

FIRST DATA CORP  
Form 10-Q  
May 15, 2009  
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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**  
For the quarterly period ended March 31, 2009

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)

[www.firstdata.com](http://www.firstdata.com)

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**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

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

**6200 SOUTH QUEBEC STREET,**

**GREENWOOD VILLAGE, COLORADO**  
(Address of principal executive offices)

**80111**  
(Zip Code)

**Registrant's telephone number, including area code (303) 967-8000**

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 April 30, 2009
Common Stock, \$0.01 par value per share	1,000 shares

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**FIRST DATA CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

**(Unaudited)****(in millions)**

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Revenues:</b>		
Transaction and processing service fees:		
Merchant related services <sup>(a)</sup>	\$ 621.5	\$ 634.9
Check services	86.5	100.6
Card services <sup>(a)</sup>	470.4	508.3
Other services	128.4	135.9
Investment income, net	5.8	56.0
Product sales and other <sup>(a)</sup>	174.0	212.0
Reimbursable debit network fees, postage and other	589.6	478.8
	2,076.2	2,126.5
<b>Expenses:</b>		
Cost of services (exclusive of items shown below)	786.5	756.8
Cost of products sold	63.5	70.9
Selling, general and administrative	254.3	304.3
Reimbursable debit network fees, postage and other	589.6	478.8
Depreciation and amortization	329.5	319.1
<b>Other operating expenses:</b>		
Restructuring, net	25.1	
Litigation and regulatory settlements	(2.7)	
	2,045.8	1,929.9
<b>Operating profit</b>	<b>30.4</b>	<b>196.6</b>
Interest income	3.3	9.0
Interest expense	(448.2)	(517.7)
Other income (expense)	23.3	(43.2)
	(421.6)	(551.9)
Loss before income taxes and equity earnings in affiliates	(391.2)	(355.3)
Income tax benefit	(144.8)	(130.5)
Equity earnings in affiliates	18.5	32.1
<b>Consolidated net loss</b>	<b>(227.9)</b>	<b>(192.7)</b>

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Less: Net income attributable to noncontrolling interests	3.4	29.0
Net loss attributable to First Data Corporation	\$ (231.3)	\$ (221.7)

- <sup>(a)</sup> Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of \$21.1 million for the three months ended March 31, 2009 and \$53.5 million for the comparable period in 2008.  
See Notes to Consolidated Financial Statements.

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**FIRST DATA CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(Unaudited)

(in millions, except common stock share amounts)

	March 31, 2009	December 31, 2008
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 422.1	\$ 406.3
Accounts receivable, net of allowance for doubtful accounts of \$17.1 (2009) and \$16.6 (2008)	2,201.4	2,637.2
Settlement assets	7,532.6	7,930.2
Other current assets	461.3	419.8
<b>Total current assets</b>	<b>10,617.4</b>	<b>11,393.5</b>
Property and equipment, net of accumulated depreciation of \$299.2 (2009) and \$261.1 (2008)	1,092.5	1,087.8
Goodwill	14,753.7	14,861.2
Customer relationships, net of accumulated amortization of \$1,116.3 (2009) and \$932.1 (2008)	5,790.5	5,987.6
Other intangibles, net of accumulated amortization of \$452.7 (2009) and \$373.1 (2008)	1,835.5	1,915.6
Investment in affiliates	1,283.0	1,259.6
Long-term settlement assets	463.1	732.7
Other long-term assets	905.2	938.1
<b>Total assets</b>	<b>\$ 36,740.9</b>	<b>\$ 38,176.1</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 164.4	\$ 186.5
Short-term and current portion of long-term borrowings	460.1	497.3
Settlement obligations	8,031.3	8,680.6
Other current liabilities	1,125.5	1,413.6
<b>Total current liabilities</b>	<b>9,781.3</b>	<b>10,778.0</b>
Long-term borrowings	22,164.1	22,075.2
Long-term deferred tax liabilities	1,534.6	1,648.2
Other long-term liabilities	1,204.5	1,272.4
<b>Total liabilities</b>	<b>34,684.5</b>	<b>35,773.8</b>
Commitments and contingencies (See Note 8)		
First Data Corporation stockholder's equity:		
Common stock, \$.01 par value; authorized and issued 1,000 shares (2009 and 2008)		
Additional paid-in capital	7,385.5	7,380.8
Paid-in capital	7,385.5	7,380.8
Accumulated loss	(4,299.3)	(4,068.0)
Accumulated other comprehensive loss	(1,057.7)	(934.9)

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Total First Data Corporation stockholder s equity	2,028.5	2,377.9
Noncontrolling interests	27.9	24.4
Total equity	2,056.4	2,402.3
Total liabilities and equity	\$ 36,740.9	\$ 38,176.1

See Notes to Consolidated Financial Statements.

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**FIRST DATA CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in millions)

(Unaudited)

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Cash and cash equivalents at beginning of period	\$ 406.3	\$ 606.5
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss attributable to First Data Corporation	(231.3)	(221.7)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	352.1	368.4
Charges (gains) related to restructuring, impairments, litigation and regulatory settlements, other and other income (expense)	1.3	43.2
Other non-cash and non-operating items, net	135.7	(4.9)
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	427.0	240.0
Other assets, current and long-term	68.5	142.1
Accounts payable and other liabilities, current and long-term	(368.7)	(133.3)
Income tax accounts	(169.7)	(149.8)
Net cash provided by operating activities	214.9	284.0
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Current period acquisitions, net of cash acquired	(9.2)	(193.3)
Payments related to other businesses previously acquired	(13.5)	(18.3)
Additions to property and equipment, net	(48.0)	(53.4)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(33.9)	(40.8)
Proceeds from the sale of marketable securities	0.2	52.3
Other investing activities	5.8	(1.5)
Net cash used in investing activities	(98.6)	(255.0)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Short-term borrowings, net	(41.4)	(15.0)
Principal payments on long-term debt	(48.2)	(44.9)
Capital contributed by Parent		105.1
Net cash (used in) provided by financing activities	(89.6)	45.2
Effect of exchange rate changes on cash and cash equivalents	(10.9)	21.2
Change in cash and cash equivalents	15.8	95.4
Cash and cash equivalents at end of period	\$ 422.1	\$ 701.9



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See Notes to Consolidated Financial Statements.

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**FIRST DATA CORPORATION**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

(Unaudited)

(in millions)

	Total	Comprehensive Income (Loss)	Accumulated Loss	First Data Corporation Shareholder Accumulated Other Comprehensive Income (Loss)	Common Shares	Paid-In Capital	Noncontrolling Interests
Balance, December 31, 2008	\$ 2,402.3		\$ (4,068.0)	\$ (934.9)	0.0	\$ 7,380.8	\$ 24.4
Acquisitions	4.1						4.1
Dividends paid to noncontrolling interests	(3.6)						(3.6)
Comprehensive loss:							
Net (loss) income	(227.9)	\$ (227.9)	(231.3)				3.4
Other comprehensive income (loss), net of taxes:							
Unrealized losses on securities	(11.2)	(11.2)		(11.2)			
Unrealized gains on hedging activities	38.9	38.9		38.9			
Foreign currency translation adjustment	(150.9)	(150.9)		(150.5)			(0.4)
Other comprehensive loss		(123.2)					
Comprehensive loss		\$ (351.1)					
Stock compensation expense and other	4.7					4.7	
Balance, March 31, 2009	\$ 2,056.4		\$ (4,299.3)	\$ (1,057.7)	0.0	\$ 7,385.5	\$ 27.9

See Notes to Consolidated Financial Statements.

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**FIRST DATA CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**

(Unaudited)

(in millions)

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
Consolidated net loss	\$ (227.9)	\$ (192.7)
Other comprehensive (loss) income, net of tax:		
Unrealized losses on securities	(11.2)	(0.7)
Unrealized gains (losses) on hedging activities	38.9	(169.0)
Foreign currency translation adjustment	(150.9)	229.9
Total other comprehensive (loss) income, net of tax	(123.2)	60.2
Consolidated comprehensive loss	(351.1)	(132.5)
Less: Comprehensive income attributable to noncontrolling interests	3.0	27.1
Comprehensive loss attributable to First Data Corporation	\$ (354.1)	\$ (159.6)

See Notes to Consolidated Financial Statements.

