

FIRST DATA CORP
Form 10-Q
August 13, 2013
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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

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

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 x

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 x

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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 July 31, 2013 |
|--|-------------------------------------|
| Common Stock, \$0.01 par value per share | 1,000 shares |

* The registrant has not been subject to the filing requirements of Section 13 or 15(d) of the Exchange Act since January 1, 2012; however, registrant filed all reports since that time that would have been required to be filed since that date if it were subject to Section 13 or 15(d) of the Exchange Act.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

| (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Revenues: | | | | |
| Transaction and processing service fees: | | | | |
| Merchant related services (a) | \$ 1,023.7 | \$ 987.4 | \$ 1,966.8 | \$ 1,907.9 |
| Check services | 71.3 | 78.4 | 143.7 | 156.4 |
| Card services (a) | 419.7 | 437.9 | 826.5 | 867.8 |
| Other services | 113.9 | 118.5 | 235.3 | 243.4 |
| Product sales and other (a) | 204.9 | 217.0 | 407.3 | 420.4 |
| Reimbursable debit network fees, postage and other | 875.3 | 846.3 | 1,720.1 | 1,653.6 |
| | 2,708.8 | 2,685.5 | 5,299.7 | 5,249.5 |
| Expenses: | | | | |
| Cost of services (exclusive of items shown below) | 691.9 | 713.4 | 1,410.6 | 1,408.8 |
| Cost of products sold | 83.4 | 86.2 | 166.0 | 171.2 |
| Selling, general and administrative | 493.2 | 458.9 | 956.5 | 905.4 |
| Reimbursable debit network fees, postage and other | 875.3 | 846.3 | 1,720.1 | 1,653.6 |
| Depreciation and amortization | 274.7 | 294.5 | 546.9 | 603.6 |
| Other operating expenses: | | | | |
| Restructuring, net | 20.0 | 13.2 | 38.2 | 16.9 |
| Impairments | 5.1 | 5.1 | 5.1 | 5.1 |
| | 2,438.5 | 2,417.6 | 4,838.3 | 4,764.6 |
| Operating profit | 270.3 | 267.9 | 461.4 | 484.9 |
| Interest income | 2.6 | 1.7 | 5.3 | 4.2 |
| Interest expense | (472.2) | (480.7) | (941.2) | (941.8) |
| Other income (expense) | 15.0 | (22.6) | 15.3 | (30.8) |
| | (454.6) | (501.6) | (920.6) | (968.4) |
| Loss before income taxes and equity earnings in affiliates | (184.3) | (233.7) | (459.2) | (483.5) |
| Income tax expense (benefit) | 11.5 | (74.7) | 73.1 | (182.9) |
| Equity earnings in affiliates | 51.0 | 44.0 | 88.7 | 71.5 |
| Net loss | (144.8) | (115.0) | (443.6) | (229.1) |
| Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest | | | | |
| | 44.3 | 42.4 | 82.9 | 80.8 |
| Net loss attributable to First Data Corporation | \$ (189.1) | \$ (157.4) | \$ (526.5) | \$ (309.9) |

(a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of \$41.2 million and \$81.7 million for the three and six months ended June 30, 2013, respectively, and \$40.2 million and \$78.7 million for the comparable periods in 2012.

See Notes to Consolidated Financial Statements.

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

| (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Net loss | \$ (144.8) | \$ (115.0) | \$ (443.6) | \$ (229.1) |
| Other comprehensive (loss) income, net of tax: | | | | |
| Unrealized gains (losses) on securities | 1.1 | (1.5) | 0.9 | 0.6 |
| Unrealized gains on hedging activities | | 24.1 | | 48.3 |
| Foreign currency translation adjustment | (66.2) | (172.2) | (147.8) | (92.7) |
| Pension liability adjustments | 0.9 | 0.7 | 2.3 | 1.0 |
| Total other comprehensive loss, net of tax | (64.2) | (148.9) | (144.6) | (42.8) |
| Comprehensive loss | (209.0) | (263.9) | (588.2) | (271.9) |
| Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest | 46.2 | 41.5 | 80.9 | 77.8 |
| Comprehensive loss attributable to First Data Corporation | \$ (255.2) | \$ (305.4) | \$ (669.1) | \$ (349.7) |

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 June 30, 2013 (Unaudited) | As of December 31, 2012 |
|--|---------------------------------------|----------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 363.2 | \$ 608.3 |
| Accounts receivable, net of allowance for doubtful accounts of \$35.1 (2013) and \$33.3 (2012) | 1,547.7 | 1,847.7 |
| Settlement assets | 16,011.6 | 9,173.8 |
| Other current assets | 323.3 | 253.6 |
| Total current assets | 18,245.8 | 11,883.4 |
| Property and equipment, net of accumulated depreciation of \$1,068.5 (2013) and \$1,024.3 (2012) | 874.1 | 855.8 |
| Goodwill | 17,165.4 | 17,282.5 |
| Customer relationships, net of accumulated amortization of \$4,133.0 (2013) and \$3,839.0 (2012) | 3,456.5 | 3,756.3 |
| Other intangibles, net of accumulated amortization of \$1,636.3 (2013) and \$1,544.0 (2012) | 1,760.3 | 1,828.6 |
| Investment in affiliates | 1,349.1 | 1,413.1 |
| Long-term settlement assets | 35.8 | 54.3 |
| Other long-term assets | 813.1 | 825.0 |
| Total assets | \$ 43,700.1 | \$ 37,899.0 |
| LIABILITIES AND EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 246.2 | \$ 260.9 |
| Short-term and current portion of long-term borrowings | 119.7 | 257.1 |
| Settlement obligations | 16,044.8 | 9,226.3 |
| Other current liabilities | 1,428.9 | 1,600.6 |
| Total current liabilities | 17,839.6 | 11,344.9 |
| Long-term borrowings | 22,543.3 | 22,528.9 |
| Long-term deferred tax liabilities | 570.5 | 509.5 |
| Other long-term liabilities | 725.1 | 821.9 |
| Total liabilities | 41,678.5 | 35,205.2 |
| Commitments and contingencies (See Note 7) | | |
| Redeemable noncontrolling interest | 68.2 | 67.4 |
| First Data Corporation stockholder's deficit: | | |
| Common stock, \$.01 par value; authorized and issued 1,000 shares (2013 and 2012) | | |
| Additional paid-in capital | 7,371.9 | 7,341.5 |
| Paid-in capital | 7,371.9 | 7,341.5 |
| Accumulated loss | (7,931.8) | (7,387.8) |
| Accumulated other comprehensive loss | (694.8) | (552.2) |
| Total First Data Corporation stockholder's deficit | (1,254.7) | (598.5) |
| Noncontrolling interests | 3,208.1 | 3,224.9 |
| Total equity | 1,953.4 | 2,626.4 |
| Total liabilities and equity | \$ 43,700.1 | \$ 37,899.0 |

