ (2.3)	\$ (42.8)
<u>Three months ended September 30, 2010</u>						
Restructuring charges	360	\$ (12.2)	\$ (3.7)	\$ (8.9)	\$ (8.6)	\$ (33.4)
Restructuring accrual reversal		0.4	0.1	0.3	0.3	1.1
Total pretax charge, net of reversals		\$ (11.8)	\$ (3.6)	\$ (8.6)	\$ (8.3)	\$ (32.3)
<u>Nine months ended September 30, 2010</u>						
Restructuring charges	1,080	\$ (18.9)	\$ (10.8)	\$ (21.6)	\$ (26.0)	\$ (77.3)
Restructuring accrual reversal		0.7	0.8	4.5	2.6	8.6
Total pretax charge, net of reversals		\$ (18.2)	\$ (10.0)	\$ (17.1)	\$ (23.4)	\$ (68.7)

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The Company recorded restructuring charges during the three and nine months ended September 30, 2011 and 2010 in connection with management's alignment of the business with strategic objectives. Similar initiatives are expected to occur in future periods resulting in additional restructuring charges. Restructuring charges in 2010 also resulted from domestic site consolidations as well as the termination of certain management positions across the organization including the reorganization of executive officers.

The following table summarizes the Company's utilization of restructuring accruals for the nine months ended September 30, 2011:

(in millions)	Employee Severance	Facility Closure
Remaining accrual as of January 1, 2011	\$ 38.7	\$ 0.2
Expense provision	39.7	6.3
Cash payments and other	(50.9)	(0.1)
Changes in estimates	(3.1)	(0.1)
Remaining accrual as of September 30, 2011	\$ 24.4	\$ 6.3

Note 4: Borrowings**Senior Secured Revolving Credit Facility**

An affiliate of Lehman Brothers Holdings Inc. provided a commitment in the amount of \$230.6 million of the Company's revolving credit facility. After filing for bankruptcy in September 2008, the affiliate did not participate in requests for funding under the Credit Agreement. In June 2011, the commitment was terminated. In addition, as discussed below, the aggregate revolving credit commitments were reduced by \$254.1 million in April 2011.

As of September 30, 2011, FDC's senior secured revolving credit facility had commitments from financial institutions to provide \$1,515.3 million of credit. Up to \$500 million of the senior secured revolving credit facility is available for letters of credit, of which \$44.9 million and \$51.9 million were issued as of September 30, 2011 and December 31, 2010, respectively. FDC had \$33.0 million outstanding against this facility as of September 30, 2011 and no amounts outstanding as of December 31, 2010. At September 30, 2011, \$1,437.4 million remained available under this facility after considering the amount outstanding and the letters of credit issued under the facility. The maximum amount outstanding against this facility during both the three and nine months ended September 30, 2011 was approximately \$130 million.

Other Short-Term Borrowings

As of September 30, 2011 and December 31, 2010, FDC had approximately \$393 million and \$428 million available, respectively, under short-term lines of credit and other arrangements with foreign banks and alliance partners primarily to fund settlement activity. These arrangements are primarily associated with international operations and are in various functional currencies, the most significant of which are the Australian dollar, the Polish zloty and the euro. The total amounts outstanding against short-term lines of credit and other arrangements were \$126.2 million and \$180.3 million as of September 30, 2011 and December 31, 2010, respectively. Certain of these arrangements are uncommitted but FDC had \$123.9 million and \$150.6 million of borrowings outstanding against them as of September 30, 2011 and December 31, 2010, respectively.

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Senior Secured Term Loan Facility

The original terms of FDC's senior secured term loan facility required the Company to pay equal quarterly installments in aggregate annual amounts equal to 1% of the original principal amount. However, in conjunction with a debt modification in August 2010 as well as with the modification and amendment discussed below, proceeds from the issuance of new notes were used to prepay portions of the principal balances of FDC's senior secured term loans which satisfied the future quarterly principal payments until March 2018. Therefore, the Company made no principal payments during the three and nine months ended September 30, 2011. During the three and nine months ended September 30, 2010, the Company paid \$32.1 million and \$96.2 million, respectively, of principal payments on the senior secured term loan facility in accordance with the original provisions, of which \$29.8 million and \$89.3 million, respectively, related to the U.S. dollar denominated loan and \$2.3 million and \$6.9 million, respectively, related to the euro denominated loan.

10.55% Senior Payment In-Kind (PIK) Notes

The terms of FDC's 10.55% senior PIK notes due 2015 require that interest on the notes for the period up to and including September 30, 2011 be paid entirely by increasing the principal amount of the outstanding notes or by issuing senior PIK notes. During the three and nine months ended September 30, 2011 and 2010, FDC increased the principal amount of these notes by \$37.5 million and \$73.1 million, respectively, and \$185.9 million and \$362.5 million, respectively, in accordance with this provision.

Modifications and Amendment to the Senior Secured Credit Facilities

On March 24, 2011, FDC executed a 2011 Extension Amendment (the Amendment Agreement) relating to its credit agreement, dated as of September 24, 2007, as amended and restated as of September 28, 2007, as further amended as of August 10, 2010, among FDC, the several lenders from time to time parties thereto and Credit Suisse AG, as administrative agent (the Credit Agreement). The Credit Agreement, as amended pursuant to the Amendment Agreement, is referred to below as the Amended Credit Agreement.

The Amendment Agreement, which became effective on April 13, 2011, among other things:

- (i) resulted in the extension of the maturity date of \$1.0 billion, after giving effect to the reduction discussed below, of FDC's revolving credit commitments (the Revolver Extension) under the Amended Credit Agreement to the earliest of: (x) June 24, 2015, if on such date the aggregate outstanding principal amount of FDC's 9.875% senior notes due 2015 and 10.55% senior PIK notes due 2015 exceeds \$750.0 million, (y) December 31, 2015, if on such date the aggregate outstanding principal amount of FDC's 11.25% senior subordinated notes due 2016 exceeds \$750.0 million and (z) September 24, 2016;
- (ii) resulted in the extension of the maturity date of approximately \$5.0 billion of term loans (consisting of approximately \$4.5 billion of dollar denominated term loans and an amount of euro denominated term loans the dollar equivalent of which was approximately \$0.5 billion (the Term Loan Extension)) under the Amended Credit Agreement to March 24, 2018;
- (iii) provided for an increase in the interest rate applicable to the revolving credit loans subject to the Revolver Extension and the term loans subject to the Term Loan Extension to a rate equal to, at FDC's option, either (x) LIBOR for deposits in the applicable currency plus 400 basis points or (y) with regard to dollar denominated borrowings, a base rate plus 300 basis points;
- (iv) provided for an increase in the commitment fee payable on the undrawn portion of the revolving credit commitments subject to the Revolver Extension to 75 basis points; and
- (v) provided FDC with the ability to reduce the revolving credit commitments subject to the Revolver Extension while maintaining the revolving credit commitments not subject to the Revolver Extension in their original amount.

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Accordingly, when the Amended Credit Agreement became effective, the Company immediately effected a permanent reduction of the revolving credit commitments that were subject to the Revolver Extension in an amount equal to \$254.1 million.

Debt Offering. On April 13, 2011, FDC issued and sold \$750 million aggregate principal amount of 7.375% senior secured notes due June 15, 2019. Interest on the notes is payable semi-annually on June 15 and December 15 of each year, commencing on December 15, 2011. In accordance with the terms of FDC's Amended Credit Agreement, FDC used the net proceeds from the offering to repay approximately \$735 million of its outstanding senior secured term loans, including \$0.3 billion of the \$5.0 billion that was extended until 2018 under the Amendment Agreement discussed above.

FDC may redeem these notes, in whole or in part, at any time on or after June 15, 2015 at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, FDC may redeem the notes, in whole or in part, at established redemption prices. In addition, on or prior to June 15, 2014, FDC may redeem up to 35% of the aggregate principal amount of notes with the net cash proceeds from certain equity offerings at established redemption prices.

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The notes rank equally and ratably with all of FDC's existing and future senior indebtedness and are senior to any of FDC's subordinated indebtedness. The notes are guaranteed on a senior secured basis by each domestic subsidiary that guarantees FDC's senior secured credit facilities.

The notes and guarantees also are secured by first-priority liens, subject to permitted liens, on FDC's and its subsidiary guarantors' assets, subject to certain exceptions, that will from time to time secure FDC's senior secured credit facilities and other first-lien indebtedness on a first-priority basis. The notes share equally in the collateral securing FDC's senior secured credit facilities.

Related Financing Costs. In connection with the debt modification and amendments and the debt offering discussed above, the Company incurred costs of \$38.8 million, a significant portion of which was recorded as discounts on the debt and will be amortized to interest expense over the remaining terms of the loans.