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**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, 2008. 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 at March 31, 2009, the consolidated results of its operations, cash flows and comprehensive income (loss) for the three months ended March 31, 2009 and 2008 and the consolidated changes in equity for the three months ended March 31, 2009. 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*

Effective January 1, 2009, the Company re-aligned the business and began making strategic and operating decisions with regards to assessing performance and allocating resources based on a new segment structure. Results for 2008 have been adjusted to reflect the new structure. Refer to Note 7 for a description of the segments.

The Company adopted Statement of Financial Accounting Standards ( SFAS ) No. 160, Noncontrolling Interests in Consolidated Financial Statements ( SFAS No. 160 ), effective January 1, 2009 which requires that earnings attributed to noncontrolling interests be reported as part of consolidated earnings and not as a separate component of income or expense. Although the adoption of FAS 160 did not impact the Company s total provision for income taxes, the Company s effective tax rate calculation has changed as net income attributable to noncontrolling interests is no longer included as a deduction in the determination of income from continuing operations. The Company s Consolidated Statement of Operations for 2008 has been revised to conform to the presentation requirements of SFAS No. 160.

The Company sold its ownership interests in Active Business Services, Ltd ( Active ), reported within the International segment, in July 2008 and Peace Software ( Peace ), reported within the Financial Services segment, in October 2008. Revenue and operating profit associated with Active and Peace are excluded from segment results. The International and Financial Services segment revenue and operating profit were adjusted for 2008 to exclude the results of Active and Peace.

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 of \$5.0 million and \$1.5 million for the three months ended March 31, 2009 and 2008, respectively. Also not included is amortization related to equity method investments which is netted within the Equity earnings in affiliates line of \$17.6 million and \$47.8 million for the three months ended March 31, 2009 and 2008, respectively.

*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 which totaled \$2,732.3 million and \$1,925.1 million for the three months ended March 31, 2009 and 2008, respectively. Debit network fees related to acquired PIN-based debit transactions are recognized in the Reimbursable debit network fees, postage and other revenue and expense lines of the Consolidated Statements of Operations. The debit network fees related to acquired PIN-debit transactions charged by debit networks totaled \$412.6 million and \$285.9 million for the

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three months ended March 31, 2009 and 2008, respectively. Comparability of the dollar amounts disclosed in this paragraph is impacted by the termination of the Chase Paymentech Solutions alliance on November 1, 2008 and the deconsolidation of the Wells Fargo Merchant Services alliance on December 31, 2008. Information regarding these transactions is included in Note 5 to the Consolidated Financial Statements in Item 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

### *New Accounting Pronouncements*

In April 2009, the Financial Accounting Standards Board ( FASB ) issued FASB Staff Position ( FSP ) Financial Accounting Standards ( FAS ) No. 115-2 and No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The position amends the other-than-temporary impairment guidance for debt securities and changes the presentation and disclosure of

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other-than- temporary impairments on debt and equity securities in the financial statements. The new FSP requires an entity to assess whether it (a) has the intent to sell a debt security or (b) more likely than not will be required to sell a debt security before its anticipated recovery. If either of these conditions are met, and if the security in question has a decline in value, the entity must recognize an other-than-temporary impairment. The new FSP also requires consideration of whether a credit loss exists relative to a debt security and governs the accounting for it. The requirements of this FSP will apply to existing investments held by the Company as of April 1, 2009 and prospectively to new investments after that date. For debt securities held at April 1, 2009, the cumulative effect of initially applying this FSP, if any, may require recognition. The Company is currently evaluating the impact of the FSP on its financial position and results of operations.

**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 March 31,	
	2009	2008
Investment gains and (losses)	\$ (0.4)	\$ 22.1
Derivative financial instruments gains and (losses)	6.7	(12.8)
Divestitures, net	(0.5)	
Non-operating foreign currency gains and (losses)	17.5	(52.5)
Other income (expense)	\$ 23.3	\$ (43.2)

*Investment gains and (losses)*-Investment gains for the three months ended March 31, 2008 resulted from the sale of MasterCard stock.

*Derivative financial instrument gains and (losses)*-The net gains and losses for the three months ended March 31, 2009 and 2008 were due most significantly to the mark-to-market adjustments for cross currency swaps and interest rate swaps that are not designated as accounting hedges. The most significant impact resulted from foreign currency exchange rate movements on the cross currency swaps.

*Non-operating foreign currency gains and (losses)*-The net gains and losses related to the mark-to-market of the Company's intercompany loans and its euro-denominated debt.

*Supplemental Cash Flow Information*

During the three months ended March 31, 2009 and 2008, the principal amount of the Company's senior unsecured PIK notes increased by \$165.2 million and \$67.6 million, respectively, resulting from the payment of accrued interest expense.

During the three months ended March 31, 2009 and 2008, the Company entered into capital leases totaling approximately \$68 million and \$39 million, respectively.

Refer to Note 10 for information concerning the Company's stock-based compensation plans.

**Note 3: Restructuring**

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### *Restructuring charges and reversal of restructuring accruals*

The Company recorded restructuring charges comprised of severance totaling \$30.0 million and facility closures totaling \$0.4 million for the three months ended March 31, 2009. The restructurings resulted in the termination of employees company wide totaling \$9.5 million in Retail and Alliance Services, \$6.1 million in Financial Services, \$10.8 million in International and \$3.6 million in All Other and Corporate. The restructurings resulted from the elimination of a select number of management and other positions as part of the Company's cost saving initiatives. Cost saving initiatives are expected to continue into future periods resulting in additional restructuring charges. Partially offsetting the charges are reversals of 2008 restructuring accruals of \$5.3 million related to the Company's change in strategy related to global labor sourcing initiatives.

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## FIRST DATA CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the Company's utilization of restructuring accruals, excluding merger related restructuring charges, for the period from January 1, 2009 through March 31, 2009 (in millions):

	Employee Severance	Facility Closure
Remaining accrual at January 1, 2009	\$ 11.1	
Expense provision	30.0	\$ 0.4
Cash payments and other	(3.6)	(0.1)
Changes in estimates	(5.3)	
Remaining accrual at March 31, 2009	\$ 32.2	\$ 0.3

**Note 4: Business Combinations and Acquisitions and Divestitures**

During the first quarter of 2009, the Company acquired one entity, reported within the International segment, and a domestic merchant portfolio. The aggregate cash paid during the three months ended March 31, 2009 for these acquisitions was approximately \$8.8 million, net of cash acquired. The aggregate preliminary purchase price allocation for these acquisitions resulted in \$9.7 million in identifiable intangible assets which are being amortized over five to six years.

The pro forma impact of all 2009 acquisitions on net income was not material.

**Note 5: Borrowings**Senior secured revolving credit facility

The Company has a \$2.0 billion senior secured revolving credit facility with a term through the third quarter of 2013. Up to \$500 million of the Company's \$2.0 billion senior secured revolving credit facility is available for letters of credit, of which \$39.4 million and \$39.7 million of letters of credit were issued under the facility as of March 31, 2009 and December 31, 2008, respectively. The amounts outstanding against this facility were \$135.0 million and \$18.0 million as of March 31, 2009 and December 31, 2008, respectively.

Since an affiliate of Lehman Brothers Holdings Inc. filed for bankruptcy in September 2008, it has not funded its \$230.6 million commitment under the Company's senior secured revolving credit facility and there is no assurance they will participate in any future funding requests or that the Company could obtain replacement loan commitments from other banks. The Company is monitoring the financial stability of other financial institutions that have made commitments under the revolving credit facility, none of which represent more than approximately 15% of the remaining capacity. As of March 31, 2009, \$1.6 billion remained available under this facility after considering the amount outstanding above, the letters of credit issued under the facility, and the commitment that is no longer being funded noted above.

Other short-term borrowings

The Company had approximately \$464 million and \$609 million available under short-term lines of credit and other arrangements with foreign banks and joint venture partners to fund settlement activity, as of March 31, 2009 and December 31, 2008, respectively. Certain of these arrangements are uncommitted (approximately \$95 million and \$226 million, respectively) but, as of the periods presented, the Company had some borrowings outstanding against them. These arrangements are primarily associated with First Data Deutschland, Cashcard Australia, Ltd., the joint venture with Allied Irish Banks p.l.c., First Data Polska and the Merchant Solutions joint venture and are in various functional currencies, the most significant of which are the euro, Australian dollar and Polish zloty. The amounts outstanding against these arrangements



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were \$124.4 million and \$295.0 million as of March 31, 2009 and December 31, 2008, respectively.