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| (in millions) | Six months ended June 30, | |
|--|------------------------------|------------|
| | 2013 | 2012 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | \$ (443.6) | \$ (229.1) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues) | 606.7 | 677.2 |
| Charges related to other operating expenses and other income (expense) | 22.9 | 52.8 |
| Other non-cash and non-operating items, net | (18.6) | (58.0) |
| Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in: | | |
| Accounts receivable, current and long-term | 267.7 | 95.6 |
| Other assets, current and long-term | 36.4 | 168.5 |
| Accounts payable and other liabilities, current and long-term | (183.5) | (114.3) |
| Income tax accounts | 21.4 | (198.0) |
| Net cash provided by operating activities | 309.4 | 394.7 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Current period acquisitions | | (1.9) |
| Contributions to equity method investments | | (7.9) |
| Payments related to other businesses previously acquired | 0.2 | (3.2) |
| Proceeds from dispositions, net of expenses paid and cash disposed | 9.6 | |
| Proceeds from sale of property and equipment | 3.8 | 7.4 |
| Additions to property and equipment | (89.1) | (91.5) |
| Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs | (86.1) | (99.2) |
| Other investing activities | 7.1 | 7.2 |
| Net cash used in investing activities | (154.5) | (189.1) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Short-term borrowings, net | (147.8) | (34.3) |
| Accrued interest funded upon issuance of notes | (6.5) | |
| Debt modification (payments) proceeds and related financing costs, net | (49.0) | 7.1 |
| Principal payments on long-term debt | (36.8) | (36.0) |
| Proceeds from sale-leaseback transactions | | 13.8 |
| Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interest | (102.1) | (131.5) |
| Redemption of Parent's redeemable common stock | (5.9) | (0.1) |
| Purchase of noncontrolling interest | (23.7) | (25.1) |
| Cash dividends | (17.5) | (4.0) |
| Net cash used in financing activities | (389.3) | (210.1) |
| Effect of exchange rate changes on cash and cash equivalents | (10.7) | 2.3 |
| Change in cash and cash equivalents | (245.1) | (2.2) |
| Cash and cash equivalents at beginning of period | 608.3 | 485.7 |
| Cash and cash equivalents at end of period | \$ 363.2 | \$ 483.5 |

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See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

| Six months ended June 30, 2013 (in millions) | First Data Corporation Shareholder | | | | | |
|--|------------------------------------|---------------------|---|------------------|--------------------|-----------------------------|
| | Total | Accumulated Loss | Other Comprehensive Income (Loss) | Common Shares | Paid-In Capital | Noncontrolling Interests |
| Balance, December 31, 2012 | \$ 2,626.4 | \$ (7,387.8) | \$ (552.2) | | \$ 7,341.5 | \$ 3,224.9 |
| Dividends and distributions paid to noncontrolling interests | (84.8) | | | | | (84.8) |
| Net (loss) income (a) | (459.7) | (526.5) | | | | 66.8 |
| Other comprehensive loss | (144.6) | | (142.6) | | | (2.0) |
| Adjustment to redemption value of redeemable noncontrolling interest | (2.0) | | | | (2.0) | |
| Stock compensation expense and other | 26.6 | | | | 26.6 | |
| Cash dividends paid by First Data Corporation to Parent | (17.5) | (17.5) | | | | |
| Purchase of noncontrolling interest | 9.0 | | | | 5.8 | 3.2 |
| Balance, June 30, 2013 | \$ 1,953.4 | \$ (7,931.8) | \$ (694.8) | | \$ 7,371.9 | \$ 3,208.1 |

| | | | | | | |
|--------------------------------------|------------|--------------|------------|--|------------|------------|
| Balance, December 31, 2011 | \$ 3,408.0 | \$ (6,680.2) | \$ (598.4) | | \$ 7,375.2 | \$ 3,311.4 |
| Net (loss) income (a) | (247.1) | (309.9) | | | | 62.8 |
| Stock compensation expense and other | 8.1 | | | | 8.1 | |
| Purchase of noncontrolling interest | (47.6) | | | | (46.1) | (1.5) |

(a) The total net loss presented in the Consolidated Statements of Equity for the six months ended June 30, 2013 and 2012 is \$16.1 million and \$18.0 million, respectively, greater than the amount presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interest not included in equity.

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, 2012. 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 June 30, 2013 and the consolidated results of its operations and comprehensive income (loss) for the three and six months ended June 30, 2013 and 2012 and the consolidated cash flows and changes in equity for the six months ended June 30, 2013 and 2012. 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

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 June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------|------------------------------|---------|
| | 2013 | 2012 | 2013 | 2012 |
| Amortization of initial payments for new contracts | \$ 10.1 | \$ 11.9 | \$ 20.3 | \$ 21.7 |
| | \$ 19.8 | \$ 21.4 | \$ 39.5 | \$ 51.9 |

Amortization related to equity method investments

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:

| (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|----------------------------------|--------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Interchange fees and assessments | \$ 4,884.1 | \$ 4,633.8 | \$ 9,394.7 | \$ 8,918.9 |
| Debit network fees | \$ 731.9 | \$ 705.5 | \$ 1,429.1 | \$ 1,368.9 |

New Accounting Guidance

In March 2013, the Financial Accounting Standards Board issued guidance that resolves diversity in practice as to when to release the cumulative translation adjustment into net income when a parent ceases to have a controlling interest in a subsidiary within a foreign entity or sells a part or all of its investment in a foreign entity. The guidance also resolves diversity in the accounting for the cumulative translation adjustment in a business combination achieved in stages involving a foreign entity. The Company adopted the guidance as of January 1, 2013. Adoption did not have an impact on the Company's financial position or results of operations.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****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 June 30, | | Six months ended June 30, | |
|---|--------------------------------|-----------|------------------------------|-----------|
| | 2013 | 2012 | 2013 | 2012 |
| Investment gains | \$ 1.1 | \$ | \$ 2.3 | \$ 0.3 |
| Derivative financial instruments gains and (losses) | 10.4 | (40.1) | 14.2 | (43.8) |
| Non-operating foreign currency gains and (losses) | 3.5 | 17.5 | (1.2) | 12.7 |
| Other income (expense) | \$ 15.0 | \$ (22.6) | \$ 15.3 | \$ (30.8) |

Supplemental Cash Flow Information

During the six months ended June 30, 2013 and 2012, the Company entered into capital leases, net of trade-ins, totaling approximately \$104 million and \$34 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**