2010 Debt Financing Costs

During the nine months ended September 30, 2011, FDC paid \$18.6 million in fees that were recorded in 2010 related to the December 2010 debt exchange. During the nine months ended September 30, 2010, FDC paid a net amount of \$24.1 million in fees related to the August 2010 debt modification. Refer to Note 8 to the Company's Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010 for additional information related to the debt exchange and modification mentioned above.

Note 5: Segment Information

For a detailed discussion of the Company's principles regarding its operating segments refer to Note 15 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

The following tables present the Company's operating segment results for the three and nine months ended September 30, 2011 and 2010:

(in millions)	Three months ended September 30, 2011				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Revenues:					
Transaction and processing service fees	\$ 740.5	\$ 336.8	\$ 341.2	\$ 24.5	\$ 1,443.0
Product sales and other	107.5	6.9	102.8	11.5	228.7
Equity earnings in affiliates (a)			9.0		9.0
Total segment reporting revenues	\$ 848.0	\$ 343.7	\$ 453.0	\$ 36.0	\$ 1,680.7
Internal revenue	\$ 4.2	\$ 8.3	\$ 2.5	\$	\$ 15.0
External revenue	843.8	335.4	450.5	36.0	1,665.7
Depreciation and amortization	136.2	82.9	9.2	10.7	239.0
Segment EBITDA	354.1	155.9	112.0	(57.5)	564.5
Other operating expenses and other income (expense) excluding divestitures and other items	37.1	(5.0)	9.2	41.6	82.9

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(in millions)	Three months ended September 30, 2010				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Revenues:					
Transaction and processing service fees	\$ 752.1	\$ 342.6	\$ 305.6	\$ 24.3	\$ 1,424.6
Product sales and other	99.0	11.1	89.0	8.5	207.6
Equity earnings in affiliates (a)			7.9		7.9
Total segment reporting revenues	\$ 851.1	\$ 353.7	\$ 402.5	\$ 32.8	\$ 1,640.1
Internal revenue	\$ 4.5	\$ 8.7	\$ 1.9	\$	\$ 15.1
External revenue	846.6	345.0	400.6	32.8	1,625.0
Depreciation and amortization	168.4	88.9	72.1	17.1	346.5
Segment EBITDA	355.6	144.3	82.3	(56.2)	526.0
Other operating expenses and other income (expense) excluding divestitures	(49.5)	(3.6)	(8.3)	(21.9)	(83.3)

(in millions)	Nine months ended September 30, 2011				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Revenues:					
Transaction and processing service fees	\$ 2,145.5	\$ 1,006.0	\$ 1,006.4	\$ 84.7	\$ 4,242.6
Product sales and other	311.0	19.9	287.6	28.2	646.7
Equity earnings in affiliates (a)			25.8		25.8
Total segment reporting revenues	\$ 2,456.5	\$ 1,025.9	\$ 1,319.8	\$ 112.9	\$ 4,915.1
Internal revenue	\$ 13.2	\$ 28.8	\$ 7.1	\$	\$ 49.1
External revenue	2,443.3	997.1	1,312.7	112.9	4,866.0
Depreciation and amortization	430.5	258.6	165.1	32.6	886.8
Segment EBITDA	991.8	435.1	322.8	(156.3)	1,593.4
Other operating expenses and other income (expense) excluding divestitures	15.3	(10.5)	(10.6)	30.9	25.1

(in millions)	Nine months ended September 30, 2010				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Revenues:					
Transaction and processing service fees	\$ 2,153.9	\$ 1,022.4	\$ 904.3	\$ 99.3	\$ 4,179.9
Product sales and other	288.1	28.8	255.3	41.3	613.5
Equity earnings in affiliates (a)			21.7		21.7
Total segment reporting revenues	\$ 2,442.0	\$ 1,051.2	\$ 1,181.3	\$ 140.6	\$ 4,815.1

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Internal revenue	\$ 13.5	\$ 26.7	\$ 6.1	\$	\$ 46.3
External revenue	2,428.5	1,024.5	1,175.2	140.6	4,768.8
Depreciation and amortization	505.6	264.8	214.4	42.0	1,026.8
Segment EBITDA	949.8	412.0	233.4	(132.0)	1,463.2
Other operating expenses and other income (expense) excluding divestitures	(36.7)	(8.0)	(16.4)	(43.6)	(104.7)

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A reconciliation of reportable segment amounts to the Company's consolidated balances is as follows:

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Segment Revenues:				
Total reported segments	\$ 1,644.7	\$ 1,607.3	\$ 4,802.2	\$ 4,674.5
All Other and Corporate	36.0	32.8	112.9	140.6
Adjustment to reconcile to Adjusted revenue:				
Official check and money order revenues ^(b)	(4.7)	(1.3)	(11.5)	(15.9)
Eliminations of intersegment revenues	(15.0)	(15.1)	(49.1)	(46.3)
Adjusted revenue	1,661.0	1,623.7	4,854.5	4,752.9
Adjustment to reconcile to Consolidated revenues:				
Adjustments for non-wholly-owned entities ^(c)	46.6	56.5	144.7	166.6
Official check and money order revenues ^(b)	4.7	1.3	11.5	15.9
ISO commission expense	99.7	93.0	292.0	246.9
Reimbursable debit network fees, postage and other	919.8	858.6	2,723.1	2,467.6
Consolidated revenues	\$ 2,731.8	\$ 2,633.1	\$ 8,025.8	\$ 7,649.9
Segment EBITDA:				
Total reported segments	\$ 622.0	\$ 582.2	\$ 1,749.7	\$ 1,595.2
All Other and Corporate	(57.5)	(56.2)	(156.3)	(132.0)
Adjusted EBITDA	564.5	526.0	1,593.4	1,463.2
Adjustments to reconcile to Net loss attributable to First Data Corporation :				
Divested businesses		(0.3)		1.1
Adjustments for non-wholly-owned entities ^(c)	25.0	8.3	49.1	26.3
Depreciation and amortization	(263.7)	(354.7)	(935.3)	(1,053.4)
Interest expense	(466.7)	(455.8)	(1,371.3)	(1,355.6)
Interest income	1.6	2.1	5.4	5.5
Other items ^(d)	84.9	(84.6)	18.0	(86.0)
Income tax benefit (expense)	18.9	(52.3)	255.0	208.2
Stock-based compensation	(4.2)	(2.8)	(12.7)	(9.3)
Official check and money order EBITDA ^(b)	2.2	(1.8)	3.5	5.8
Costs of alliance conversions	(7.0)	(7.9)	(20.0)	(19.6)
Stock plan modification expenses				(7.8)
KKR related items	(9.4)	(7.5)	(28.4)	(21.0)
Debt issuance costs			(3.5)	
Net loss attributable to First Data Corporation	\$ (53.9)	\$ (431.3)	\$ (446.8)	\$ (842.6)

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- (a) Excludes equity losses that were recorded in expense and the amortization related to the excess of the investment balance over the Company's proportionate share of the investee's net book value for the International segment.
- (b) Represents an adjustment to exclude the official check and money order businesses from revenue and EBITDA due to the Company's wind down of these businesses.
- (c) Represents the net adjustment to reflect First Data's proportionate share of alliance revenue and EBITDA within the Retail and Alliance Services segment and amortization related to equity method investments not included in segment EBITDA.
- (d) Includes restructuring, litigation and regulatory settlements, and impairments as applicable to the periods presented and Other income (expense) as presented in the Consolidated Statements of Operations.

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Segment assets are as follows:

(in millions)	As of September 30, 2011	As of December 31, 2010
Assets:		
Retail and Alliance Services	\$ 24,133.7	\$ 24,673.8
Financial Services	4,735.5	4,982.2
International	5,204.5	5,186.7
All Other and Corporate	2,467.1	2,701.4
Consolidated	\$ 36,540.8	\$ 37,544.1

A reconciliation of reportable segment depreciation and amortization amounts to the Company's consolidated balances in the Consolidated Statements of Cash Flows is as follows:

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Depreciation and amortization:				
Total reported segments	\$ 228.3	\$ 329.4	\$ 854.2	\$ 984.8
All Other and Corporate	10.7	17.1	32.6	42.0
	239.0	346.5	886.8	1,026.8
Adjustments to reconcile to consolidated depreciation and amortization:				
Adjustments for non-wholly-owned entities	28.8	26.4	86.3	81.2
Amortization of initial payments for new contracts	11.5	9.8	31.2	28.5
Total consolidated depreciation and amortization	\$ 279.3	\$ 382.7	\$ 1,004.3	\$ 1,136.5

Note 6: Redeemable Noncontrolling Interest

The following table presents a summary of the redeemable noncontrolling interest activity:

(in millions)	Nine months ended September 30,	
	2011	2010
Balance as of January 1,	\$ 28.1	\$ 226.9
Distributions	(23.8)	(19.3)
Share of income	22.7	26.4
Purchase of noncontrolling interests		(213.3)

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Adjustment to redemption value of redeemable noncontrolling interest	18.9	7.0
Other		0.1
Balance as of September 30,	\$ 45.9	\$ 27.8

Note 7: Commitments and Contingencies

The Company is involved in various legal proceedings. Accruals have been made with respect to these matters, where appropriate, which are reflected in the Company's consolidated financial statements. The Company may enter into discussions regarding settlement of these matters, and may enter into settlement agreements, if it believes settlement is in the best interest of the Company. The matters discussed below, if decided adversely to or settled by the Company, individually or in the aggregate, may result in liability material to the Company's financial condition and/or results of operations.