### Senior secured term loan facility

The terms of the Company's senior secured term loan facility require the Company to pay equal quarterly installments in aggregate annual amounts equal to 1% of the original principal amount. During the three months ended March 31, 2009 and 2008, the Company paid \$32.2 million and \$31.9 million, respectively, of principal payments on the senior secured term loan facility in accordance with this provision (\$29.8 million and \$29.4 million, respectively, related to the U.S. dollar denominated loan and \$2.4 million and \$2.5 million, respectively, related to the euro denominated loan).

### Senior unsecured PIK notes

The terms of the Company's senior unsecured PIK (Payment In-Kind) notes require that interest on the notes up to and including September 20, 2011 be paid entirely by increasing the principal amount of the notes or by issuing senior unsecured PIK notes. During the three months ended March 31, 2009 and 2008, the Company increased the principal amount of these notes by \$165.2 million and \$67.6 million, respectively, in accordance with this provision.

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**FIRST DATA CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**Note 6: Derivative Financial Instruments**

**Concentration of credit risk**

The Company maintains cash and cash equivalents, investment securities and certain hedging instruments (for specified purposes) with various financial institutions. The Company limits its concentration of these financial instruments with any one institution, and periodically reviews the credit standings of these institutions. The Company has a large and diverse customer base across various industries, thereby minimizing the credit risk of any one customer to the Company's accounts receivable amounts. In addition, each of the Company's business units perform ongoing credit evaluations on customers that expose the Company to significant financial risk because of their financial condition.

**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. The risks managed by using derivative instruments are interest rate risk and foreign exchange risk.

Interest rate swaps are entered into to manage interest rate risk associated with the Company's variable-rate borrowings. Cross currency swaps for various foreign currencies are entered into to manage foreign exchange risk associated with the Company's initial investments in certain foreign subsidiaries or certain intercompany loans to foreign subsidiaries. Forward contracts on various foreign currencies are entered into to manage foreign exchange risk associated with the Company's forecasted foreign currency denominated sales or purchases.

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 entered into for economic hedge purposes and are not considered speculative.

The Company's policy is to minimize 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 and Other long-term liabilities captions in the Consolidated Balance Sheets at their fair values. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), the Company designated interest rate swaps as cash flow hedges of forecasted interest rate payments related to its variable rate debt and certain of the cross currency swaps as a foreign currency hedge of its net investment in a foreign subsidiary. Other cross currency swaps and forward contracts on various foreign currencies did not qualify or have not been designated as accounting hedges and do not receive hedge accounting treatment.

As of March 31, 2009, the Company uses derivative instruments to mitigate (i) cash flow risks with respect to changes in interest rates (forecasted interest payments on variable rate debt) and foreign exchange rates (forecasted transactions denominated in foreign currency), (ii) to protect the initial net investment in certain foreign subsidiaries and/or affiliates with respect to changes in foreign currency exchange rates and (iii) to protect the Company from foreign currency exposure related to an outsourcing contract with a foreign vendor. Not all of these derivatives qualify for hedge accounting as discussed in more detail below.

With respect to derivative instruments that are afforded hedge accounting pursuant to SFAS No. 133, 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 Other Comprehensive Income/Loss (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The effective portion of changes in

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the fair value of a net investment hedge is recorded as part of the cumulative translation adjustment in OCI. Any ineffectiveness is recorded immediately 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 transaction 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.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

**Credit Risk**

The Company is monitoring the financial stability of its derivative counterparties. Certain of these counterparties have received support from the federal government in light of current financial conditions. Although these counterparties remain highly-rated (in the A category or higher), their ability to satisfy their commitments may be dependent on receiving continued support from the federal government. 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**

At March 31, 2009, the Company had certain derivative instruments that function as economic hedges but were not designated to qualify for hedge accounting. Such instruments included foreign currency forward contracts to hedge forecasted foreign currency sales and purchases, a cross-currency swap to hedge foreign currency exposure from an intercompany loan, cross-currency swaps to hedge an investment in a foreign subsidiary from fluctuations in foreign currency exchange rates and a foreign exchange rate collar to hedge foreign currency exposure related to an outsourcing contract with a foreign vendor.

During the first quarter of 2009, one of the cash flow hedges of interest payments on the variable rate debt previously designated to qualify for hedge accounting ceased to be highly effective. As such, the Company did not apply hedge accounting to the discontinued hedge during the first quarter of 2009 and will discontinue prospective hedge accounting for the affected derivatives. While the derivatives no longer qualify for hedge accounting, the derivatives continue to be effective economically in eliminating the variability in interest rate payments on the corresponding portion of the variable rate debt.

As of March 31, 2009, the notional amounts of the foreign currency forward contracts were 5.0 million Canadian dollars (\$4.1 million). The notional amount of the foreign exchange rate collar was 91.5 million Philippine pesos (\$1.9 million). If the Philippine Peso to U.S. Dollar exchange rate fluctuates by more than +/- 8% from the reference rate, then a net payment is made or received based on the \$1.9 million notional amount. The Company is also a party to a reverse collar for a \$950,000 notional amount which effectively reduces the notional amount of the Philippine Peso collar to \$950,000 when the exchange rate fluctuates by more than +/- 13%. The terms of the foreign exchange rate collar and the related reverse collar were specifically designed to match the foreign exchange exposure from the underlying vendor agreement. The notional amount of the cross-currency swaps was 91.1 million euro (approximately \$123.2 million). The notional amount of the interest rate swaps that no longer qualify for hedge accounting was \$1.5 billion.

The periodic change in the mark-to-market of the derivative instruments not designated as accounting hedges is recorded immediately in 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.

**DERIVATIVES THAT QUALIFY FOR HEDGE ACCOUNTING**

**Hedge of a Net Investment in a Foreign Operation**

As of March 31, 2009, the Company had a cross currency swap that was designated as a hedge of net investments in foreign operations. Since the existing derivative instrument was not at zero fair value at the time of designation, the hedging relationship creates some ineffectiveness which is recognized immediately in the Consolidated Statements of Operations. The effective portion of the change in fair value of the cross currency swap is recognized in the Consolidated Statement of Changes in Equity. As of March 31, 2009, the aggregate notional amount of the cross currency swap was 115.0 million Australian dollars (approximately \$80.7 million).

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

### **Cash Flow Hedges**

As of March 31, 2009, the Company had interest rate swaps which were designated as cash flow hedges of the variability in the interest payments on \$7.5 billion of the approximate \$12.6 billion variable rate senior secured term loan due to changes in the LIBOR interest rate. The Company also had basis rate swaps that modify the variable rates on \$6.0 billion of the \$7.5 billion interest rate

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swaps and that lower the fixed interest rates on those interest rate swaps. The basis swaps pay interest at rates equal to three-month-LIBOR and receive interest at rates equal to one-month-LIBOR plus a fixed spread. One basis swap with a notional amount of \$2.0 billion expires on June 24, 2009 and all other basis swaps with a combined notional amount of \$4.0 billion expire on September 24, 2010. The Company pays interest on \$6.0 billion principal amount of its senior secured term loan facility based on one-month-LIBOR interest rate index to match the terms of the basis swaps. Ineffectiveness associated with these hedges is recognized immediately in the Consolidated Statements of Operations. During the first quarter of 2009, those interest rate swaps not also subject to basis rate swaps with a notional amount of \$1.5 billion ceased to qualify for hedge accounting as discussed above.

At March 31, 2009, the maximum length of time over which the Company is hedging its exposure is approximately 3.5 years. The effective portion of changes in fair value of the cash flow hedges is recorded temporarily in the Consolidated Statement of Changes in Equity as a component of OCI and then recognized in the Consolidated Statements of Operations in the same period or periods during which the payment of variable interest associated with the floating rate debt is recorded in earnings. Any ineffective portions of changes in fair value are recognized in the Consolidated Statements of Operations during the period of change. The Company follows the hypothetical derivative method to measure hedge ineffectiveness. A \$1.8 million loss associated with ineffectiveness was recognized in earnings during the three months ended March 31, 2009 related to the cash flow hedges mostly due to the hedges being off-market at the time of designation. The amount of losses in OCI as of March 31, 2009 related to the hedged transactions that is expected to be reclassified into the Consolidated Statements of Operations during the remainder of 2009 is approximately \$75 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 Balance Sheets or in the Consolidated Statements of Operations, see the tabular information presented below.