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

| (in millions) | Approximate Number of Employees | Pretax Benefit (Charge) | | | | Totals |
|---|---------------------------------------|------------------------------------|-----------------------|---------------|----------------------------|-----------|
| | | Retail and Alliance Services | Financial Services | International | All Other and Corporate | |
| <u>Three months ended June 30,</u> | | | | | | |
| <u>2013</u> | | | | | | |
| Restructuring charges | 350 | \$ (10.6) | \$ (4.5) | | \$ (5.8) | \$ (20.9) |
| Restructuring accrual reversals | | 0.7 | | | 0.2 | 0.9 |
| Total pretax charge, net of reversals | | \$ (9.9) | \$ (4.5) | | \$ (5.6) | \$ (20.0) |
| <u>Six months ended June 30,</u> | | | | | | |
| <u>2013</u> | | | | | | |
| Restructuring charges | 360 | \$ (15.1) | \$ (4.9) | \$ (0.8) | \$ (18.3) | \$ (39.1) |
| Restructuring accrual reversals | | 0.7 | | | 0.2 | 0.9 |
| Total pretax charge, net of reversals | | \$ (14.4) | \$ (4.9) | \$ (0.8) | \$ (18.1) | \$ (38.2) |
| <u>Three months ended June 30,</u> | | | | | | |
| <u>2012</u> | | | | | | |
| Restructuring charges | 490 | \$ (3.0) | | \$ (12.1) | \$ (0.5) | \$ (15.6) |
| Restructuring accrual reversals | | 1.0 | | 0.4 | 1.0 | 2.4 |
| Total pretax charge, net of reversals | | \$ (2.0) | | \$ (11.7) | \$ 0.5 | \$ (13.2) |
| <u>Six months ended June 30,</u> | | | | | | |
| <u>2012</u> | | | | | | |
| Restructuring charges | 570 | \$ (3.0) | | \$ (16.1) | \$ (0.8) | \$ (19.9) |
| Restructuring accrual reversals | | 1.0 | | 0.7 | 1.3 | 3.0 |
| Total pretax charge, net of reversals | | \$ (2.0) | | \$ (15.4) | \$ 0.5 | \$ (16.9) |

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

The Company recorded restructuring charges during the three and six months ended June 30, 2013 in connection with management's alignment of the business with strategic objectives and cost savings initiatives as well as refinements of estimates. During the six months ended June 30, 2013, the Company also recorded restructuring charges in connection with the departure of executive officers. The Company expects to record additional charges in 2013 associated with the alignment of the business with strategic objectives and cost savings initiatives.

The Company recorded restructuring charges during the three and six months ended June 30, 2012 related primarily to employee reduction and certain employee relocation efforts in Germany. Additional restructuring charges were recorded in 2012 in connection with management's alignment of the business with strategic objectives as well as refinements of estimates.

The following table summarizes the Company's utilization of restructuring accruals for the six months ended June 30, 2013:

| (in millions) | | Employee Severance |
|---|----|-------------------------------|
| Remaining accrual as of January 1, 2013 | \$ | 13.1 |
| Expense provision | | 39.1 |
| Cash payments and other | | (16.5) |
| Changes in estimates | | (0.9) |
| Remaining accrual as of June 30, 2013 | \$ | 34.8 |

Note 4: Borrowings**Short-Term Borrowings**

As of June 30, 2013 and December 31, 2012, FDC had approximately \$226 million and \$346 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 \$29.6 million and \$177.2 million as of June 30, 2013 and December 31, 2012, respectively. Certain of these arrangements are uncommitted but FDC had \$29.4 million and \$130.0 million of borrowings outstanding against them as of June 30, 2013 and December 31, 2012, respectively.

Senior Secured Credit Facilities

Senior Secured Revolving Credit Facility. As of June 30, 2013, 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 \$46.5 million and \$45.1 million were issued as of June 30, 2013 and December 31, 2012, respectively. FDC had no borrowings outstanding against this facility as of June 30, 2013 or as of December 31, 2012 other than the letters of credit discussed above. At June 30, 2013, \$1,468.8 million remained available under this facility after considering the outstanding letters of credit. \$499.1 million of the facility matures on September 24, 2013 while the remaining \$1,016.2 million matures either on December 31, 2015 or September 24, 2016 subject to certain conditions.

Senior Secured Term Loan Facility. On February 13, 2013, FDC entered into a February 2013 Joinder Agreement relating to its credit agreement, pursuant to which FDC incurred \$258 million in new term loans maturing on September 24, 2018. The interest rate applicable to the new September 2018 Term Loans is a rate equal to, at FDC's option, either (a) LIBOR for deposits in U.S. dollars plus 500 basis points or (b) a base rate plus 400 basis points. FDC used the net cash proceeds from the new term loans to repay all of its outstanding term loan borrowings maturing in 2014 and to pay related fees and expenses.

On April 10, 2013, FDC's senior secured term loan facility was amended to create a senior secured replacement term loan facility in an aggregate principal amount equal to the aggregate outstanding principal amount of term loans due in 2017 that currently bear interest at a rate per annum equal to, at FDC's option, LIBOR Rate plus 500 basis points or a base rate plus 400 basis points. As of April 10, 2013, all of the previously outstanding term loans due in 2017 were exchanged with loans under the new facility which have the same terms except the new loans bear interest at a rate per annum equal to, at FDC's option, LIBOR Rate plus 400 basis points or a base rate plus 300 basis points.

On April 15, 2013, FDC further amended its senior secured term loan facility to create a senior secured replacement term loan facility in an aggregate principal amount equal to the aggregate outstanding principal amount of the term loans due in 2018 that

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

currently bear interest at a rate per annum equal to, at FDC's option, LIBOR Rate plus 500 basis points or a base rate plus 400 basis points. All of the previously outstanding 2018 term loans were exchanged for loans under the new facility which have the same terms except the new loans bear interest at a rate per annum equal to, at FDC's option, LIBOR Rate plus 400 basis points or a base rate plus 300 basis points. FDC paid closing fees in connection with the transaction.

10.55% Senior Unsecured Notes

On January 30, 2013, FDC commenced a tender offer to purchase for cash any and all of its outstanding 10.55% senior unsecured notes. The tender offer expired on February 27, 2013. Noteholders that validly tendered their notes on or before February 12, 2013 received an early tender premium. The completion of the tender offer was subject to the debt offering described below and certain other conditions. In addition, on March 1, 2013, FDC redeemed the outstanding 10.55% senior unsecured notes that were not repurchased upon completion of the tender offer.

11.25% Senior Unsecured Notes Due 2021

On February 13, 2013, FDC issued \$785 million aggregate principal amount of 11.25% senior unsecured notes due January 15, 2021. Interest on the notes will be payable in cash semi-annually on May 15 and November 15 of each year, commencing on November 15, 2013. FDC used the proceeds from the offering to repurchase all of its outstanding 10.55% senior unsecured notes as described above and to pay related fees and expenses.

The notes are unsecured and (i) rank senior in right of payment to any existing and future subordinated indebtedness, including the existing senior subordinated notes; (ii) rank equally in right of payment to any existing and future senior indebtedness; (iii) be effectively junior to all existing and future secured indebtedness, including indebtedness under the senior secured credit facilities, existing senior secured notes, existing senior secured second lien notes and capital leases to the extent of the collateral securing such indebtedness; and (iv) be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of the non-guarantor subsidiaries (other than indebtedness and liabilities owed to FDC or one of its subsidiary guarantors).

The notes are similarly guaranteed in accordance with their terms by each of FDC's domestic subsidiaries that guarantee obligations under FDC's senior secured term loan facility described in more detail in Note 15 of these Consolidated Financial Statements. The notes also contain a number of covenants similar to those described for the senior secured obligations noted above.