Legal

On July 2, 2004, a class action complaint was filed against the Company, its subsidiary Concord EFS, Inc., and various financial institutions. Plaintiffs claim that the defendants violated antitrust laws by conspiring to artificially inflate foreign ATM fees that were ultimately charged to ATM cardholders. Plaintiffs seek a declaratory judgment, injunctive relief, compensatory damages, attorneys

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fees, costs and such other relief as the nature of the case may require or as may seem just and proper to the court. Five similar suits were filed and served in July, August and October 2004 (referred to collectively as the "ATM Fee Antitrust Litigation"). The Court granted judgment in favor of the defendants, dismissing the case on September 17, 2010. On October 14, 2010, the plaintiffs appealed the summary judgment. The Company continues to believe the complaints are without merit and intends to vigorously defend them.

There are asserted claims against the Company where an unfavorable outcome is considered to be reasonably possible. These claims can generally be categorized in the following three areas: (1) patent infringement which results from claims that the Company is using technology that has been patented by another party; (2) Merchant customer matters often associated with alleged processing errors or disclosure issues and claims that one of the subsidiaries of the Company has violated a federal or state requirement regarding credit reporting or collection in connection with its check verification guarantee, and collection activities; and (3) other matters which may include issues such as employment. The Company's estimates of the possible ranges of losses in excess of any amounts accrued are \$0 to \$2 million for patent infringement, \$0 to \$20 million for merchant customer matters and \$0 to \$4 million for other matters, resulting in a total estimated range of possible losses of \$0 to \$26 million for all of the matters described above.

The estimated range of reasonably possible losses is based on currently available information and involves elements of judgment and significant uncertainties. As additional information becomes available and the resolution of the uncertainties becomes more apparent, it is possible that actual losses may exceed even the high end of the estimated range.

Other

In the normal course of business, the Company is subject to claims and litigation, including indemnification obligations to purchasers of former subsidiaries. Management of the Company believes that such matters will not have a material adverse effect on the Company's results of operations, liquidity or financial condition.

Note 8: Employee Benefit Plans

The following table provides the components of net periodic benefit expense for the Company's defined benefit pension plans:

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Service costs	\$ 0.8	\$ 0.8	\$ 2.4	\$ 2.4
Interest costs	10.0	10.0	30.0	29.8
Expected return on plan assets	(11.6)	(10.1)	(35.0)	(30.1)
Amortization	0.3	0.6	0.9	1.7
Net periodic benefit expense/(income)	\$ (0.5)	\$ 1.3	\$ (1.7)	\$ 3.8

The Company estimates pension plan contributions for 2011 to be approximately \$30 million. During the nine months ended September 30, 2011, approximately \$23 million was contributed to the United Kingdom plan and no contributions were made to the U.S. plan.

Note 9: Stock Compensation Plans

The Company recognizes stock-based compensation expense related to stock options and non-vested restricted stock awards and units that were granted prior to plan modifications made in May 2010. Due to the nature of call rights associated with options and restricted stock awards and

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units granted subsequent to the plan modifications in 2010, the Company will recognize expense related to such awards only upon certain liquidity or employment termination events.

Total stock-based compensation expense recognized in the Selling, general and administrative line item of the Consolidated Statements of Operations was as follows:

(in millions)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2011	2010	2011	2010
Total stock-based compensation expense (pretax)	\$ 4.4	\$ 4.4	\$ 13.3	\$ 10.9

The amount of stock-based compensation expense recognized in the nine months ended September 30, 2011 as compared to the same period in 2010 was higher due to a forfeiture rate adjustment made during the nine months ended September 30, 2010.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Stock Options**

During the nine months ended September 30, 2011 time-based and performance-based options were granted under the stock plan. The time-based options granted vest equally over a three to five year period and performance-based options vest based upon the Company achieving certain EBITDA targets.

As of September 30, 2011 there was approximately \$105 million of total unrecognized compensation expense, net of estimated forfeitures, related to non-vested stock options. Approximately \$19 million will be recognized over a weighted-average period of approximately 2.3 years while approximately \$86 million will only be recognized upon the occurrence of certain liquidity or employment termination events.

The fair value of Holdings stock options granted for the nine months ended September 30, 2011 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

	Nine months ended September 30, 2011
Risk-free interest rate	2.89%
Dividend yield	
Volatility	54.72%
Expected term (in years)	7
Fair value of stock	\$ 3.00
Fair value of options	\$ 1.73

A summary of Holdings stock option activity for the nine months ended September 30, 2011 is as follows:

(options in millions)	Options	Weighted-Average Exercise Price
Outstanding at January 1, 2011	70.0	\$ 3
Granted	6.5	\$ 3
Cancelled / Forfeited	(3.4)	\$ 3
Outstanding at September 30, 2011	73.1	\$ 3

Restricted Stock Awards and Restricted Stock Units

Restricted stock awards were granted under the stock plan during the nine months ended September 30, 2011. As of September 30, 2011 there was approximately \$32 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock. Approximately \$1 million will be recognized over a weighted-average period of approximately 1.8 years while approximately \$31 million will only be recognized upon the occurrence of certain liquidity or employment termination events.

A summary of Holdings restricted stock award and restricted stock unit activity for the nine months ended September 30, 2011 is as follows:

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(awards/units in millions)	Awards/Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1, 2011	8.4	\$ 3
Granted	3.0	\$ 3
Cancelled / Forfeited	(0.5)	\$ 3
Non-vested at September 30, 2011	10.9	\$ 3

Note 10: Investment Securities

The majority of the Company's investment securities are a component of settlement assets and represent the investment of funds received by the Company from the sale of payment instruments (official checks and financial institution money orders) by authorized agents. As of September 30, 2011, the Company's investment securities included in current settlement assets primarily consist of municipal obligations. As of December 31, 2010, the Company's investment securities included in current settlement assets largely consisted of corporate bonds. As of September 30, 2011 and December 31, 2010, the Company's long-term settlement assets were primarily comprised of student loan auction rate securities (SLARS) and corporate bonds. Realized gains and losses and other-than-temporary impairments (OTTI) on investments classified as settlement assets are recorded in the Product sales and other line item

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of the Consolidated Statements of Operations. The Company carried other investments, primarily cost method investments, which are included in the Other current assets and Other long-term assets line items of the Consolidated Balance Sheets and are discussed further below. Realized gains and losses on these investments are recorded in the Other income (expense) line item of the Consolidated Statements of Operations described in Note 2.

The principal components of the Company's investment securities are as follows:

(in millions)	Cost ^(a)	Gross Unrealized Gain	Gross Unrealized (Loss) excluding OTTI ^(b)	OTTI Recognized in OCI ^{(b)/(c)}	Fair Value ^(d)
As of September 30, 2011					
Student loan auction rate securities	\$ 184.3	\$ 1.3	\$ (5.1)	\$	\$ 180.5
Corporate bonds	20.6		(0.4)		20.2
State and municipal obligations	91.3				91.3
U.S. Government guaranteed agency securities	10.0				10.0
Other	0.1	0.5			0.6
Total available-for-sale securities	306.3	1.8	(5.5)		302.6
Cost method investments	23.9				23.9
Totals	\$ 330.2	\$ 1.8	\$ (5.5)	\$	\$ 326.5
As of December 31, 2010					
Student loan auction rate securities	\$ 341.1	\$	\$	\$	\$ 341.1
Corporate bonds	63.0	0.1	(0.1)		63.0
State and municipal obligations ^(e)	0.5				0.5
Other	0.1	0.1			0.2
Total available-for-sale securities	404.7	0.2	(0.1)		404.8
Cost method investments	24.5				24.5
Totals	\$ 429.2	\$ 0.2	\$ (0.1)	\$	\$ 429.3

(a) Represents amortized cost for debt securities.

(b) OTTI refers to other-than-temporary impairments.

(c) For debt securities, represents the fair value adjustment excluding that attributable to credit losses.

(d) Represents cost for cost method investments.

(e) State and municipal obligations have been reclassified from Other to conform to current year presentation.