**FAIR VALUE OF DERIVATIVE INSTRUMENTS**

The estimated fair value of derivative financial instruments is modeled in Bloomberg software using the Bloomberg reported market data based on mid-market prices and the actual terms of the derivative contracts. The fair value incorporates the Company's own creditworthiness as well as the creditworthiness of the counterparties. 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 as of March 31, 2009 or that will be realized in the future.

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

(in millions)	As of March 31, 2009			
	Derivative Assets		Derivative Liabilities	
	Fair Value	Location	Fair Value	Location
<b>Derivatives designated as hedging instruments under SFAS 133</b>				
Interest rate contracts			\$ (410.2)	Other long-term liabilities and other current liabilities
Foreign exchange contracts	\$ 11.3	Other long-term assets		
Total derivatives designated as hedging instruments under SFAS 133	11.3		(410.2)	
<b>Derivatives not designated as hedging instruments under SFAS 133</b>				

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Interest rate contracts			(119.5)	Other long-term liabilities and other current liabilities
Foreign exchange contracts	7.6	Other long-term assets	(1.3)	Other long-term liabilities
Total derivatives not designated as hedging instruments under SFAS 133	7.6		(120.8)	
Total Derivatives	\$ 18.9		\$ (531.0)	

**Table of Contents****FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Fair Value of Derivative Instruments in the Consolidated Balance Sheets**

(in millions)	As of December 31, 2008			
	Derivative Assets Balance Sheet		Derivative Liabilities Balance Sheet	
	Fair Value	Location	Fair Value	Location
<b>Derivatives designated as hedging instruments under SFAS 133</b>				
Interest rate contracts			\$ (598.8)	Other long-term liabilities and other current liabilities
Foreign exchange contracts	\$ 8.9	Other long-term assets		
Total derivatives designated as hedging instruments under SFAS 133	8.9		(598.8)	
<b>Derivatives not designated as hedging instruments under SFAS 133</b>				
Foreign exchange contracts	2.8	Other long-term assets	(2.5)	Other long-term liabilities
Total derivatives not designated as hedging instruments under SFAS 133	2.8		(2.5)	
Total Derivatives	\$ 11.7		\$ (601.3)	

**The Effect of Derivative Instruments on the Consolidated Statements of Operations****For the three months ended March 31, 2009**

(in millions, pretax)	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Recognized in Derivative (Ineffective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
	<b>Derivatives in SFAS 133 cash flow hedging relationships</b>				
Interest rate contracts	\$ 37.2	\$ (25.0)	Interest Expense	\$ (1.8)	Other income (expense)
<b>Derivatives in SFAS 133 net investment hedging relationships</b>					
Foreign exchange contracts	\$ 2.4			\$ (0.1)	Other income (expense)



Derivatives not designated as hedging instruments under SFAS 133	Amount of Gain or (Loss) Recognized in Income on Derivative	Location of Gain or (Loss) recognized in Income on Derivative
Interest rate contracts	\$ 2.9	Other income  (expense)
Foreign exchange contracts	\$ 5.7	Other income  (expense)

**Table of Contents****FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****ACCUMULATED DERIVATIVE GAINS AND LOSSES**

The following table summarizes activity in other comprehensive loss for the three months ended March 31, 2009 related to derivative instruments classified as cash flow hedges and net investment hedges held by the Company (in millions, after tax):

	<b>Three months ended March 31, 2009</b>	
Accumulated loss included in other comprehensive loss at beginning of the period	\$	(339.6)
Less: Reclassifications into earnings from other comprehensive loss		15.7
		(323.9)
Gains in fair value of derivatives <sup>(a)</sup>		25.6
Accumulated loss included in other comprehensive loss at end of the period	\$	(298.3)

<sup>(a)</sup> Gains are included in unrealized gains on hedging activities and in foreign currency translation adjustment on the Consolidated Statements of Changes in Equity.

**Note 7: Segment Information**

For a detailed discussion of the Company's principles regarding its operating segments refer to Note 17 to the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

As discussed in Note 1, the Company began operating under a new segment structure effective January 1, 2009. Segment results for the three months ended March 31, 2008 have been revised to reflect the new structure. A summary of the new segments follows:

The Retail and Alliance Services segment is comprised of businesses that provide services which facilitate the merchants' ability to accept credit, debit, stored-value and loyalty cards and checks. The segment's merchant processing and acquiring services include authorization, transaction capture, settlement, chargeback handling and internet-based transaction processing. Retail and Alliance Services also provides point-of-sale (POS) solutions and other equipment necessary to capture merchant transactions. A majority of these services pertain to transactions in which consumer payments to merchants are made through a card association (such as Visa or MasterCard), a debit network, or another payment network (such as Discover). In addition, Retail and Alliance Services provides check verification, settlement and guarantee services and a wide range of open and closed loop stored-value products and processing services. The segment's largest components of revenue consist of discount fees charged to merchants, processing fees charged to unconsolidated alliances, equity earnings from unconsolidated alliances, selling and leasing of POS devices, fees for check verification, settlement and guarantee services and debit network fees.

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The Financial Services segment provides issuer card and network solutions and payment management solutions for recurring bill payments. Financial Services also offers services to improve customer communications, billing, online banking and consumer bill payment. Issuer card and network solutions includes credit, retail and debit card processing, debit network services (including the STAR Network) and output services for financial institutions and other organizations offering credit cards, debit cards and retail private label cards to consumers and businesses to manage customer accounts. The segment's largest components of revenue consist of fees for account management, transaction authorization and posting, and network switching as well as reimbursable postage.

The International segment is comprised of businesses that provide the following services outside of the U.S.: credit, retail, debit and prepaid card processing; merchant acquiring and processing; ATM and POS processing, driving, acquiring and switching services; and card processing software. The largest components of the segment's revenue are fees for facilitating the merchants' ability to accept credit, retail and debit cards by authorizing, capturing, and settling merchants' credit, retail, debit, stored-value and loyalty card transactions as well as for transaction authorization and posting, network switching and account management.

The Integrated Payment Systems (IPS) segment is principally comprised of operations which deal in the issuance of official checks which are sold by agents that are financial institutions and the issuance of money orders which are sold by agents that are financial institutions and retail businesses. Official checks serve as an alternative to a bank's own items such as cashiers or bank checks. Money orders serve as a disbursement option for a consumer or business. Revenue is principally earned on invested funds which are pending settlement. The official check and money order businesses are conducted by a subsidiary of the Company, Integrated Payment Systems Inc., which is licensed to offer payment services that fall under state and federal regulations. This segment is in the process of winding down its official check and money order businesses. IPS also offers other payment services in its capacity as a licensed entity, and such other services will continue after the wind down of the official check and money order businesses.

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Although the segments have changed, a detailed discussion regarding the businesses that comprise the Company's segments, the strategies of the Company and the businesses within the segments, business trends affecting the Company and certain risks inherent in the Company's business is included in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

The following table presents the Company's operating segment results for the three months ended March 31, 2009 and 2008:

**Three months ended March 31, 2009**

(in millions)	Retail and Alliance Services	Financial Services	International	Integrated Payment Systems	All Other and Corporate	Totals
<b>Revenues:</b>						
Transaction and processing service fees	\$ 620.1	\$ 365.0	\$ 283.1	\$ 2.7	\$ 49.8	\$ 1,320.7
Investment income, net	1.9	0.4	3.0	0.5		5.8
Product sales and other	76.7	7.2	72.3	0.1	18.1	174.4
Reimbursable debit network fees, postage and other	426.2	171.6	4.7		0.7	603.2
Equity earnings in affiliates <sup>(a)</sup>	31.1		5.6			36.7
<b>Total segment reporting revenues</b>	<b>\$ 1,156.0</b>	<b>\$ 544.2</b>	<b>\$ 368.7</b>	<b>\$ 3.3</b>	<b>\$ 68.6</b>	<b>\$ 2,140.8</b>
Internal revenue	\$ 16.7	\$ 9.7	\$ 1.2	\$	\$ 0.3	\$ 27.9
External revenue	1,139.3	534.5	367.5	3.3	68.3	2,112.9
Depreciation and amortization	188.1	82.4	66.7	0.2	14.7	352.1
Operating profit (loss)	54.2	75.9	6.6	(2.5)	(66.1)	68.1
Other operating expenses and other income (expense) excluding divestitures	(5.9)	(4.5)	(11.8)		23.6	1.4