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FDC may redeem the notes, in whole or in part, at any time prior to January 15, 2016, 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, until January 15, 2016, FDC may redeem up to 35% of the aggregate principal amount of the notes at 111.25% with the net cash proceeds of one or more equity offerings.

FDC has agreed to use its reasonably best efforts to register notes with the SEC having substantially identical terms as the 11.25% senior unsecured notes, as part of an offer to exchange freely tradable exchange notes for the 11.25% senior unsecured notes within 360 days after the issue date. If FDC fails to complete the exchange or, if required, to have a shelf registration statement declared effective within that time period (registration default), the annual interest rate on the notes will increase by 0.25%. The annual interest rate on the notes will increase by an additional 0.25% for each subsequent 90-day period during which the registration default continues, up to a maximum additional interest rate of 0.50% per year. FDC may subsequently cure the registration default and the applicable interest rate on the unsecured notes will revert to the original rate. If FDC must pay additional interest, it will be paid in cash on the same dates that other interest payments on the notes are made, until the registration default is corrected.

10.625% Senior Unsecured Notes Due 2021

On April 10, 2013, FDC issued \$815 million aggregate principal amount of 10.625% senior unsecured notes due June 15, 2021. Interest on the notes will be payable in cash semi-annually on February 15 and August 15 of each year, commencing on August 15, 2013. FDC used the proceeds from the offering to repurchase all of its outstanding 9.875% senior unsecured notes and to pay related fees and expenses.

The notes will be unsecured and (i) rank senior in right of payment to any existing and future subordinated indebtedness, including the existing senior subordinated notes; (ii) rank equally in right of payment to any existing and future senior indebtedness; (iii) be effectively junior to all existing and future secured indebtedness, including indebtedness under the senior secured credit facilities, existing senior secured notes, existing senior secured second lien notes and capital leases to the extent of the collateral

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(Unaudited)

securing such indebtedness; and (iv) be effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of the non-guarantor subsidiaries (other than indebtedness and liabilities owed to the Company or one of its subsidiary guarantors).

The notes will be similarly guaranteed in accordance with their terms by each of FDC's domestic subsidiaries that guarantee obligations under FDC's senior secured term loan facility described above. The notes also contain a number of covenants similar to those described for the senior secured obligations noted in more detail in Note 15 of these Consolidated Financial Statements.

FDC may redeem the notes, in whole or in part, at any time prior to April 15, 2016, 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, until April 15, 2016, FDC may redeem up to 35% of the aggregate principal amount of the notes at 110.625% with the net cash proceeds of one or more equity offerings.

FDC has agreed to use its reasonably best efforts to register notes with the SEC having substantially identical terms as the 10.625% senior unsecured notes, as part of an offer to exchange freely tradable exchange notes for the 10.625% senior unsecured notes within 360 days after the issue date. If FDC fails to complete the exchange or, if required, to have a shelf registration statement declared effective within that time period ("registration default"), the annual interest rate on the notes will increase by 0.25%. The annual interest rate on the notes will increase by an additional 0.25% for each subsequent 90-day period during which the registration default continues, up to a maximum additional interest rate of 0.50% per year. FDC may subsequently cure the registration default and the applicable interest rate on the unsecured notes will revert to the original rate. If FDC must pay additional interest, it will be paid in cash on the same dates that other interest payments on the notes are made, until the registration default is corrected.

11.75% Senior Unsecured Subordinated Notes Due 2021

On May 30, 2013, FDC issued \$750 million aggregate principal amount of 11.75% senior unsecured subordinated notes due August 15, 2021. Interest on the notes will be payable in cash semi-annually on February 15 and August 15 of each year, commencing on February 15, 2014. FDC used the proceeds from the offering, together with cash on hand, to redeem \$520 million aggregate principal amount of its outstanding 11.25% senior unsecured subordinated notes due 2016, repurchase \$230 million aggregate principal amount of its outstanding 11.25% senior unsecured subordinated notes due 2016 in a privately negotiated transaction with an existing holder of such notes, and to pay related fees and expenses.

The notes are unsecured and (i) subordinated in right of payment to all of FDC's existing and future senior indebtedness; (ii) subordinated in right of payment to all of FDC's secured indebtedness, including its senior secured credit facilities and FDC's existing senior secured notes, to the extent of the value of the assets securing such indebtedness; (iii) structurally subordinated in right of payment to any existing and future indebtedness and other liabilities of its non-guarantor subsidiaries (other than indebtedness and liabilities owed to First Data or one of its

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subsidiary guarantors); (iv) rank equally in right of payment with all of FDC's existing and future unsecured senior subordinated indebtedness; and (v) rank senior in right of payment to any of FDC's indebtedness expressly subordinated to the notes.

The notes are similarly guaranteed in accordance with their terms by each of FDC's domestic subsidiaries that guarantee obligations under FDC's senior secured term loan facility described above. The notes also contain a number of covenants similar to those described for the senior secured obligations noted in more detail in Note 15 of these Consolidated Financial Statements.

FDC may redeem the notes, in whole or in part, at any time prior to May 15, 2016, 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, until May 15, 2016, FDC may redeem up to 35% of the aggregate principal amount of the notes at 111.75% with the net cash proceeds of one or more equity offerings.

FDC has agreed to use its reasonably best efforts to register notes with the SEC having substantially identical terms as the 11.75% senior unsecured subordinated notes, as part of an offer to exchange freely tradable exchange notes for the 11.75% senior unsecured subordinated notes within 360 days after the issue date. If FDC fails to complete the exchange or, if required, to have a shelf registration statement declared effective within that time period (a registration default), the annual interest rate on the notes will increase by 0.25%. The annual interest rate on the notes will increase by an additional 0.25% for each subsequent 90-day period during which the registration default continues, up to a maximum additional interest rate of 0.50% per year. FDC may subsequently cure the registration default and the applicable interest rate on the unsecured notes will revert to the original rate. If FDC must pay additional interest, it will be paid in cash on the same dates that other interest payments on the notes are made, until the registration default is corrected.

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

In connection with the February, April and May 2013 transactions described above, FDC incurred total costs of \$122.0 million, comprised of lender and underwriting fees and other expenses of approximately \$60 million and premiums paid of approximately \$62 million related to the tender offer and debt repurchases. Approximately \$116.7 million of the total costs were recorded as discounts on the modified debt and are being amortized to interest expense over the remaining terms of the term loans and notes.