The following table presents the gross unrealized losses and fair value of the Company's investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position:

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(in millions)	Less than 12 months		More than 12 months		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
<u>As of September 30, 2011</u>						
Student loan auction rate securities	\$ 123.2	\$ (5.1)	\$	\$	\$ 123.2	\$ (5.1)
Corporate bonds	\$ 20.2	\$ (0.4)	\$	\$	\$ 20.2	\$ (0.4)
<u>As of December 31, 2010</u>						
Corporate bonds	\$ 45.8	\$ (0.1)	\$	\$	\$ 45.8	\$ (0.1)

Management believes the unrealized losses as of September 30, 2011 were largely attributable to a temporary fluctuation in bond prices.

All of the above investments, with the exception of cost method investments, were classified as available-for-sale. The Company uses specific identification to determine the cost of a security sold and the amount of gains and losses reclassified out of other comprehensive income (OCI) into the Consolidated Statements of Operations. Unrealized gains and losses on investments carried at fair value are included as a separate component of OCI, net of any related tax effects.

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The following table presents additional information regarding available-for-sale securities:

(in millions)	Three months ended		Nine months ended	
	September 30, 2011	September 30, 2010	September 30, 2011	September 30, 2010
Proceeds from sales ^(a)	\$ 79.2	\$ 113.0	\$ 261.1	\$ 134.3
Gross realized gains included in earnings as a result of sales ^(a)	1.9	1.2	2.9	6.2
Gross realized (losses) included in earnings as a result of sales ^(a)	(0.1)	(3.3)	(2.8)	(3.3)
Gross realized (losses) included in earnings as a result of impairment	(0.1)		(0.1)	(0.3)
Net unrealized (losses) or gains included in OCI, net of tax	(1.9)	6.6	(2.4)	12.4
Net gains reclassified out of OCI into earnings, net of tax	1.1	2.4		2.2

(a) Includes activity resulting from sales, redemptions, liquidations and related matters. Gains and losses are recorded in the Product sales and other or Other income (expense) line items of the Consolidated Statements of Operations.

The following table presents maturity information for the Company's investments in debt securities as of September 30, 2011:

(in millions)	Fair Value
Due within one year	\$ 89.4
Due after one year through five years	32.1
Due after five years through 10 years	28.9
Due after 10 years	151.6
Total debt securities	\$ 302.0

The Company also maintained investments in non-marketable securities, held for strategic purposes (collectively referred to as cost method investments) which are carried at cost and included in Other long-term assets in the Company's Consolidated Balance Sheets. These investments are evaluated for impairment upon an indicator of impairment such as events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. As of September 30, 2011, there were no indicators of impairment. Where there are no indicators of impairment present, the Company estimates the fair value for the cost method investments only if it is practicable to do so. As of September 30, 2011, it was deemed impracticable to estimate the fair value on \$18.6 million of cost method assets due to the lack of sufficient data upon which to develop a valuation model and the costs of obtaining an independent valuation in relation to the size of the investments.

Note 11: Derivative Financial Instruments**Risk Management Objectives and Strategies**

The Company is exposed to various financial and market risks, including those related to changes in interest rates and foreign currency exchange rates that exist as part of its ongoing business operations. The Company utilizes certain derivative financial instruments to enhance its ability to manage these risks.

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As of September 30, 2011, the Company uses derivative instruments (i) to mitigate cash flow risks with respect to changes in interest rates (forecasted interest payments on variable rate debt), (ii) to preserve the ratio of fixed rate and floating rate debt that the Company held prior to the debt modifications and amendments discussed in Note 4 and (iii) to protect the net investment in certain foreign subsidiaries and/or affiliates with respect to changes in foreign currency exchange rates.

Derivative instruments are entered into for periods consistent with related underlying exposures and do not constitute positions independent of those exposures. The Company applies strict policies to manage each of these risks, including prohibition against derivatives trading, derivatives market-making or any other speculative activities. Although certain derivatives do not qualify for hedge accounting, they are maintained for economic hedge purposes and are not considered speculative.

The Company's policy is to manage its cash flow and net investment exposures related to adverse changes in interest rates and foreign currency exchange rates. The Company's objective is to engage in risk management strategies that provide adequate downside protection.

Accounting for Derivative Instruments and Hedging Activities

The Company recognizes all derivatives in the Other long-term assets, Other current liabilities and Other long-term liabilities captions in the Consolidated Balance Sheets at their fair values. The Company has designated certain of its interest rate

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

swaps as cash flow hedges of forecasted interest rate payments related to its variable rate debt and a cross-currency swap as a foreign currency hedge of its net investment in a foreign subsidiary. Other interest rate swaps and cross-currency swaps on various foreign currencies no longer qualify or have not been designated as accounting hedges and do not receive hedge accounting treatment.

With respect to derivative instruments that are afforded hedge accounting, the effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recorded in OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of a net investment hedge that qualifies for hedge accounting are recorded as part of the cumulative translation adjustment in OCI. Any ineffectiveness associated with the aforementioned cash flow hedges, as well as any change in the fair value of a derivative that is not designated as a hedge, is recorded immediately in Other income (expense) in the Consolidated Statements of Operations.

The Company formally documents all relationships between hedging instruments and the underlying hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions and net investment hedges to the underlying investment in a foreign subsidiary or affiliate. The Company formally assesses, both at inception of the hedge and on an ongoing basis, whether the hedge is highly effective in offsetting changes in cash flows or foreign currency exposure of the underlying hedged items. The Company also performs an assessment of the probability of the forecasted transactions on a periodic basis. If it is determined that a derivative ceases to be highly effective during the term of the hedge or if the forecasted transaction is no longer probable, the Company will discontinue hedge accounting prospectively for such derivative.

Credit Risk

The Company monitors the financial stability of its derivative counterparties and all counterparties remain highly-rated (in the A category or higher). The credit risk inherent in these agreements represents the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. The Company performs a review at inception of the hedge, as circumstances warrant, and at least on a quarterly basis of the credit risk of these counterparties. The Company also monitors the concentration of its contracts with individual counterparties. The Company's exposures are in liquid currencies (primarily in U.S. dollars, Euros and Australian dollars), so there is minimal risk that appropriate derivatives to maintain the hedging program would not be available in the future.

Derivatives Not Qualifying For Hedge Accounting

As of September 30, 2011, the Company had certain derivative instruments that functioned as economic hedges but no longer qualified or were not designated to qualify for hedge accounting. Such instruments included cross-currency swaps held in order to mitigate foreign currency exposure on intercompany loans and interest rate swaps held in order to mitigate the exposure on interest payments related to variable rate debt to fluctuations in interest rates. Additionally, during 2011, the Company entered into a fixed to floating interest rate swap in order to preserve the ratio of fixed rate and floating rate debt that it held prior to the debt modification and amendments discussed in Note 4. The swap has a notional value of \$750.0 million and expires on June 15, 2019.

Certain of the Company's interest rate swaps, including several that are designated as cash flow hedges as discussed in Derivatives That Qualify for Hedge Accounting below, will expire in September 2012. During the third quarter of 2011, the Company entered into forward-starting interest rate swaps with a combined notional value of \$3.0 billion that will become effective upon expiration of the existing instruments. The forward-starting interest rate swaps are intended to mitigate exposure to fluctuations in interest rates and will expire in September 2016.

The notional value of the currently effective interest rate swaps and forward-starting interest rate swaps that do not qualify for hedge accounting was \$2.3 billion and \$3.0 billion, respectively.

During the first quarter of 2011, the Company held a foreign exchange rate collar with a notional value of \$1.9 million that expired on March 31, 2011.

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As of September 30, 2011, the Company held cross-currency swaps not qualifying for hedge accounting with a notional value of 91.1 million euro (approximately \$123.8 million).

The periodic change in the fair value of the derivative instruments not designated as accounting hedges is recorded immediately in the Other income (expense) line of the Consolidated Statements of Operations. For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Operations, see the tabular information presented below.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Derivatives That Qualify for Hedge Accounting

Hedge of a net investment in a foreign operation. As of September 30, 2011, the Company held a cross-currency swap that was designated as a hedge of a net investment in a foreign operation with an aggregate notional amount of 115.0 million Australian dollars (approximately \$114.0 million).

Cash flow hedges. As of September 30, 2011, the Company held interest rate swaps which were designated as cash flow hedges of the variability in the interest payments on \$3.5 billion of the approximate \$11.2 billion of variable rate senior secured term loan. Although these hedges remain highly effective on an ongoing basis in offsetting the variability in the interest payments, any ineffectiveness is recognized immediately in the Consolidated Statements of Operations.

At September 30, 2011, the maximum length of time over which the Company has designated hedges against its exposure is approximately 1 year. The Company follows the hypothetical derivative method to measure hedge ineffectiveness which resulted mostly from the hedges being off-market at the time of designation. Ineffectiveness associated with these hedges is recognized immediately in the Consolidated Statements of Operations. The amount of losses in OCI related to the hedged transactions as of September 30, 2011 that is expected to be reclassified into the Consolidated Statements of Operations within the next 12 months is approximately \$75.4 million.