**Three months ended March 31, 2008**

(in millions)	Retail and Alliance Services	Financial Services	International	Integrated Payment Systems	All Other and Corporate	Totals
<b>Revenues:</b>						
Transaction and processing service fees	\$ 621.9	\$ 367.8	\$ 344.5	\$ 3.6	\$ 52.2	\$ 1,390.0
Investment income, net	8.0	0.6	6.1	41.3		56.0
Product sales and other	79.7	7.7	71.8	0.1	47.4	206.7
Reimbursable debit network fees, postage and other	299.6	182.4	9.3		1.5	492.8
Equity earnings in affiliates <sup>(a)</sup>	71.9		7.4		1.0	80.3
<b>Total segment reporting revenues</b>	<b>\$ 1,081.1</b>	<b>\$ 558.5</b>	<b>\$ 439.1</b>	<b>\$ 45.0</b>	<b>\$ 102.1</b>	<b>\$ 2,225.8</b>
Internal revenue	\$ 17.3	\$ 10.5	\$ 1.9	\$	\$ 0.1	\$ 29.8
External revenue	1,063.8	548.0	437.2	45.0	102.0	2,196.0
Depreciation and amortization	214.8	79.1	61.5	0.1	11.7	367.2
Operating profit (loss)	83.3	89.9	19.4	34.0	(27.9)	198.7
Other operating expenses and other income (expense) excluding divestitures	12.5		9.0		(64.7)	(43.2)



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

(in millions)	Three months ended March 31,	
	2009	2008
<b>Revenues:</b>		
Total reported segments	\$ 2,072.2	\$ 2,123.7
All Other and Corporate	68.6	102.1
Subtotal	2,140.8	2,225.8
Divested businesses		10.8
Equity earnings in affiliates <sup>(a)</sup>	(36.7)	(80.3)
Eliminations <sup>(b)</sup>	(27.9)	(29.8)
Consolidated	\$ 2,076.2	\$ 2,126.5
<b>Loss before income taxes and equity earnings in affiliates:</b>		
Total reported segments	\$ 134.2	\$ 226.6
All Other and Corporate	(66.1)	(27.9)
Subtotal	68.1	198.7
Divested businesses		1.0
Interest income	3.3	9.0
Interest expense	(448.2)	(517.7)
Net income attributable to noncontrolling interests from segment operations <sup>(c)</sup>	3.4	29.0
Equity earnings in affiliates	(18.5)	(32.1)
Restructuring, net	(25.1)	
Litigation and regulatory settlements	2.7	
Other income (expense)	23.3	(43.2)
Eliminations	(0.2)	
Consolidated	\$ (391.2)	\$ (355.3)

<sup>(a)</sup> 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.

<sup>(b)</sup> Represents elimination of intersegment revenue.

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(c) Excludes net income attributable to noncontrolling interests attributable to items excluded from segment operations. Segment assets are as follows (in millions):

	March 31, 2009	December 31, 2008
<b>Assets:</b>		
Retail and Alliance Services	\$ 20,396.5	\$ 21,068.9
Financial Services	5,133.4	5,204.0
International	5,314.0	5,741.3
Integrated Payment Systems	3,764.9	4,120.3
All Other and Corporate	2,132.1	2,041.6
<b>Consolidated</b>	<b>\$ 36,740.9</b>	<b>\$ 38,176.1</b>

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

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):

	<b>Three months ended March 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Depreciation and Amortization:</b>		
Total reported segments	337.4	355.5
All Other and Corporate	14.7	11.7
Divested businesses		1.2
<b>Consolidated</b>	<b>\$ 352.1</b>	<b>\$ 368.4</b>

**Note 8: 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' 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").

On August 3, 2007, Concord EFS, Inc. filed a motion for summary judgment seeking to dismiss plaintiffs' *per se* claims, arguing that there are procompetitive justifications for the ATM interchange. On March 24, 2008, the Court entered an order granting the defendants' motions for partial summary judgment finding that the claims raised in this case would need to be addressed under a "Rule of Reason" analysis. On February 2, 2009, the Plaintiffs filed a Second Amended Complaint. On April 6, 2009, the defendants filed a Motion to Dismiss the Second Amended Complaint.

The Company believes the complaints are without merit and intends to vigorously defend them.

**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 9: Employee Benefit Plans**

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



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(in millions)	Three months ended March 31,	
	2009	2008
Service costs	\$ 1.9	\$ 2.8
Interest costs	8.6	10.8
Expected return on plan assets	(8.0)	(11.2)
Amortization	0.8	
Net periodic benefit expense	\$ 3.3	\$ 2.4

The Company estimates pension plan contributions for 2009 to be approximately \$34 million. During the three months ended March 31, 2009, approximately \$7 million was contributed to the United Kingdom plan. No contributions were made to the U.S. plan during the three months ended March 31, 2009.

**Table of Contents****FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Note 10: Stock Compensation Plans**

Total stock-based compensation expense recognized in the Consolidated Statements of Operations resulting from stock options, non-vested restricted stock awards and non-vested restricted stock units was \$4.5 million and \$4.4 million pretax for the three months ended March 31, 2009 and 2008, respectively. Stock-based compensation expense is recognized in the Selling, general and administrative line item of the Consolidated Statements of Operations. Stock-based awards granted during the three months ended March 31, 2009 were immaterial.

**Note 11: Fair Value Measurement****Assets and liabilities measured at fair value on a recurring basis**

Financial instruments carried at fair value as of March 31, 2009 and measured at fair value on a recurring basis are classified in the table below according to the fair value hierarchy:

As of March 31, 2009  (in millions)	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)	
<b>Assets:</b>				
Settlement Assets - student loan auction rate securities	\$	\$	\$ 463.0	\$ 463.0
Settlement Assets - other available-for-sale securities	0.1	3,023.0		3,023.1
Other assets - available-for-sale securities		7.5		7.5
Foreign currency contracts		18.9		18.9
<b>Total assets at fair value</b>	<b>\$ 0.1</b>	<b>\$ 3,049.4</b>	<b>\$ 463.0</b>	<b>\$ 3,512.5</b>
<b>Other Liabilities:</b>				
Interest rate contracts	\$	\$ (529.7)	\$	\$ (529.7)
Foreign currency contracts		(1.3)		(1.3)
<b>Total liabilities at fair value</b>	<b>\$</b>	<b>\$ (531.0)</b>	<b>\$</b>	<b>\$ (531.0)</b>

(in millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Student loan auction rate securities
Beginning balance January 1, 2009	\$ 492.2
Total gains or losses (realized or unrealized):	
Included in other comprehensive income	(15.8)

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Included in investment income, net	
Purchases, sales, issuances, and settlements, net	(13.4)
Transfers in (out) of Level 3	
Ending balance March 31, 2009	\$ 463.0

### Student loan auction rate securities

As of March 31, 2009, the Company held student loan auction rate securities ( SLARS ) which are long-term debt instruments, issued by student loan trusts, with variable interest rates that historically reset through a periodic Dutch auction process but do not include a put-back option. Due to the collapse of the auction market in 2008, the Company will not be able to readily access liquidity for the SLARS until the auction market successfully resumes, a secondary market is established for long-term investors, or issuers redeem the securities. The Company believes that the SLARS held by it will recover substantially all of their principal value by their maturity date due to the Federal Family Education Loan Program ( FFELP ) backing of the underlying collateral; however, the Company currently cannot assert that it has the intent to hold these securities until they fully recover their par value as it may be willing to sell the securities at a loss if the price exceeds a certain minimum threshold. During the first quarter of 2009, the Company sold \$14.5 million of par value (\$13.4 million of market value) SLARS to their issuer at or above the specified minimum threshold. The Company has the ability and intent to hold these securities for an extended time period and until the securities recover in value at least to the specified minimum threshold. This ability is based on the projected timing of when certain IPS related settlement liabilities will need to be funded and the ability to use its revolving credit facility in the event the settlement liabilities need to be funded before the SLARS are liquid. The SLARS were written down to the specified minimum threshold as necessary through

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**(Unaudited)**

an other than temporary impairment loss in 2008. Any decline in value of the securities below the specified minimum threshold has been deemed to be temporary and, accordingly, the Company recognized an unrealized loss in OCI during the three months ended March 31, 2009.