Note 5: Segment Information

For a detailed discussion of the Company's principles regarding its operating segments refer to Note 15 of the Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

The following tables present the Company's operating segment results for the three and six months ended June 30, 2013 and 2012:

| (in millions) | Three months ended June 30, 2013 | | | | | Totals |
|--|----------------------------------|--------------------|---------------|-------------------------|----|---------|
| | Retail and Alliance Services | Financial Services | International | All Other and Corporate | | |
| Revenues: | | | | | | |
| Transaction and processing service fees | \$ 829.3 | \$ 327.6 | \$ 327.3 | \$ 18.9 | \$ | 1,503.1 |
| Product sales and other | 98.9 | 9.6 | 88.5 | 9.9 | | 206.9 |
| Equity earnings in affiliates (a) | | | 9.1 | | | 9.1 |
| Total segment reporting revenues | \$ 928.2 | \$ 337.2 | \$ 424.9 | \$ 28.8 | \$ | 1,719.1 |
| Internal revenue | \$ 5.8 | \$ 8.3 | \$ 2.6 | \$ | \$ | 16.7 |
| External revenue | 922.4 | 328.9 | 422.3 | 28.8 | | 1,702.4 |
| Depreciation and amortization | 118.1 | 82.9 | 63.3 | 14.3 | | 278.6 |
| Segment EBITDA | 429.3 | 150.7 | 115.2 | (62.5) | | 632.7 |
| Other operating expenses and other income (expense) excluding divestitures | 34.4 | (4.5) | 31.9 | (66.8) | | (5.0) |

| (in millions) | Three months ended June 30, 2012 | | | | | Totals |
|---------------|----------------------------------|--------------------|---------------|-------------------------|--|--------|
| | Retail and Alliance Services | Financial Services | International | All Other and Corporate | | |
| Revenues: | | | | | | |

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| | | | | | | | | | | |
|---|----|-------|----|-------|----|-------|----|--------|----|---------|
| Transaction and processing service fees | \$ | 809.4 | \$ | 338.8 | \$ | 321.1 | \$ | 21.5 | \$ | 1,490.8 |
| Product sales and other | | 104.5 | | 9.9 | | 93.7 | | 11.3 | | 219.4 |
| Equity earnings in affiliates (a) | | | | | | 9.8 | | | | 9.8 |
| Total segment reporting revenues | \$ | 913.9 | \$ | 348.7 | \$ | 424.6 | \$ | 32.8 | \$ | 1,720.0 |
| Internal revenue | \$ | 5.1 | \$ | 7.8 | \$ | 2.4 | \$ | | \$ | 15.3 |
| External revenue | | 908.8 | | 340.9 | | 422.2 | | 32.8 | | 1,704.7 |
| Depreciation and amortization | | 129.4 | | 82.0 | | 69.7 | | 10.2 | | 291.3 |
| Segment EBITDA | | 415.2 | | 150.3 | | 117.5 | | (62.0) | | 621.0 |
| Other operating expenses and other income (expense) excluding divestitures | | 3.7 | | (5.1) | | (7.1) | | (32.4) | | (40.9) |

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Six months ended June 30, 2013**

| (in millions) | Retail and Alliance Services | Financial Services | International | All Other and Corporate | Totals |
|---|------------------------------------|-----------------------|---------------|-------------------------------|------------|
| Revenues: | | | | | |
| Transaction and processing service fees | \$ 1,594.8 | \$ 648.4 | \$ 641.6 | \$ 38.2 | \$ 2,923.0 |
| Product sales and other | 194.8 | 19.4 | 176.7 | 20.3 | 411.2 |
| Equity earnings in affiliates (a) | | | 15.2 | | 15.2 |
| Total segment reporting revenues | \$ 1,789.6 | \$ 667.8 | \$ 833.5 | \$ 58.5 | \$ 3,349.4 |
| Internal revenue | \$ 10.9 | \$ 16.4 | \$ 4.9 | \$ | \$ 32.2 |
| External revenue | 1,778.7 | 651.4 | 828.6 | 58.5 | 3,317.2 |
| Depreciation and amortization | 224.1 | 163.2 | 133.5 | 25.3 | 546.1 |
| Segment EBITDA | 783.5 | 283.8 | 215.6 | (129.8) | 1,153.1 |
| Other operating expenses and other income (expense) excluding divestitures | 27.6 | (4.9) | 25.4 | (71.0) | (22.9) |

Six months ended June 30, 2012

| (in millions) | Retail and Alliance Services | Financial Services | International | All Other and Corporate | Totals |
|---|------------------------------------|-----------------------|---------------|-------------------------------|------------|
| Revenues: | | | | | |
| Transaction and processing service fees | \$ 1,555.8 | \$ 676.9 | \$ 630.7 | \$ 47.0 | \$ 2,910.4 |
| Product sales and other | 205.4 | 17.4 | 180.2 | 21.7 | 424.7 |
| Equity earnings in affiliates (a) | | | 18.6 | | 18.6 |
| Total segment reporting revenues | \$ 1,761.2 | \$ 694.3 | \$ 829.5 | \$ 68.7 | \$ 3,353.7 |
| Internal revenue | \$ 9.5 | \$ 15.6 | \$ 4.5 | \$ | \$ 29.6 |
| External revenue | 1,751.7 | 678.7 | 825.0 | 68.7 | 3,324.1 |
| Depreciation and amortization | 266.0 | 171.9 | 143.3 | 23.1 | 604.3 |
| Segment EBITDA | 767.2 | 307.7 | 212.9 | (116.1) | 1,171.7 |
| Other operating expenses and other income (expense) excluding divestitures | (6.9) | (5.1) | (20.3) | (20.5) | (52.8) |

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

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

| (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| Segment Revenues: | | | | |
| Total reported segments | \$ 1,690.3 | \$ 1,687.2 | \$ 3,290.9 | \$ 3,285.0 |
| All Other and Corporate | 28.8 | 32.8 | 58.5 | 68.7 |
| Adjustment to reconcile to Adjusted revenue: | | | | |
| Official check and money order revenues (b) | (0.7) | (5.6) | (2.4) | (9.6) |
| Eliminations of intersegment revenues | (16.7) | (15.3) | (32.2) | (29.6) |
| Adjusted revenue | 1,701.7 | 1,699.1 | 3,314.8 | 3,314.5 |
| Adjustments to reconcile to Consolidated revenues: | | | | |
| Adjustments for non-wholly-owned entities (c) | 7.8 | 15.6 | 23.3 | 36.7 |
| Official check and money order revenues (b) | 0.7 | 5.6 | 2.4 | 9.6 |
| ISO commission expense | 123.3 | 118.9 | 239.1 | 235.1 |
| Reimbursable debit network fees, postage and other | 875.3 | 846.3 | 1,720.1 | 1,653.6 |
| Consolidated revenues | \$ 2,708.8 | \$ 2,685.5 | \$ 5,299.7 | \$ 5,249.5 |
| Segment EBITDA: | | | | |
| Total reported segments | \$ 695.2 | \$ 683.0 | \$ 1,282.9 | \$ 1,287.8 |
| All Other and Corporate | (62.5) | (62.0) | (129.8) | (116.1) |
| Adjusted EBITDA | 632.7 | 621.0 | 1,153.1 | 1,171.7 |
| Adjustments to reconcile to Net loss attributable to First Data Corporation : | | | | |
| Adjustments for non-wholly-owned entities (c) | (0.4) | 3.4 | 2.7 | (0.3) |
| Depreciation and amortization | (274.7) | (294.5) | (546.9) | (603.6) |
| Interest expense | (472.2) | (480.7) | (941.2) | (941.8) |
| Interest income | 2.6 | 1.7 | 5.3 | 4.2 |
| Other items (d) | (14.6) | (52.3) | (36.6) | (66.3) |
| Income tax (expense) benefit | (11.5) | 74.7 | (73.1) | 182.9 |
| Stock-based compensation | (21.4) | (3.4) | (30.6) | (7.0) |
| Official check and money order EBITDA (b) | 0.2 | 3.1 | 1.5 | 4.8 |
| Costs of alliance conversions | (18.7) | (22.2) | (41.3) | (33.7) |
| KKR related items | (8.0) | (8.4) | (16.1) | (16.8) |
| Debt issuance costs | (3.1) | 0.2 | (3.3) | (4.0) |
| Net loss attributable to First Data Corporation | \$ (189.1) | \$ (157.4) | \$ (526.5) | \$ (309.9) |

(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.