For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Operations, see the tabular information presented below.

Fair Value of Derivative Instruments**Fair Value of Derivative Instruments in the Consolidated Balance Sheets**

(in millions)	As of September 30, 2011	
	Assets (a)	Liabilities (b)
Derivatives designated as hedging instruments		
Interest rate contracts	\$	\$ (151.1)
Foreign exchange contracts		(21.2)
Total derivatives designated as hedging instruments	\$	\$ (172.3)
Derivatives not designated as hedging instruments		
Interest rate contracts	\$ 81.9	\$ (63.0)
Foreign exchange contracts	8.3	(1.1)
Forward-starting interest rate contracts	5.4	(0.6)
Total derivatives not designated as hedging instruments	95.6	(64.7)
Total derivatives	\$ 95.6	\$ (237.0)

(in millions)	As of December 31, 2010	
	Assets (a)	Liabilities (b)

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Derivatives designated as hedging instruments		
Interest rate contracts	\$	\$ (252.2)
Foreign exchange contracts		(21.3)
Total derivatives designated as hedging instruments	\$	\$ (273.5)
Derivatives not designated as hedging instruments		
Interest rate contracts	\$	\$ (105.0)
Foreign exchange contracts	7.7	(0.9)
Total derivatives not designated as hedging instruments	7.7	(105.9)
Total derivatives	\$ 7.7	\$ (379.4)

- (a) Derivative assets are included in the Other long-term assets line of the Consolidated Balance Sheets.
- (b) Derivative liabilities are included in the Other current liabilities and Other long-term liabilities lines of the Consolidated Balance Sheets.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****The Effect of Derivative Instruments on the Consolidated Statements of Operations**

(in millions, pretax)	Three months ended September 30,			
	2011		2010	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Derivatives in cash flow hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)	\$ 26.4		\$ (14.3)	
Amount of gain or (loss) reclassified from accumulated OCI into income ^(a)	\$ (19.0)		\$ (43.1)	
Amount of gain or (loss) recognized in income (ineffective portion) ^(b)	\$ (0.5)		\$ (1.6)	
Derivatives in net investment hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)		\$ 8.1		\$ (12.2)
Derivatives not designated as hedging instruments				
Amount of gain or (loss) recognized in income ^(b)	\$ 70.5	\$ 9.4	\$ (17.7)	\$ (12.0)

(a) Gain (loss) is recognized in the Interest expense line of the Consolidated Statements of Operations.

(b) Gain (loss) is recognized in the Other income (expense) line of the Consolidated Statements of Operations.

(in millions, pretax)	Nine months ended September 30,			
	2011		2010	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Derivatives in cash flow hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)	\$ 58.7		\$ (50.5)	
Amount of gain or (loss) reclassified from accumulated OCI into income ^(a)	\$ (57.0)		\$ (126.7)	
Amount of gain or (loss) recognized in income (ineffective portion) ^(b)	\$ (2.2)		\$ (5.1)	
Derivatives in net investment hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)		\$ (1.7)		\$ (8.1)
Amount of gain or (loss) recognized in income (ineffective portion) ^(b)				\$ 0.5
Derivatives not designated as hedging instruments				
Amount of gain or (loss) recognized in income ^(b)	\$ 76.6	\$ (0.1)	\$ (60.5)	\$ 7.0

(a) Gain (loss) is recognized in the Interest expense line of the Consolidated Statements of Operations.

(b) Gain (loss) is recognized in the Other income (expense) line of the Consolidated Statements of Operations.

Accumulated Derivatives Gains and Losses

The following table summarizes activity in other comprehensive income for the nine months ended September 30, 2011 related to derivative instruments classified as cash flow hedges and as a net investment hedge held by the Company:

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(in millions, after tax)	Nine months ended September 30, 2011
Accumulated loss included in other comprehensive income (loss) at beginning of the period	\$ (181.3)
Less: Reclassifications into earnings from other comprehensive income (loss)	37.1
	(144.2)
Increase in fair value of derivatives that qualify for hedge accounting ^(a)	37.1
Accumulated loss included in other comprehensive income (loss) at end of the period	\$ (107.1)

- (a) Gains and losses are included in Unrealized gains on hedging activities and in Foreign currency translation adjustment on the Consolidated Statements of Equity.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 12: Fair Value Measurement****Fair Value of Financial Instruments**

Carrying amounts for certain of the Company's financial instruments (cash and cash equivalents and short-term borrowings) approximate fair value due to their short maturities. Accordingly, these instruments are not presented in the following table. The following table provides the estimated fair values of the remaining financial instruments:

(in millions)	As of September 30, 2011	
	Carrying Value	Fair Value ^(a)
Financial instruments:		
Settlement assets:		
Short-term investment securities	\$ 89.4	\$ 89.4
Long-term investment securities	\$ 212.7	\$ 212.7
Other long-term assets:		
Long-term investment securities	\$ 0.5	\$ 0.5
Cost method investments	\$ 23.9	\$ 23.9
Derivative financial instruments	\$ 95.6	\$ 95.6
Other current liabilities:		
Derivative financial instruments	\$ 214.1	\$ 214.1
Long-term borrowings:		
Long-term borrowings	\$ 22,553.4	\$ 18,359.8
Other long-term liabilities:		
Derivative financial instruments	\$ 22.9	\$ 22.9

(a) Represents cost for cost method investments. Refer to Note 10 of these Consolidated Financial Statements for a more detailed discussion of cost method investments.

The estimated fair values of investment securities and derivative financial instruments are described below. Refer to Notes 10 and 11 of these Consolidated Financial Statements for additional information regarding the Company's investment securities and derivative financial instruments, respectively.

The estimated fair market value of FDC's long-term borrowings was primarily based on market trading prices. For additional information regarding the Company's borrowings, refer to Note 4 of these Consolidated Financial Statements as well as to Note 8 of the Company's Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

Concentration of Credit Risk

The Company's investment securities are diversified across multiple issuers within its investment portfolio (investment securities plus cash and cash equivalents). In addition to investment securities, the Company maintains other financial instruments with various financial institutions. The Company's largest single issuer represents less than 10% of the total carrying value of the investment portfolio and the Company limits its derivative financial instruments credit risk by maintaining contracts with counterparties having a credit rating of A or higher. The Company periodically reviews the credit standings of these institutions.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Financial instruments carried and measured at fair value on a recurring basis are classified in the table below according to the fair value hierarchy:

(in millions)	As of September 30, 2011 Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets:				
Settlement assets:				
Student loan auction rate securities	\$	\$	\$ 180.5	\$ 180.5
Corporate bonds		20.2		20.2
State and municipal obligations		90.8		90.8
U.S. Government guaranteed agency securities		10.0		10.0
Preferred stock	0.6			0.6
Total settlement assets	0.6	121.0	180.5	302.1
Other long-term assets:				
Available-for-sale securities		0.5		0.5
Interest rate swap contracts		81.9		81.9
Foreign currency derivative contracts		8.3		8.3
Forward-starting interest rate contracts		5.4		5.4
Total other long-term assets		96.1		96.1
Total assets at fair value	\$ 0.6	\$ 217.1	\$ 180.5	\$ 398.2
Liabilities:				
Other current liabilities:				
Interest rate swap contracts	\$	\$ 214.1	\$	\$ 214.1
Other long-term liabilities:				
Foreign currency derivative contracts		22.3		22.3
Forward-starting interest rate contracts		0.6		0.6
Total liabilities at fair value	\$	\$ 237.0	\$	\$ 237.0

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	As of December 31, 2010 Fair Value Measurement Using			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Assets:				
Settlement assets:				
Student loan auction rate securities	\$	\$	\$ 341.1	\$ 341.1
Corporate bonds		63.0		63.0
Preferred stock	0.2			0.2
Total settlement assets	0.2	63.0	341.1	404.3
Other long-term assets:				
Available-for-sale securities		0.5		0.5
Foreign currency derivative contracts		7.7		7.7
Total other long-term assets		8.2		8.2
Total assets at fair value	\$ 0.2	\$ 71.2	\$ 341.1	\$ 412.5
Liabilities:				
Other current liabilities:				
Interest rate swap contracts	\$	\$ 4.4	\$	\$ 4.4
Other long-term liabilities:				
Interest rate swap contracts		352.8		352.8
Foreign currency derivative contracts		22.2		22.2
Total liabilities at fair value	\$	\$ 379.4	\$	\$ 379.4

Settlement assets - Student loan auction rate securities. Due to the lack of observable market activity for the SLARS held by the Company as of September 30, 2011, the Company, with the assistance of a third-party valuation firm upon which the Company in part relied, made certain assumptions, primarily relating to estimating both the weighted-average life for the securities held by the Company and the impact on the fair value of the current inability to redeem the securities at par value. All key assumptions and valuations were determined by and are the responsibility of management. The securities were valued using an income approach based on a probability-weighted discounted cash flow analysis. The Company considered each security's key terms including date of issuance, date of maturity, auction intervals, scheduled auction dates, maximum auction rates, as well as underlying collateral, ratings, and guarantees or insurance. The impact of the Company's judgment in the valuation was significant and, accordingly, the resulting fair value was classified as Level 3 within the fair value hierarchy. A 50 basis point change in liquidity risk premium, as well as slight changes in other factors, would impact the value of the SLARS by approximately \$4 million. For additional information regarding sales, settlements and impairments of the SLARS, refer to Note 10 of these Consolidated Financial Statements.