Due to the lack of observable market activity for the SLARS held by the Company as of March 31, 2009, 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 of the current lack of liquidity on the fair value. At March 31, 2009, the securities were valued 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 rate, as well as underlying collateral, ratings, and guarantees or insurance. Substantially all SLARS held by the Company have collateral backed by FFELP. The probabilities of auction failure, a successful auction at par or repurchase at par for each future period were then forecasted. The Company assumed that the issuers will continue to pay maximum interest rates on the securities until the event of a successful auction or repurchase, at which point the Company would sell the SLARS at par through the auction. To determine the fair value of each security, the weighted average cash flows for each period were discounted back to present value at the determined discount rate for each security. As of March 31, 2009, cumulative probabilities of principal returned have been estimated at approximately 35% through year two, and 80% in year five. The discount rates used in the valuation were a combination of the liquidity risk premium assigned to the security (which ranged from 4.5% to 5.5%) plus the treasury strip yield (zero coupon treasury bond) for the individual period for which a cash flow was being discounted. The liquidity risk premium on the SLARS decreased by 50 bps from December 31, 2008 due to falling spreads on asset backed securities as well as other factors. 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.

**Assets and liabilities measured at fair value on a non-recurring basis**

As of March 31, 2009, assets and liabilities measured at fair value on a non-recurring basis were not material.

**Note 12: Supplemental Guarantor Condensed Consolidating Financial Statements**

FDC's senior publicly tradable 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 senior publicly tradable notes (Non-Guarantors). The Guarantors also unconditionally guarantee the senior secured revolving credit facility and senior secured term loan facility, senior unsecured cash-pay notes, senior unsecured PIK notes due 2015 and senior subordinated unsecured notes. The senior publicly tradable note guarantees are unsecured and rank senior in right of payment to all existing and future subordinated indebtedness of FDC's guarantor subsidiaries. The senior publicly tradable note guarantees rank equally in right of payment with all existing and future senior 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 Eliminations for the three months ended March 31, 2009 and 2008, and as of March 31, 2009 and December 31, 2008 to arrive at the information for FDC on a consolidated basis.

(in millions)	Three months ended March 31, 2009				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>					
Transaction and processing service fees	\$	\$ 1,033.5	\$ 274.3	\$ (1.0)	\$ 1,306.8
Investment income, net		2.5	3.3		5.8
Product sales and other		113.3	63.5	(2.8)	174.0
Reimbursable debit network fees, postage and other		577.4	12.2		589.6
		1,726.7	353.3	(3.8)	2,076.2
<b>Expenses:</b>					
Cost of services (exclusive of items shown below)		611.5	176.0	(1.0)	786.5
Cost of products sold		48.7	17.6	(2.8)	63.5
Selling, general and administrative	53.1	123.2	78.0		254.3
Reimbursable debit network fees, postage and other		577.4	12.2		589.6
Depreciation and amortization	1.1	264.7	63.7		329.5
<b>Other operating expenses:</b>					
Restructuring, net	1.1	17.7	6.3		25.1
Litigation and regulatory settlements	(2.7)				(2.7)
	52.6	1,643.2	353.8	(3.8)	2,045.8
<b>Operating (loss) profit</b>	<b>(52.6)</b>	<b>83.5</b>	<b>(0.5)</b>		<b>30.4</b>
Interest income	1.5	0.1	1.7		3.3
Interest expense	(441.7)	(2.0)	(4.5)		(448.2)
Interest (expense) income from intercompany notes	(35.2)	26.1	9.1		
Other income (expense)	49.9	1.3	(27.9)		23.3
Equity earnings from consolidated subsidiaries	62.0	(16.6)		(45.4)	
	(363.5)	8.9	(21.6)	(45.4)	(421.6)
(Loss) income before income taxes and equity earnings in affiliates	(416.1)	92.4	(22.1)	(45.4)	(391.2)
Income tax (benefit) expense	(184.8)	44.7	(4.7)		(144.8)
Equity earnings in affiliates		19.3	(0.8)		18.5
<b>Consolidated net (loss) income</b>	<b>(231.3)</b>	<b>67.0</b>	<b>(18.2)</b>	<b>(45.4)</b>	<b>(227.9)</b>
Less: Net income attributable to noncontrolling interests		0.2	3.2		3.4

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Net (loss) income attributable to First Data Corporation	\$ (231.3)	\$ 66.8	\$ (21.4)	\$ (45.4)	\$ (231.3)
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**Table of Contents****FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

(in millions)	Three months ended March 31, 2008				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>Revenues:</b>					
Transaction and processing service fees	\$ 0.8	\$ 964.5	\$ 415.6	\$ (1.2)	\$ 1,379.7
Investment income, net		8.3	47.7		56.0
Product sales and other		141.2	76.8	(6.0)	212.0
Reimbursable debit network fees, postage and other		457.0	21.8		478.8
	0.8	1,571.0	561.9	(7.2)	2,126.5
<b>Expenses:</b>					
Cost of services (exclusive of items shown below)		528.3	229.7	(1.2)	756.8
Cost of products sold		48.9	28.0	(6.0)	70.9
Selling, general and administrative	55.9	156.5	91.9		304.3
Reimbursable debit network fees, postage and other		457.0	21.8		478.8
Depreciation and amortization	1.4	233.6	84.1		319.1
	57.3	1,424.3	455.5	(7.2)	1,929.9
Operating (loss) profit	(56.5)	146.7	106.4		196.6
Interest income	4.0	1.0	4.0		9.0
Interest expense	(511.5)	(1.3)	(4.9)		(517.7)
Interest (expense) income from intercompany notes	(26.3)	20.8	5.5		
Other income (expense)	(110.2)	0.5	66.5		(43.2)
Equity earnings from consolidated subsidiaries	218.4	22.1		(240.5)	
	(425.6)	43.1	71.1	(240.5)	(551.9)
(Loss) income before income taxes and equity earnings in affiliates	(482.1)	189.8	177.5	(240.5)	(355.3)
Income tax (benefit) expense	(256.7)	80.8	45.4		(130.5)
Equity earnings in affiliates	3.7	27.3	1.1		32.1
Consolidated net (loss) income	(221.7)	136.3	133.2	(240.5)	(192.7)
Less: Net income attributable to noncontrolling interests		0.2	28.8		29.0
Net (loss) income attributable to First Data Corporation	\$ (221.7)	\$ 136.1	\$ 104.4	\$ (240.5)	\$ (221.7)

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

(in millions)	FDC Parent Company	Guarantor Subsidiaries	March 31, 2009 Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 42.8	\$ 47.1	\$ 332.2		\$ 422.1
Accounts receivable, net of allowance for doubtful accounts	15.1	1,594.3	592.0		2,201.4
Settlement assets <sup>(2)</sup>		3,818.3	3,714.3		7,532.6
Other current assets	84.9	280.6	95.8		461.3
<b>Total current assets</b>	<b>142.8</b>	<b>5,740.3</b>	<b>4,734.3</b>		<b>10,617.4</b>
Property and equipment, net of accumulated depreciation	26.4	740.4	325.7		1,092.5
Goodwill		11,725.3	3,028.4		14,753.7
Customer relationships, net of accumulated amortization		4,678.0	1,112.5		5,790.5
Other intangibles, net of accumulated amortization	605.5	865.3	364.7		1,835.5
Investment in affiliates		1,271.0	12.0		1,283.0
Long-term settlement assets <sup>(2)</sup>			463.1		463.1
Other long-term assets	644.3	230.1	30.8		905.2
Investment in consolidated subsidiaries	28,052.8	1,637.4		\$ (29,690.2)	
<b>Total assets</b>	<b>\$ 29,471.8</b>	<b>\$ 26,887.8</b>	<b>\$ 10,071.5</b>	<b>\$ (29,690.2)</b>	<b>\$ 36,740.9</b>
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 2.0	\$ 71.8	\$ 90.6		\$ 164.4
Short-term and current portion of long-term borrowings	274.1	43.7	142.3		460.1
Settlement obligations <sup>(2)</sup>		3,818.3	4,213.0		8,031.3
Other current liabilities	83.4	756.1	286.0		1,125.5
<b>Total current liabilities</b>	<b>359.5</b>	<b>4,689.9</b>	<b>4,731.9</b>		<b>9,781.3</b>
Long-term borrowings	22,018.2	61.4	84.5		22,164.1
Deferred long-term tax (assets) liabilities	(647.2)	2,081.1	100.7		1,534.6
Intercompany payable (receivable)	3,005.1	(2,236.7)	(768.4)		
Intercompany notes	1,622.8	(1,195.5)	(427.3)		
Other long-term liabilities	1,084.9	92.2	27.4		1,204.5
<b>Total liabilities</b>	<b>27,443.3</b>	<b>3,492.4</b>	<b>3,748.8</b>		<b>34,684.5</b>
First Data Corporation stockholder's equity	2,028.5	23,395.4	6,294.8	\$ (29,690.2)	2,028.5
Noncontrolling interests			27.9		27.9
<b>Total equity</b>	<b>2,028.5</b>	<b>23,395.4</b>	<b>6,322.7</b>	<b>(29,690.2)</b>	<b>2,056.4</b>
<b>Total liabilities and equity</b>	<b>\$ 29,471.8</b>	<b>\$ 26,887.8</b>	<b>\$ 10,071.5</b>	<b>\$ (29,690.2)</b>	<b>\$ 36,740.9</b>