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- (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, equity earnings in affiliates included in International segment revenue and amortization related to equity method investments not included in segment EBITDA.
- (d) Includes restructuring, certain retention bonuses, litigation and regulatory settlements, and impairments as applicable to the periods presented and Other income (expense) as presented in the Consolidated Statements of Operations.

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

Segment assets are as follows:

| (in millions) | As of June 30, 2013 | | As of December 31, 2012 | |
|------------------------------|------------------------|----------|----------------------------|----------|
| Assets: | | | | |
| Retail and Alliance Services | \$ | 32,372.7 | \$ | 25,885.7 |
| Financial Services | | 4,275.0 | | 4,477.1 |
| International | | 5,056.1 | | 5,305.7 |
| All Other and Corporate | | 1,996.3 | | 2,230.5 |
| Consolidated | \$ | 43,700.1 | \$ | 37,899.0 |

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 June 30, | | | Six months ended June 30, | | |
|---|--------------------------------|-------|------|------------------------------|------|-------|
| | 2013 | 2012 | 2013 | 2012 | 2012 | 2012 |
| Depreciation and amortization: | | | | | | |
| Total reported segments | \$ | 264.3 | \$ | 281.1 | \$ | 520.8 |
| All Other and Corporate | | 14.3 | | 10.2 | | 25.3 |
| | | 278.6 | | 291.3 | | 546.1 |
| Adjustments to reconcile to consolidated depreciation and amortization: | | | | | | |
| Adjustments for non-wholly-owned entities | | 15.9 | | 24.6 | | 40.3 |
| Amortization of initial payments for new contracts | | 10.1 | | 11.9 | | 20.3 |
| Total consolidated depreciation and amortization | \$ | 304.6 | \$ | 327.8 | \$ | 606.7 |
| | | | | \$ | \$ | 677.2 |

Note 6: Redeemable Noncontrolling Interest

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

| (in millions) | 2013 | | 2012 | |
|--------------------------|------|--------|------|--------|
| Balance as of January 1, | \$ | 67.4 | \$ | 67.4 |
| Distributions | | (17.3) | | (18.4) |

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| | | | | |
|--|----|------|----|------|
| Share of income | | 16.1 | | 18.0 |
| Adjustment to redemption value of redeemable noncontrolling interest | | 2.0 | | |
| Balance as of June 30, | \$ | 68.2 | \$ | 67.0 |

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' fees, costs and such other relief as the nature of the case may require or as may seem just and proper to the court. Similar suits were filed and served in July, August and October 2004 (referred to collectively as the "ATM Fee Antitrust Litigation"). The Court granted

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(Unaudited)

judgment in favor of the defendants, dismissing the case on September 17, 2010. On October 14, 2010, the plaintiffs appealed the summary judgment. On July 12, 2012, the United States Court of Appeals for the Ninth Circuit affirmed the Northern District Court of California's dismissal of all the claims against the defendants. On July 26, 2012, the plaintiffs petitioned the Ninth Circuit for rehearing en banc and on March 13, 2013 the United States Court of Appeals for the Ninth Circuit issued an order denying the plaintiffs' petition for rehearing. On July 11, 2013 the plaintiffs filed a petition for a *writ of certiorari* with the United States Supreme Court. 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 areas: (1) patent infringement which results from claims that the Company is using technology that has been patented by another party; (2) Merchant 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 \$6 million for patent infringement, \$0 to \$75 million for merchant matters and \$0 to \$4 million for other matters, resulting in a total estimated range of possible losses of \$0 to \$85 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:

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| (in millions) | Three months ended | | | | Six months ended | | | |
|---------------------------------------|--------------------|----------|----------|----------|------------------|------|----------|------|
| | June 30, | | June 30, | | June 30, | | June 30, | |
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Service costs | \$ 0.7 | \$ 0.7 | \$ 1.3 | \$ 1.4 | | | | |
| Interest costs | 9.3 | 9.3 | 18.7 | 18.5 | | | | |
| Expected return on plan assets | (10.9) | (11.3) | (21.9) | (22.3) | | | | |
| Amortization | 0.9 | 0.5 | 1.8 | 0.9 | | | | |
| Net periodic benefit expense/(income) | \$ | \$ (0.8) | \$ (0.1) | \$ (1.5) | | | | |

The Company estimates pension plan contributions for 2013 to be approximately \$35 million. During the six months ended June 30, 2013, approximately \$14 million was contributed to the United Kingdom plan and approximately \$7 million was contributed to the U.S. plan.

Note 9: Stock Compensation Plans

The Company defers recognition of substantially all of the stock-based compensation expense related to stock options and non-vested restricted stock awards and units. Due to the nature of call rights associated with stock options, the Company will recognize expense related to most options only upon certain liquidity or employment termination events. The nature of the call rights associated with stock options creates a performance condition that is not considered probable until the occurrence of one of the events described above. The call rights create a performance condition as they allow the Company to repurchase options at the lesser of the fair value or the exercise price upon an option holder's voluntary termination.

Stock-based compensation expense will be recognized related to certain restricted stock awards and units only upon a liquidity or employment termination event which triggers vesting. For the remaining awards that vest based solely on service conditions, expense is recognized over the requisite service period.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 June 30, | | Six months ended June 30, | |
|---|--------------------------------|--------|------------------------------|--------|
| | 2013 | 2012 | 2013 | 2012 |
| Total stock-based compensation expense (pretax) | \$ 21.4 | \$ 3.5 | \$ 31.6 | \$ 7.3 |

During the three and six months ended June 30, 2013, approximately \$20 million of stock-based compensation expense was recognized as a result of granting an executive officer shares of common stock of First Data Holdings Inc. (Holdings) and fully vested restricted stock units.

Stock Options

During the six months ended June 30, 2013 time-based options were granted under the stock plan. The time-based options granted generally vest equally over a three to five year period.