(in millions)

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	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Student loan auction rate securities
Beginning balance as of January 1, 2011	\$ 341.1
Total losses (realized or unrealized):	
Included in other comprehensive income	(3.8)
Included in product sales and other	(0.1)
Sales	(149.1)
Settlements	(7.6)
Transfers in (out) of Level 3	
Ending balance as of September 30, 2011	\$ 180.5

Settlement assets - Other available-for-sale securities. Prices for the municipal, corporate, and U.S. Government securities are not quoted on active exchanges but are priced through an independent third-party pricing service based on quotations from market-makers in the specific instruments or, where appropriate, from other market inputs. Bonds were valued under a market approach using

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

observable inputs including reported trades, benchmark yields, broker/dealer quotes, issuer spreads and other standard inputs. Municipal paper was valued under a market approach using observable inputs including maturity date, issue date, credit rating, current commercial paper rates and settlement date.

The Company's experience with these types of investments and the expectations of the current investments held is that they will be satisfied at the current carrying amount. These securities were classified as Level 2.

Derivative financial instruments. The Company uses derivative instruments to mitigate certain risks. The Company's derivatives are not exchange listed and therefore the fair value is estimated under an income approach using Bloomberg analytics models that are based on readily observable market inputs. These models reflect the contractual terms of the derivatives, such as notional value and expiration date, as well as market-based observables including interest and foreign currency exchange rates, yield curves and the credit quality of the counterparties. The models also incorporate the Company's creditworthiness in order to appropriately reflect non-performance risk. Inputs to the derivative pricing models are generally observable and do not contain a high level of subjectivity and, accordingly, the Company's derivatives were classified within Level 2 of the fair value hierarchy. While the Company believes its estimates result in a reasonable reflection of the fair value of these instruments, the estimated values may not be representative of actual values that could have been realized or that will be realized in the near future. Refer to Note 11 of these Consolidated Financial Statements for additional information regarding the Company's derivative financial instruments.

Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

During the nine months ended September 30, 2011, the Company did not perform any non-recurring fair value measurements.

Note 13: Supplemental Guarantor Condensed Consolidating Financial Statements

As described in Note 8 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2010, FDC's 9.875% senior notes, 12.625% senior notes, 10.55% senior PIK notes due 2015 and 11.25% senior subordinated notes are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned, domestic subsidiaries of FDC other than Integrated Payment Systems Inc. (Guarantors). None of the other subsidiaries of FDC, either direct or indirect, guarantee the notes (Non-Guarantors). The Guarantors also unconditionally guarantee FDC's senior secured revolving credit facility, senior secured term loan facility, the 8.875% senior secured notes and the 7.375% senior secured notes which rank senior in right of payment to all existing and future unsecured and second lien indebtedness of FDC's guarantor subsidiaries. The Guarantors further unconditionally guarantee FDC's 8.25% senior second lien notes and 8.75%/10.00% PIK toggle senior second lien notes which rank senior in right of payment to all existing and future unsecured indebtedness of FDC's guarantor subsidiaries. The 9.875% senior note, 12.625% senior note, 10.55% senior PIK note due 2015 and 11.25% senior subordinated note guarantees are unsecured and rank equally in right of payment with all existing and future senior indebtedness of the guarantor subsidiaries but senior in right of payment to all existing and future subordinated indebtedness of FDC's guarantor subsidiaries. The 11.25% senior subordinated note guarantees are unsecured and rank equally in right of payment with all existing and future senior subordinated indebtedness of the guarantor subsidiaries.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following tables present the results of operations, financial position and cash flows of FDC (FDC Parent Company), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and consolidation adjustments for the three and nine months ended September 30, 2011 and 2010, and as of September 30, 2011 and December 31, 2010 to arrive at the information for FDC on a consolidated basis.

(in millions)	Three months ended September 30, 2011				Consolidated
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	
Revenues:					
Transaction and processing service fees	\$	\$ 1,022.7	\$ 601.2	\$ (39.6)	\$ 1,584.3
Product sales and other		144.0	97.9	(14.2)	227.7
Reimbursable debit network fees, postage and other		639.9	299.4	(19.5)	919.8
		1,806.6	998.5	(73.3)	2,731.8
Expenses:					
Cost of services (exclusive of items shown below)		503.0	282.3	(39.6)	745.7
Cost of products sold		68.0	38.6	(14.2)	92.4
Selling, general and administrative	64.7	229.2	113.8		407.7
Reimbursable debit network fees, postage and other		639.9	299.4	(19.5)	919.8
Depreciation and amortization	2.0	135.5	126.2		263.7
Other operating expenses:					
Restructuring, net		6.5	5.3		11.8
Litigation and regulatory settlements	(2.5)				(2.5)
	64.2	1,582.1	865.6	(73.3)	2,438.6
Operating (loss) profit	(64.2)	224.5	132.9		293.2
Interest income		0.2	1.4		1.6
Interest expense	(461.9)	(1.9)	(2.9)		(466.7)
Interest income (expense) from intercompany notes	41.6	(44.5)	2.9		
Other income (expense)	148.6		(53.2)		95.4
Equity earnings from consolidated subsidiaries	163.7	41.4		(205.1)	
	(108.0)	(4.8)	(51.8)	(205.1)	(369.7)
(Loss) income before income taxes and equity earnings in affiliates					
Income tax (benefit) expense	(118.3)	83.0	16.4	(205.1)	(18.9)
Equity earnings in affiliates		48.8	(1.0)		47.8
Net (loss) income	(53.9)	185.5	63.7	(205.1)	(9.8)
Less: Net income attributable to noncontrolling interests			14.6	29.5	44.1

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Net (loss) income attributable to First Data Corporation	\$ (53.9)	\$ 185.5	\$ 49.1	\$ (234.6)	\$ (53.9)
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(in millions)	Nine months ended September 30, 2011				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
Revenues:					
Transaction and processing service fees	\$	\$ 2,989.0	\$ 1,789.8	\$ (118.1)	\$ 4,660.7
Product sales and other		411.5	275.3	(44.8)	642.0
Reimbursable debit network fees, postage and other		1,865.5	917.3	(59.7)	2,723.1
		5,266.0	2,982.4	(222.6)	8,025.8
Expenses:					
Cost of services (exclusive of items shown below)		1,455.7	844.1	(118.1)	2,181.7
Cost of products sold		203.2	117.3	(44.8)	275.7
Selling, general and administrative	198.9	700.3	358.8		1,258.0
Reimbursable debit network fees, postage and other		1,865.5	917.3	(59.7)	2,723.1
Depreciation and amortization	6.3	553.8	375.2		935.3
Other operating expenses:					
Restructuring, net	(0.4)	22.0	21.2		42.8
Litigation and regulatory settlements	(2.5)				(2.5)
	202.3	4,800.5	2,633.9	(222.6)	7,414.1
Operating (loss) profit	(202.3)	465.5	348.5		611.7
Interest income	0.2	0.6	4.6		5.4
Interest expense	(1,356.1)	(5.6)	(9.6)		(1,371.3)
Interest income (expense) from intercompany notes	117.3	(129.2)	11.9		
Other income (expense)	48.7	9.3	9.7		67.7
Equity earnings from consolidated subsidiaries	442.9	97.6		(540.5)	
	(747.0)	(27.3)	16.6	(540.5)	(1,298.2)
(Loss) income before income taxes and equity earnings in affiliates					
Income tax (benefit) expense	(502.5)	208.2	39.3		(255.0)
Equity earnings in affiliates		109.6	(0.6)		109.0
Net (loss) income	(446.8)	339.6	325.2	(540.5)	(322.5)
Less: Net income attributable to noncontrolling interests		0.2	41.7	82.4	124.3
Net (loss) income attributable to First Data Corporation	\$ (446.8)	\$ 339.4	\$ 283.5	\$ (622.9)	\$ (446.8)