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

(in millions)	December 31, 2008				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 10.5	\$ 38.9	\$ 356.9		\$ 406.3
Accounts receivable, net of allowance for doubtful accounts	14.3	1,799.5	823.4		2,637.2
Settlement assets <sup>(2)</sup>		4,138.3	3,791.9		7,930.2
Other current assets	73.3	259.1	87.4		419.8
<b>Total current assets</b>	<b>98.1</b>	<b>6,235.8</b>	<b>5,059.6</b>		<b>11,393.5</b>
Property and equipment, net of accumulated depreciation	26.0	731.2	330.6		1,087.8
Goodwill		11,548.5	3,312.7		14,861.2
Customer relationships, net of accumulated amortization		4,822.7	1,164.9		5,987.6
Other intangibles, net of accumulated amortization	605.9	887.6	422.1		1,915.6
Investment in affiliates		1,190.0	69.6		1,259.6
Long-term settlement assets <sup>(2)</sup>			732.7		732.7
Other long-term assets	656.3	233.3	48.5		938.1
Investment in consolidated subsidiaries	27,946.7	1,691.8		\$ (29,638.5)	
<b>Total assets</b>	<b>\$ 29,333.0</b>	<b>\$ 27,340.9</b>	<b>\$ 11,140.7</b>	<b>\$ (29,638.5)</b>	<b>\$ 38,176.1</b>
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Accounts payable	\$	\$ 83.3	\$ 103.2		\$ 186.5
Short-term and current portion of long-term borrowings	157.4	31.7	308.2		497.3
Settlement obligations <sup>(2)</sup>		4,138.3	4,542.3		8,680.6
Other current liabilities	371.7	737.8	304.1		1,413.6
<b>Total current liabilities</b>	<b>529.1</b>	<b>4,991.1</b>	<b>5,257.8</b>		<b>10,778.0</b>
Long-term borrowings	21,934.4	43.8	97.0		22,075.2
Long-term deferred tax (assets) liabilities	(626.3)	2,181.0	93.5		1,648.2
Intercompany payable (receivable)	2,347.6	(1,760.1)	(587.5)		
Intercompany notes	1,613.5	(1,201.1)	(412.4)		
Other long-term liabilities	1,156.8	96.0	19.6		1,272.4
<b>Total liabilities</b>	<b>26,955.1</b>	<b>4,350.7</b>	<b>4,468.0</b>		<b>35,773.8</b>
First Data Corporation stockholder's equity	2,377.9	22,990.2	6,648.3	\$ (29,638.5)	2,377.9
Noncontrolling interests			24.4		24.4
<b>Total equity</b>	<b>2,377.9</b>	<b>22,990.2</b>	<b>6,672.7</b>	<b>(29,638.5)</b>	<b>2,402.3</b>
<b>Total liabilities and equity</b>	<b>\$ 29,333.0</b>	<b>\$ 27,340.9</b>	<b>\$ 11,140.7</b>	<b>\$ (29,638.5)</b>	<b>\$ 38,176.1</b>

- <sup>(2)</sup> 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)	Three months ended March 31, 2009				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents at beginning of period	\$ 10.5	\$ 38.9	\$ 356.9	\$	\$ 406.3
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net (loss) income attributable to First Data Corporation	(231.3)	66.8	(21.4)	(45.4)	(231.3)
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1.1	285.6	65.4		352.1
Charges (gains) related to restructuring, impairments, litigation and regulatory settlements, other and other income (expense)	(49.3)	16.4	34.2		1.3
Other non-cash and non-operating items, net	109.2	(17.7)	(1.2)	45.4	135.7
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(482.4)	314.4	125.1		(42.9)
Net cash (used in) provided by operating activities	(652.7)	665.5	202.1		214.9
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Current period acquisitions, net of cash acquired		(5.8)	(3.4)		(9.2)
Payments related to other businesses previously acquired		(13.5)			(13.5)
Additions to property and equipment, net	(1.9)	(20.2)	(25.9)		(48.0)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs		(24.0)	(9.9)		(33.9)
Proceeds from the sale of marketable securities		0.2			0.2
Other investing activities			5.8		5.8
Net cash used in investing activities	(1.9)	(63.3)	(33.4)		(98.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Short-term borrowings, net	117.0		(158.4)		(41.4)
Principal payments on long-term debt	(32.4)	(10.2)	(5.6)		(48.2)
Intercompany	602.3	(582.7)	(19.6)		
Net cash provided by (used in) financing activities	686.9	(592.9)	(183.6)		(89.6)
Effect of exchange rate changes on cash and cash equivalents		(1.1)	(9.8)		(10.9)
Change in cash and cash equivalents	32.3	8.2	(24.7)		15.8
Cash and cash equivalents at end of period	\$ 42.8	\$ 47.1	\$ 332.2	\$	\$ 422.1



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

(in millions)	Three months ended March 31, 2008				
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Cash and cash equivalents at beginning of period	\$ 60.6	\$ 60.7	\$ 485.2		\$ 606.5
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net (loss) income attributable to First Data Corporation	(221.7)	136.1	104.4	\$ (240.5)	(221.7)
Adjustments to reconcile to net cash provided by operating activities:					
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	9.7	275.7	83.0		368.4
Charges (gains) related to restructuring, impairments, litigation and regulatory settlements, other and other income (expense)	110.2	(0.5)	(66.5)		43.2
Other non-cash and non-operating items, net	(156.2)	(87.8)	(1.4)	240.5	(4.9)
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(191.8)	238.9	51.9		99.0
Net cash (used in) provided by operating activities	(449.8)	562.4	171.4		284.0
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Current period acquisitions, net of cash acquired	(17.6)		(175.7)		(193.3)
Payments related to other businesses previously acquired		(18.1)	(0.2)		(18.3)
Additions to property and equipment, net	(1.5)	(34.8)	(17.1)		(53.4)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(1.3)	(26.6)	(12.9)		(40.8)
Proceeds from the sale of marketable securities		0.2	52.1		52.3
Other investing activities	(1.5)				(1.5)
Net cash used in investing activities	(21.9)	(79.3)	(153.8)		(255.0)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Short-term borrowings, net	30.0		(45.0)		(15.0)
Principal payments on long-term debt	(32.2)	(4.7)	(8.0)		(44.9)
Capital contributed by Parent	105.1				105.1
Intercompany	454.3	(459.3)	5.0		
Net cash provided by (used in) financing activities	557.2	(464.0)	(48.0)		45.2
Effect of exchange rate changes on cash and cash equivalents			21.2		21.2
Change in cash and cash equivalents	85.5	19.1	(9.2)		95.4
Cash and cash equivalents at end of period	\$ 146.1	\$ 79.8	\$ 476.0	\$	\$ 701.9



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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 headquarters in Greenwood Village, Colorado, 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; official check issuance; and check verification, settlement and guarantee.

**Segment Realignment**

Effective January 1, 2009, the Company's Chief Executive Officer began making strategic and operating decisions with regards to assessing performance and allocating resources based on a new segment structure. FDC now operates in four business segments: Retail and Alliance Services, Financial Services, International and Integrated Payment Systems ( "IPS" ). A summary of the new segments follows:

The Retail and Alliance Services segment is comprised of businesses that provide services which facilitate the merchants' ability to accept credit, debit, stored-value and loyalty cards and checks. The segment's merchant processing and acquiring services include authorization, transaction capture, settlement, chargeback handling and internet-based transaction processing. Retail and Alliance Services also provides point-of-sale ( "POS" ) solutions and other equipment necessary to capture merchant transactions. A majority of these services pertain to transactions in which consumer payments to merchants are made through a card association (such as Visa or MasterCard), a debit network, or another payment network (such as Discover). In addition, Retail and Alliance Services provides check verification, settlement and guarantee services and a wide range of open and closed loop stored-value products and processing services. The segment's largest components of revenue consist of discount fees charged to merchants, processing fees charged to unconsolidated alliances, equity earnings from unconsolidated alliances, selling and leasing of POS devices, fees for check verification, settlement and guarantee services and debit network fees.