As of June 30, 2013 there was approximately \$159 million of total unrecognized compensation expense related to non-vested stock options. Approximately \$4 million will be recognized over a period of approximately two years while approximately \$155 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 six months ended June 30, 2013 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions:

| | Six months ended June 30, 2013 |
|--------------------------|-----------------------------------|
| Risk-free interest rate | 1.18% |
| Dividend yield | |
| Volatility | 56.19% |
| Expected term (in years) | 7 |
| Fair value of stock | \$ 3.50 |
| Fair value of options | \$ 1.97 |

A summary of Holdings stock option activity for the six months ended June 30, 2013 is as follows:

| (options in millions) | Options | | Weighted-Average Exercise Price |
|---|---------|----|------------------------------------|
| Outstanding at January 1, 2013 | 77.6 | \$ | 3.00 |
| Granted | 38.0 | \$ | 3.50 |
| Exercised | (6.5) | \$ | 3.00 |
| Cancelled / Forfeited | (5.8) | \$ | 3.00 |
| Outstanding at June 30, 2013 | 103.3 | \$ | 3.18 |
| Options exercisable as of June 30, 2013 | 29.8 | \$ | 3.02 |

Restricted Stock Awards and Restricted Stock Units

Restricted stock awards were granted under the stock plan during the six months ended June 30, 2013. As of June 30, 2013, there was approximately \$47 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock that will only be recognized upon the occurrence of certain liquidity or employment termination events.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

A summary of Holdings restricted stock award and restricted stock unit activity for the six months ended June 30, 2013 is as follows:

| (awards/units in millions) | Awards/Units | | Weighted-Average Grant-Date Fair Value |
|-------------------------------|--------------|----|--|
| Non-vested at January 1, 2013 | 13.6 | \$ | 3.00 |
| Granted | 4.8 | \$ | 3.50 |
| Vested | (2.8) | \$ | 3.25 |
| Cancelled / Forfeited | (0.4) | \$ | 3.00 |
| Non-vested at June 30, 2013 | 15.2 | \$ | 3.11 |

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 prior sales of payment instruments (official checks and financial institution money orders) by authorized agents. The Company's investment securities, excluding those classified as cash equivalents, within current settlement assets primarily consisted of municipal obligations as of June 30, 2013 and December 31, 2012. The Company's long-term settlement assets were primarily comprised of student loan auction rate securities (SLARS) and municipal obligations as of June 30, 2013 and December 31, 2012. 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 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 of these Consolidated Financial Statements.

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 June 30, 2013 | | | | | |
| Student loan auction rate securities | \$ 17.1 | \$ 1.0 | \$ | \$ | 18.1 |
| Corporate bonds | 6.1 | | | | 6.1 |
| State and municipal obligations | 115.1 | | | | 115.1 |
| Preferred stock | 0.1 | 1.6 | | | 1.7 |
| Total available-for-sale securities | 138.4 | 2.6 | | | 141.0 |
| Cost method investments | 9.3 | | | | 9.3 |

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| | | | | | | | | |
|--------------------------------------|----|-------|----|-----|----|-------|----|-------|
| Totals | \$ | 147.7 | \$ | 2.6 | \$ | | \$ | 150.3 |
| As of December 31, 2012 | | | | | | | | |
| Student loan auction rate securities | \$ | 37.6 | \$ | 1.2 | \$ | | \$ | 38.8 |
| Corporate bonds | | 6.6 | | | | | | 6.6 |
| State and municipal obligations | | 134.5 | | | | (0.1) | | 134.4 |
| Preferred stock | | 0.1 | | 0.5 | | | | 0.6 |
| Total available-for-sale securities | | 178.8 | | 1.7 | | (0.1) | | 180.4 |
| Cost method investments | | 13.4 | | | | | | 13.4 |
| Totals | \$ | 192.2 | \$ | 1.7 | \$ | (0.1) | \$ | 193.8 |

-
- (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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(d) Represents cost for cost method investments.

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:

| (in millions) | Less than 12 months | | More than 12 months | | Total Fair Value | Total Unrealized Losses |
|-------------------------------------|---------------------|----------------------|---------------------|----------------------|---------------------|-------------------------------|
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | | |
| As of December 31, 2012 | | | | | | |
| State and municipal obligations (a) | \$ 45.3 | \$ | \$ 0.1 | \$ | \$ 45.4 | \$ (0.1) |

(a) Unrealized losses less than and greater than 12 months are less than \$50,000, respectively.

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.

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

| (in millions) | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|---------|------------------------------|----------|
| | 2013 | 2012 | 2013 | 2012 |
| Proceeds from sales (a) | \$ | \$ 77.9 | \$ 21.5 | \$ 107.6 |
| Gross realized gains included in earnings as a result of sales (a) | | 2.7 | 1.0 | 3.2 |
| Net unrealized gains included in OCI, net of tax | 1.1 | 0.2 | 1.9 | 2.6 |
| Net gains reclassified out of OCI into earnings, net of tax | | 1.7 | 1.0 | 2.0 |

(a) Includes activity resulting from sales and redemptions.

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The following table presents maturity information for the Company's investments in debt securities as of June 30, 2013:

| (in millions) | | Fair Value |
|---------------------------------------|----|------------|
| Due within one year | \$ | 104.7 |
| Due after one year through five years | | 16.4 |
| Due after 10 years | | 18.2 |
| Total debt securities | \$ | 139.3 |

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 an event or change in circumstances that may have a significant adverse effect on the fair value of the investment. As of June 30, 2013, 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 June 30, 2013, it was deemed impracticable to estimate the fair value on \$4.0 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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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 maintain a desired ratio of fixed rate and floating rate debt, and (iii) to protect the net investment in certain foreign subsidiaries and/or affiliates and intercompany loans 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 most of the Company's 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

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 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 to the extent the hedge is effective. Any ineffectiveness associated with designated 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 have been 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 discontinues hedge accounting prospectively for such derivative.

Credit Risk

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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.

Summary of Derivative Instruments

The Company's derivative instruments portfolio was comprised of the following:

| Notional value (in millions) | As of June 30, | | As of December 31, | |
|------------------------------|----------------|-------|--------------------|-------|
| | | 2013 | | 2012 |
| Interest rate contracts | USD | 5,750 | USD | 5,750 |
| Foreign exchange contracts | EUR | 221.5 | EUR | 91.1 |
| Foreign exchange contracts | AUD | 215 | AUD | 115 |

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Derivatives Not Qualifying for Hedge Accounting. During the six months ended June 30, 2013 and 2012, the Company held 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 a portion of the Company's net investment in its European operations, interest rate swaps held in order to mitigate the exposure to interest rate fluctuations on interest payments related to variable rate debt and a fixed to floating interest rate swap held to maintain a desired ratio of fixed and variable rate debt.

Interest rate swaps held during the six months ended June 30, 2012 with a combined notional value of \$5.0 billion expired in September 2012. During the first quarter of 2012, the Company entered into forward-starting interest rate swaps with a combined notional value of \$2.0 billion which became effective upon expiration of the prior instruments. The interest rate swaps are intended to mitigate exposure to fluctuations in interest rates as the prior interest rate swaps and will expire in September 2016. The Company did not designate the swaps as hedges for accounting purposes.

During the six months ended June 30, 2013 and 2012, the Company held cross-currency swaps not qualifying for hedge accounting with a total notional value of 21.5 million euro (approximately \$28.1 million at June 30, 2013) and 91.1 million euro, respectively. In January of 2013, the Company's cross-currency swap with an aggregate notional value of 69.6 million euro expired.