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	Three months ended September 30, 2010				Consolidated
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	
Revenues:					
Transaction and processing service fees	\$	\$ 1,016.6	\$ 590.2	\$ (37.6)	\$ 1,569.2
Product sales and other		136.9	82.2	(13.8)	205.3
Reimbursable debit network fees, postage and other		586.4	289.5	(17.3)	858.6
		1,739.9	961.9	(68.7)	2,633.1
Expenses:					
Cost of services (exclusive of items shown below)		502.4	278.2	(37.6)	743.0
Cost of products sold		64.4	48.1	(13.8)	98.7
Selling, general and administrative	65.4	225.7	114.0		405.1
Reimbursable debit network fees, postage and other		586.4	289.5	(17.3)	858.6
Depreciation and amortization	1.7	235.4	117.6		354.7
Other operating expenses:					
Restructuring, net	2.6	24.8	4.9		32.3
	69.7	1,639.1	852.3	(68.7)	2,492.4
Operating (loss) profit	(69.7)	100.8	109.6		140.7
Interest income	0.4	0.6	1.1		2.1
Interest expense	(450.3)	(1.6)	(3.9)		(455.8)
Interest income (expense) from intercompany notes	28.5	(37.2)	8.7		
Other income (expense)	(95.7)	(13.6)	57.0		(52.3)
Equity earnings from consolidated subsidiaries	61.6	35.0		(96.6)	
	(455.5)	(16.8)	62.9	(96.6)	(506.0)
(Loss) income before income taxes and equity earnings in affiliates	(525.2)	84.0	172.5	(96.6)	(365.3)
Income tax (benefit) expense	(93.9)	53.0	93.2		52.3
Equity earnings in affiliates		30.4	0.8		31.2
Net (loss) income	(431.3)	61.4	80.1	(96.6)	(386.4)
Less: Net income attributable to noncontrolling interests			11.6	33.3	44.9
Net (loss) income attributable to First Data Corporation	\$ (431.3)	\$ 61.4	\$ 68.5	\$ (129.9)	\$ (431.3)

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	Nine months ended September 30, 2010				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
Revenues:					
Transaction and processing service fees	\$	\$ 2,964.3	\$ 1,717.9	\$ (107.5)	\$ 4,574.7
Product sales and other		396.4	250.1	(38.9)	607.6
Reimbursable debit network fees, postage and other		1,698.4	821.6	(52.4)	2,467.6
		5,059.1	2,789.6	(198.8)	7,649.9
Expenses:					
Cost of services (exclusive of items shown below)		1,427.1	931.7	(107.5)	2,251.3
Cost of products sold		189.6	123.0	(38.9)	273.7
Selling, general and administrative	192.8	654.5	332.4		1,179.7
Reimbursable debit network fees, postage and other		1,698.4	821.6	(52.4)	2,467.6
Depreciation and amortization	5.7	699.1	348.6		1,053.4
Other operating expenses:					
Restructuring, net	12.5	42.9	13.3		68.7
Litigation and regulatory settlements		(2.0)			(2.0)
	211.0	4,709.6	2,570.6	(198.8)	7,292.4
Operating (loss) profit	(211.0)	349.5	219.0		357.5
Interest income	0.9	0.8	3.8		5.5
Interest expense	(1,338.7)	(5.2)	(11.7)		(1,355.6)
Interest income (expense) from intercompany notes	82.0	(107.1)	25.1		
Other income (expense)	(3.9)	30.3	(19.7)	(26.0)	(19.3)
Equity earnings from consolidated subsidiaries	208.7	106.1		(314.8)	
	(1,051.0)	24.9	(2.5)	(340.8)	(1,369.4)
(Loss) income before income taxes and equity earnings in affiliates					
Income tax (benefit) expense	(419.4)	101.4	109.8		(208.2)
Equity earnings in affiliates		87.4	1.2	(1.9)	86.7
Net (loss) income	(842.6)	360.4	107.9	(342.7)	(717.0)
Less: Net (loss) income attributable to noncontrolling interests		(0.2)	34.9	90.9	125.6
Net (loss) income attributable to First Data Corporation	\$ (842.6)	\$ 360.6	\$ 73.0	\$ (433.6)	\$ (842.6)

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	As of September 30, 2011				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 4.2	\$ 18.8	\$ 379.4	\$	\$ 402.4
Accounts receivable, net of allowance for doubtful accounts	1.2	952.0	942.7		1,895.9
Settlement assets ^(a)		3,680.5	3,053.6		6,734.1
Other current assets	92.0	254.0	65.8		411.8
Total current assets	97.4	4,905.3	4,441.5		9,444.2
Property and equipment, net of accumulated depreciation	31.7	635.4	265.0		932.1
Goodwill		9,488.6	7,809.6		17,298.2
Customer relationships, net of accumulated amortization		2,624.7	2,045.3		4,670.0
Other intangibles, net of accumulated amortization	606.3	652.5	660.3		1,919.1
Investment in affiliates		1,132.9	38.0		1,170.9
Long-term settlement assets ^(a)			212.7		212.7
Other long-term assets	525.6	330.5	37.5		893.6
Investment in consolidated subsidiaries	25,203.7	5,473.9		(30,677.6)	
Total assets	\$ 26,464.7	\$ 25,243.8	\$ 15,509.9	\$ (30,677.6)	\$ 36,540.8
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	\$ 2.8	\$ 114.5	\$ 75.8	\$	\$ 193.1
Short-term and current portion of long-term borrowings	65.7	39.7	144.2		249.6
Settlement obligations ^(a)		3,680.5	3,270.0		6,950.5
Other current liabilities	484.9	520.5	411.6		1,417.0
Total current liabilities	553.4	4,355.2	3,901.6		8,810.2
Long-term borrowings	22,444.3	75.2	33.9		22,553.4
Long-term deferred tax (assets) liabilities	(1,004.7)	1,705.8	118.5		819.6
Intercompany payable (receivable)	5,447.5	(4,453.9)	(993.6)		
Intercompany notes	(1,793.4)	1,913.1	(119.7)		
Other long-term liabilities	632.1	98.9	30.5		761.5
Total liabilities	26,279.2	3,694.3	2,971.2		32,944.7
Redeemable equity interest			45.9	(45.9)	
Redeemable noncontrolling interest				45.9	45.9
First Data Corporation stockholder's equity	185.5	21,549.5	5,726.8	(27,276.3)	185.5
Noncontrolling interests			65.0	3,299.7	3,364.7
Equity of consolidated alliance			6,701.0	(6,701.0)	

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Total equity	185.5	21,549.5	12,492.8	(30,677.6)	3,550.2
Total liabilities and equity	\$ 26,464.7	\$ 25,243.8	\$ 15,509.9	\$ (30,677.6)	\$ 36,540.8

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	As of December 31, 2010				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 164.1	\$ 21.1	\$ 324.3	\$	\$ 509.5
Accounts receivable, net of allowance for doubtful accounts	2.6	1,121.1	1,045.9		2,169.6
Settlement assets ^(a)		3,476.2	3,217.8		6,694.0
Other current assets	86.0	262.4	65.0		413.4
Total current assets	252.7	4,880.8	4,653.0		9,786.5
Property and equipment, net of accumulated depreciation	30.3	637.2	284.5		952.0
Goodwill		9,468.3	7,828.6		17,296.9
Customer relationships, net of accumulated amortization		2,923.8	2,299.9		5,223.7
Other intangibles, net of accumulated amortization	606.9	665.4	658.7		1,931.0
Investment in affiliates		1,169.9	38.3		1,208.2
Long-term settlement assets ^(a)			365.1		365.1
Other long-term assets	482.4	265.5	32.8		780.7
Investment in consolidated subsidiaries	25,074.4	5,361.4		(30,435.8)	
Total assets	\$ 26,446.7	\$ 25,372.3	\$ 16,160.9	\$ (30,435.8)	\$ 37,544.1
LIABILITIES AND EQUITY					
Current liabilities:					
Accounts payable	\$ 0.4	\$ 95.2	\$ 85.3	\$	\$ 180.9
Short-term and current portion of long-term borrowings	31.7	44.9	193.9		270.5
Settlement obligations ^(a)		3,476.2	3,582.7		7,058.9
Other current liabilities	301.1	651.3	401.3		1,353.7
Total current liabilities	333.2	4,267.6	4,263.2		8,864.0
Long-term borrowings	22,376.0	21.8	41.0		22,438.8
Long-term deferred tax (assets) liabilities	(928.5)	1,838.6	103.6		1,013.7
Intercompany payable (receivable)	4,298.1	(3,496.7)	(801.4)		
Intercompany notes	(1,253.2)	1,621.1	(367.9)		
Other long-term liabilities	1,026.8	89.7	23.1		1,139.6
Total liabilities	25,852.4	4,342.1	3,261.6		33,456.1
Redeemable equity interest			28.1	(28.1)	
Redeemable noncontrolling interest				28.1	28.1
First Data Corporation stockholder's equity	594.3	21,030.4	5,864.5	(26,894.9)	594.3
Noncontrolling interests		(0.2)	52.5	3,413.3	3,465.6
Equity of consolidated alliance			6,954.2	(6,954.2)	