The Financial Services segment provides issuer card and network solutions and payment management solutions for recurring bill payments. Financial Services also offers services to improve customer communications, billing, online banking and consumer bill payment. Issuer card and network solutions includes credit, retail and debit card processing, debit network services (including the STAR Network), and output services for financial institutions and other organizations offering credit cards, debit cards and retail private label cards to consumers and businesses to manage customer accounts. The segment's largest components of revenue consist of fees for account management, transaction authorization and posting, and network switching as well as reimbursable postage.

The International segment is comprised of businesses that provide the following services outside of the U.S.: credit, retail, debit and prepaid card processing; merchant acquiring and processing; ATM and POS processing, driving, acquiring and switching services; and card processing software. The largest components of the segment's revenue are fees for facilitating the merchants' ability to accept credit, retail and debit cards by authorizing, capturing, and settling merchants' credit, retail, debit, stored-value and loyalty card transactions as well as for transaction authorization and posting, network switching and account management.

The IPS segment is principally comprised of operations that deal in the issuance of official checks which are sold by agents that are financial institutions and the issuance of money orders which are sold by agents that are financial institutions and retail businesses. Official checks serve as an alternative to a bank's own items such as cashiers or bank checks. Money orders serve as a disbursement option for a consumer or business. Revenue is principally earned on invested funds which are pending settlement. The official check and money order businesses are conducted by a subsidiary of the Company, Integrated Payment Systems Inc., which is licensed to offer payment services that fall under state and federal regulations. This segment is in the process of winding down its official check and money order businesses. IPS also offers other payment services in its capacity as a licensed entity, and such other services will continue after the wind down of the official check and money order businesses.

Although the segments have changed, a detailed discussion regarding the businesses that comprise the Company's segments, the strategies of the Company and the businesses within the segments, business trends affecting the Company and certain risks inherent in the Company's business is included in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.





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**FIRST DATA CORPORATION**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION**  
**AND RESULTS OF OPERATIONS (Continued)**

Financial Summary

The following financial summary presents comparative information for the three months ended March 31, 2009 and the three months ended March 31, 2008:

(in millions)	Three months ended March 31,		Percentage Change
	2009	2008	
Total consolidated revenues	\$ 2,076.2	\$ 2,126.5	(2)%
Total consolidated operating profit	\$ 30.4	\$ 196.6	(85)%
Retail and Alliance Services segment revenue	\$ 1,156.0	\$ 1,081.1	7%
Financial Services segment revenue	\$ 544.2	\$ 558.5	(3)%
International segment revenue	\$ 368.7	\$ 439.1	(16)%

Chase Paymentech Solutions and Wells Fargo Merchant Services

On November 1, 2008, the Company and JPMorgan Chase terminated their merchant alliance joint venture, Chase Paymentech Solutions™ (CPS), which was the Company's largest merchant alliance. The Company received its proportionate 49% share of the assets of the joint venture. The new domestic owned and managed business is being operated as part of FDC's Retail and Alliance Services segment. FDC continues to provide transaction processing and related services for certain merchants of the joint venture that were allocated to JPMorgan Chase but are resident on FDC's processing platforms. FDC historically accounted for its minority interest in the joint venture under the equity method of accounting. Since November 1, 2008, the portion of CPS business received by the Company in the separation is reflected on a consolidated basis throughout the financial statements. In the three months ended March 31, 2008, CPS comprised the vast majority of the Equity earnings in affiliates and the processing and other fees noted in footnote (a) on the face of the Consolidated Statements of Operations.

On December 31, 2008, the Company and Wells Fargo & Company (WFB) extended their merchant alliance joint venture, Wells Fargo Merchant Services, LLC (WFMS) for five years beyond its previously contracted termination date through December 31, 2014. In connection with the agreement to extend WFMS, FDC sold 12.5% of the membership interests to WFB. This resulted in FDC and WFB owning 40% and 60% of WFMS, respectively, as of December 31, 2008. As a result of the transaction, FDC deconsolidated the WFMS balance sheet and is reflecting its remaining ownership interest as an equity method investment. In 2009, the Company's share of WFMS's earnings is reflected in the Equity earnings in affiliates line in the Consolidated Statements of Operations and therefore consolidated revenues and expenses decreased. In the three months ended March 31, 2009, WFMS comprised the majority of the Equity earnings in affiliates and the processing and other fees noted in footnote (a) on the face of the Consolidated Statements of Operations.

In comparing 2008 to 2009, the net impact of the termination of CPS and the deconsolidation of WFMS were offsetting in nature but resulted in net increases in consolidated revenues and expenses and net decreases in Equity earnings in affiliates due to the relative greater significance of CPS related balances. Net income attributable to noncontrolling interests was negatively impacted in 2009 compared to 2008 as the result of the WFMS membership interest sale referred to above but was otherwise largely unaffected by the structural changes. The combined impact of these transactions is referred to throughout this MD&A as the net impact of the alliance transactions.

Economic Conditions

General economic conditions in the U.S. and other areas of the world weakened in the second half of 2008 with a dramatic acceleration in the fourth quarter which continued into the first quarter of 2009. Many of FDC's businesses rely in part on the number and size of consumer transactions which have been challenged by a weakened U.S. and world economy and difficult credit markets. Broad slowdowns in consumer spending had a material impact on first quarter 2009 revenues and profits. The Company experienced increased credit losses during the first quarter of 2009 compared to both the first quarter of 2008 and the fourth quarter of 2008 resulting from a higher level of merchant failures and bankruptcy filings generally attributable to challenges in the current economic environment. The Company believes this trend could potentially

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continue if current economic conditions persist or worsen during the remainder of 2009. In addition, the Company's revenues and operating profit during the first quarter of 2009 as compared to the same period in 2008 were adversely impacted by consumer spending shifting to large discount merchants. The shift to large discount merchants had less of an effect in the first quarter 2009 compared to the fourth quarter 2008 due to a higher percentage of sales that occurred at large discount merchants during the holiday season. Also as a result of the current economic conditions in the U.S., credit card issuers have been reducing credit limits and closing accounts and are more selective with regard to whom they issue credit cards. This reduction in the number of accounts and account activity adversely impacted Financial Services segment results in the three months ended March 31, 2009 as discussed below. A continuation of the economic slowdown could adversely impact future revenues and profits of the Company.

**Table of Contents****FIRST DATA CORPORATION****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION****AND RESULTS OF OPERATIONS (Continued)**

The Company's source of liquidity is principally cash generated from operating activities, supplemented as necessary on a very short-term basis by borrowings against its revolving credit facility. The economic downturn is expected to have at least a near term impact on the capital resources provided by operating activities. The Company utilized the revolving credit facility at the end of March 2009 on a very short-term basis due to timing of expenditures.

In addition to the current economic conditions, there is also volatility in the credit and capital markets which could adversely impact the Company's results of operations due to the potential for additional investment losses and investment impairments. There were no investment impairments recorded during the three months ended March 31, 2009 and investment losses were not material.

**Adoption of SFAS 160**

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160), effective January 1, 2009 which requires that earnings attributed to noncontrolling interests be reported as part of consolidated earnings and not as a separate component of income or expense. The Company's Consolidated Statement of Operations for 2008 has been revised to conform to the presentation requirements of SFAS No. 160.

**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.

***Consolidated Results***

(in millions)	Three months ended March 31,				Change	
	2009	% of Total Revenue	2008	% of Total Revenue	Amount	%
<b>Revenues:</b>						
Transaction and processing service fees	\$ 1,306.8	64%	\$ 1,379.7	64%	\$ (72.9)	(5)%
Investment income, net	5.8	0%	56.0	3%	(50.2)	(90)%
Product sales and other	174.0	8%	212.0	10%	(38.0)	(18)%
Reimbursable debit network fees, postage and other	589.6	28%	478.8	23%	110.8	23%