During the first quarter of 2012, an interest rate swap with a total notional value of \$500 million ceased to qualify for hedge accounting treatment and the Company therefore de-designated the cash flow hedge from the beginning of the quarter. For this and for previous cash flow hedge de-designations, the amount carried in OCI as of the date of de-designation is subsequently reclassified into earnings in the same periods during which the forecasted transactions affect earnings. As of June 30, 2013, there are no longer any losses carried in OCI related to interest rate swaps that are expected to be reclassified into the Consolidated Statements of Operations.

For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets, derivative gains and losses in the Consolidated Statements of Operations and accumulated derivative gains and losses in OCI, refer to the tables presented below.

Derivatives that Qualify for Hedge Accounting

Hedges of net investments in foreign operations. During the first quarter of 2013, the Company entered into cross-currency swaps with aggregate notional values of 100.0 million Australian dollars and 200.0 million euro that were designated as hedges of net investments in foreign operations. As of June 30, 2013, the Company held cross-currency swaps with an aggregate notional value of 215.0 million Australian dollars (approximately \$199.1 million at June 30, 2013) and 200.0 million euro (approximately \$261.5 million at June 30, 2013) and as of June 30, 2012, the Company held a cross-currency swap with an aggregate notional value of 115.0 million Australian dollars that were designated as

hedges of net investments in foreign operations.

Cash flow hedges. As of June 30, 2013 and 2012, the Company did not have any interest rate swaps that were designated as cash flow hedges of the variability in the interest payments on its debt.

For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets, derivative gains and losses in the Consolidated Statements of Operations and accumulated derivative gains and losses in OCI, refer to the tables presented below.

Fair Value of Derivative Instruments

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

| (in millions) | As of June 30, 2013 | |
|--|---------------------|--------------------|
| | Assets (a)(c) | Liabilities (b)(c) |
| Derivatives designated as hedging instruments | | |
| Foreign exchange contracts | \$ 19.7 | \$ (18.0) |
| Derivatives not designated as hedging instruments | | |
| Interest rate contracts | 54.7 | (90.4) |
| Foreign exchange contracts | | (1.2) |
| Total derivatives not designated as hedging instruments | 54.7 | (91.6) |
| Total derivatives | \$ 74.4 | \$ (109.6) |

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

| (in millions) | As of December 31, 2012 | |
|--|-------------------------|--------------------|
| | Assets (a)(c) | Liabilities (b)(c) |
| Derivative designated as hedging instrument | | |
| Foreign exchange contract | \$ | \$ (32.8) |
| Derivatives not designated as hedging instruments | | |
| Interest rate contracts | 90.8 | (137.7) |
| Foreign exchange contracts | 10.1 | (1.6) |
| Total derivatives not designated as hedging instruments | 100.9 | (139.3) |
| Total derivatives | \$ 100.9 | \$ (172.1) |

- (a) Derivative assets are included in the Other current assets and Other long-term assets lines 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.
- (c) The Company's policy is to present all derivative balances on a gross basis, without regard to counterparty master netting agreements or similar arrangements. Of the balances included in the table above, \$74.4 million of assets and \$83.5 million of liabilities, net \$9.1 million, as of June 30, 2013 and \$100.9 million of assets and \$126.0 million of liabilities, net \$25.1 million, as of December 31, 2012 are subject to master netting agreements with the counterparties. The terms of those agreements require that the Company net settle the outstanding positions at the option of the counterparty upon certain events of default.

The Effect of Derivative Instruments on the Consolidated Statements of Operations

| (in millions, pretax) | Three months ended June 30, | | | | |
|--|-----------------------------|----------------------------|-------------------------|----------------------------|----------------------------|
| | 2013 | 2013 | 2012 | 2012 | 2012 |
| | Interest Rate Contracts | Foreign Exchange Contracts | Interest Rate Contracts | Foreign Exchange Contracts | Foreign Exchange Contracts |
| Derivatives in cash flow hedging relationships: | | | | | |
| Amount of gain or (loss) reclassified from accumulated OCI into income (a) | \$ | | \$ | (38.4) | |
| Derivative in net investment hedging relationships: | | | | | |
| Amount of gain or (loss) recognized in OCI (effective portion) | \$ | 21.7 | \$ | | (1.0) |
| Derivatives not designated as hedging instruments: | | | | | |
| Amount of gain or (loss) recognized in income (b) | \$ | 10.9 | \$ | (46.6) | 6.5 |

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| (in millions, pretax) | Six months ended June 30, | | | |
|--|-------------------------------|----------------------------------|-------------------------------|----------------------------------|
| | 2013 | | 2012 | |
| | Interest Rate Contracts | Foreign Exchange Contracts | Interest Rate Contracts | Foreign Exchange Contracts |
| Derivatives in cash flow hedging relationships: | | | | |
| Amount of gain or (loss) reclassified from accumulated OCI into income (a) | \$ | | \$ | (76.9) |
| Derivative in net investment hedging relationships: | | | | |
| Amount of gain or (loss) recognized in OCI (effective portion) | \$ | 32.0 | \$ | (3.4) |
| Derivatives not designated as hedging instruments: | | | | |
| Amount of gain or (loss) recognized in income (b) | \$ | 14.2 | \$ | (47.2) |
| | | | | 3.4 |

(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.

Table of Contents**FIRST DATA CORPORATION****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****Accumulated Derivatives Gains and Losses**

The following table summarizes activity in other comprehensive income for the six months ended June 30, 2013 related to derivative instruments classified as net investment hedges held by the Company:

| (in millions, after tax) | Six months ended June 30, 2013 | |
|---|-----------------------------------|--------|
| Accumulated loss included in other comprehensive income (loss) at beginning of the period | \$ | (21.1) |
| Increase in fair value of derivative that qualifies for hedge accounting (a) | | 31.7 |
| Accumulated gain included in other comprehensive income (loss) at end of the period | \$ | 10.6 |

(a) Gains and losses are included in Foreign currency translation adjustment on the Consolidated Statements of Comprehensive Income (Loss).

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 June 30, 2013 | |
|----------------------------------|---------------------|----------------|
| | Carrying Value | Fair Value (a) |
| Financial instruments: | | |
| Settlement assets: | | |
| Short-term investment securities | \$ 104.7 | \$ 104.7 |
| Long-term investment securities | \$ 35.8 | \$ 35.8 |
| Other current assets: | | |
| Derivative financial instruments | \$ 0.9 | \$ 0.9 |
| Other long-term assets: | | |

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| | | | | |
|-----------------------------------|----|------|----|------|
| Long-term investment securities | \$ | 0.5 | \$ | 0.5 |
| Cost method investments | \$ | 9.3 | \$ | 9.3 |
| Derivative financial instruments | \$ | 73.5 | \$ | 73.5 |
| Other current liabilities: | | | | |
| Derivative financial instruments | \$ | 18.4 | \$ | 18.4 |
| Long-term borrowings: | | | | |
| Long-term borrowings | \$ | | | |