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Total equity	594.3	21,030.2	12,871.2	(30,435.8)	4,059.9
Total liabilities and equity	\$ 26,446.7	\$ 25,372.3	\$ 16,160.9	\$ (30,435.8)	\$ 37,544.1

- (a) The majority of the Guarantor settlement assets relate to FDC's merchant acquiring business. FDC believes the settlement assets are not available to satisfy any claims other than those related to the settlement liabilities.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	Nine months ended September 30, 2011				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) income	\$ (446.8)	\$ 339.6	\$ 325.2	\$ (540.5)	\$ (322.5)
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	6.3	611.2	386.8		1,004.3
Charges (gains) related to other operating expenses and other income (expense)	(49.1)	12.7	11.5		(24.9)
Other non-cash and non-operating items, net	(360.1)	(151.1)	8.9	540.5	38.2
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(510.6)	282.3	72.1		(156.2)
Net cash (used in) provided by operating activities	(1,360.3)	1,094.7	804.5		538.9
CASH FLOWS FROM INVESTING ACTIVITIES					
Current period acquisitions		(19.8)	(0.1)		(19.9)
Payments related to other businesses previously acquired			3.2		3.2
Proceeds from dispositions, net of expenses paid and cash disposed			1.7		1.7
Additions to property and equipment	(4.0)	(70.4)	(69.3)		(143.7)
Proceeds from sale of property and equipment		16.4	1.3		17.7
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(0.3)	(118.8)	(31.0)		(150.1)
Distributions and dividends from subsidiaries	75.6	204.1		(279.7)	
Other investing activities	1.1	0.4	(2.2)		(0.7)
Net cash provided by (used in) investing activities	72.4	11.9	(96.4)	(279.7)	(291.8)
CASH FLOWS FROM FINANCING ACTIVITIES					
Short-term borrowings, net	33.0		(57.7)		(24.7)
Debt modifications and related financing costs	(39.7)				(39.7)
Principal payments on long-term debt	(0.2)	(39.5)	(13.5)		(53.2)
Proceeds from sale-leaseback transactions			7.3		7.3
Contributions from noncontrolling interests			0.8		0.8
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests			(32.0)	(196.0)	(228.0)
Distributions paid to equity holders			(400.1)	400.1	
Redemption of Parent's redeemable common stock	(0.3)				(0.3)
Cash dividends			(75.6)	75.6	
Intercompany	1,135.2	(1,051.3)	(83.9)		
Net cash provided by (used in) financing activities	1,128.0	(1,090.8)	(654.7)	279.7	(337.8)
Effect of exchange rate changes on cash and cash equivalents		(18.1)	1.7		(16.4)
Change in cash and cash equivalents	(159.9)	(2.3)	55.1		(107.1)

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Cash and cash equivalents at beginning of period	164.1	21.1	324.3	509.5
Cash and cash equivalents at end of period	\$ 4.2	\$ 18.8	\$ 379.4	\$ 402.4

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	Nine months ended September 30, 2010				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
CASH FLOWS FROM OPERATING ACTIVITIES					
Net (loss) income	\$ (842.6)	\$ 360.4	\$ 107.9	\$ (342.7)	\$ (717.0)
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	5.7	773.1	357.7		1,136.5
Charges related to other operating expenses and other income (expense)	16.4	10.6	33.0	26.0	86.0
Other non-cash and non-operating items, net	79.6	(156.7)	2.4	316.6	241.9
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(574.0)	107.2	249.8	(2.9)	(219.9)
Net cash (used in) provided by operating activities	(1,314.9)	1,094.6	750.8	(3.0)	527.5
CASH FLOWS FROM INVESTING ACTIVITIES					
Current period acquisitions		(1.1)	(0.1)		(1.2)
Payments related to other businesses previously acquired			(1.4)		(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed			21.2		21.2
Additions to property and equipment	(3.5)	(85.0)	(69.0)		(157.5)
Proceeds from sale of property and equipment		0.9	0.9		1.8
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(1.1)	(95.2)	(25.5)		(121.8)
Distributions and dividends from subsidiaries	73.2	136.4		(209.6)	
Other investing activities	3.2	135.0	14.9	(134.5)	18.6
Net cash provided by (used in) investing activities	71.8	91.0	(59.0)	(344.1)	(240.3)
CASH FLOWS FROM FINANCING ACTIVITIES					
Short-term borrowings, net	20.0		3.4		23.4
Debt modifications and related financing costs	(24.1)				(24.1)
Principal payments on long-term debt	(143.7)	(44.5)	(16.4)		(204.6)
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests			(19.9)	(135.6)	(155.5)
Distributions paid to redeemable equity holders			(7.5)	7.5	
Distributions paid to equity holders			(267.5)	267.5	
Purchase of noncontrolling interest				(213.3)	(213.3)
Redemption of Parent's redeemable common stock	(1.0)				(1.0)
Redemption of redeemable equity of consolidated alliance			(347.8)	347.8	
Cash dividends	(14.9)		(73.2)	73.2	(14.9)
Intercompany	1,327.5	(1,142.1)	(185.4)		
Net cash provided by (used in) financing activities	1,163.8	(1,186.6)	(914.3)	347.1	(590.0)
Effect of exchange rate changes on cash and cash equivalents		1.8	6.0		7.8
Change in cash and cash equivalents	(79.3)	0.8	(216.5)		(295.0)

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Cash and cash equivalents at beginning of period	104.6	25.4	607.0	737.0
Cash and cash equivalents at end of period	\$ 25.3	\$ 26.2	\$ 390.5	\$ 442.0

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

Overview

First Data Corporation ("FDC" or the Company), with principal executive offices in Atlanta, Georgia, operates electronic commerce businesses providing services that include merchant transaction processing and acquiring services; credit, retail and debit card issuing and processing services; prepaid card services; and check verification, settlement and guarantee services.

Regulatory Reform

On June 29, 2011, the Federal Reserve Board published the final rules governing debit card interchange fees, and routing and exclusivity restrictions as well as a proposed rule governing the fraud prevention adjustment in response to Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act. Effective October 1, 2011, debit interchange rates for card issuers with more than \$10 billion of assets are capped at \$.21 per transaction with an ad valorem component of 5 basis points to reflect a portion of the issuer's fraud losses plus, for qualifying issuers, an additional \$.01 per transaction in debit interchange for fraud prevention costs. In addition, the new regulations ban debit payment card networks from prohibiting an issuer from contracting with any other payment card network that may process an electronic debit transaction involving an issuer's debit cards and prohibit card issuers and payment networks from inhibiting the ability of merchants to direct the routing of debit card transactions over any network that can process the transaction. On April 1, 2013, the ban on network exclusivity arrangements becomes effective for non-reloadable prepaid card and healthcare prepaid issuers. Additionally, each debit card issuer must participate in 2 unaffiliated networks beginning April 1, 2012 and each debit payment card network must comply with applicable exclusivity requirements by October 1, 2011. These regulatory changes create both opportunities and challenges for the Company. Increased regulation may increase the complexity of operating, both domestically and internationally, creating an opportunity for larger competitors to differentiate themselves both in product capabilities and service delivery. The ban on network exclusivity also will enhance competition to allow the Company to compete for additional business. At the same time, these regulatory changes may cause operating costs to increase as the Company adjusts its activities in light of compliance costs and customer requirements. The overall impact on the Company is difficult to estimate as it will take some time for the market to react and adjust to the new regulations.

Bank of America Merchant Services, LLC ("BAMS")

Since the formation of the BAMS alliance, the intent was to shift processing for merchants contributed to the alliance by Bank of America N.A. ("the Bank") from three existing bank platforms to First Data. After evaluating the conversion strategy, the Company and the Bank jointly decided to have First Data operate the Bank's legacy settlement platform and provide the necessary operational support for legacy Bank merchants. The transfer of ownership was effective October 1, 2011. The Company believes this operating structure simplifies and accelerates the conversion.

The Company anticipates the shift of processing to First Data as described above will increase the Retail and Alliance Services segment revenue and, to a lesser extent, segment EBITDA in the fourth quarter of 2011 compared to 2010 and for the full year 2012 compared to 2011. This benefit will not impact consolidated revenues because the BAMS alliance is consolidated by the Company. Consolidated expenses are expected to increase, most significantly in 2012 and 2013, as a result of costs incurred to transfer the platform and associated operational support as well as ongoing costs to operate the platform. These costs will be billed to the BAMS alliance over future periods resulting in a portion of the costs being attributable to the noncontrolling interest.

Results of Operations

Consolidated results should be read in conjunction with segment results, which provide more detailed discussions concerning certain components of the Consolidated Statements of Operations. All significant intercompany accounts and transactions have been eliminated.

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