

FIRST DATA CORP  
Form 10-Q  
August 07, 2017

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, 2017

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 47-0731996  
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)  
225 LIBERTY STREET, 29th FLOOR  
NEW YORK, NEW YORK 10281  
(Address of principal executive offices) (Zip Code)  
Registrant's telephone number, including area code (800) 735-3362

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, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer" "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

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Exchange Act.

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 July 31, 2017
Class A Common Stock, \$0.01 par value per share	380,065,237 shares
Class B Common Stock, \$0.01 par value per share	542,917,072 shares

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Unless otherwise indicated or the context otherwise requires, financial data in this Form 10-Q reflects the consolidated business and operations of First Data Corporation and its consolidated subsidiaries. Unless the context otherwise requires, all references herein to “First Data,” “FDC,” the “Company,” “we,” “our,” or “us” refer to First Data Corporation and consolidated subsidiaries.

Amounts in this Form 10-Q and the unaudited consolidated financial statements included in this Form 10-Q are presented in U.S. Dollars rounded to the nearest million, unless otherwise noted.

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Forward-Looking Statements

Certain matters we discuss in this Form 10-Q and in other public statements may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “intends,” “plans,” “estimates,” or “anticipates” or similar expressions which concern our strategy, projections or intentions. Examples of forward-looking statements include, but are not limited to, all statements we make relating to revenue, earnings before net interest expense, income taxes, depreciation, and amortization (EBITDA), earnings, margins, growth rates, and other financial results for future periods. By their nature, forward-looking statements speak only as of the date they are made; are not statements of historical fact or guarantees of future performance; and are subject to risks, uncertainties, assumptions or changes in circumstances that are difficult to predict or quantify. Actual results could differ materially and adversely from our forward-looking statements due to a variety of factors, including the following: (1) adverse impacts from global economic, political, and other conditions affecting trends in consumer, business, and government spending; (2) our ability to anticipate and respond to changing industry trends, including technological changes and increasing competition; (3) our ability to successfully renew existing client contracts on favorable terms and obtain new clients; (4) our ability to prevent a material breach of security of any of our systems; (5) our ability to implement and improve processing systems to provide new products, improve functionality, and increase efficiencies; (6) the successful management of our merchant alliance program which involves several alliances not under our sole control and each of which acts independently of the others; (7) our successful management of credit and fraud risks in our business units and merchant alliances, particularly in the context of eCommerce and mobile markets; (8) consolidation among financial institution clients or other client groups that impacts our client relationships; (9) our ability to use our net operating losses without restriction to offset income for US tax purposes; (10) our ability to improve our profitability and maintain flexibility in our capital resources through the implementation of cost savings initiatives; (11) the acquisition or disposition of a material business or assets; (12) our ability to successfully value and integrate acquired businesses; (13) our high degree of leverage; (14) adverse impacts from currency exchange rates or currency controls imposed by any government or otherwise; (15) changes in the interest rate environment that increase interest on our borrowings or the interest rate at which we can refinance our borrowings; (16) the impact of new or changes in current laws, regulations, credit card association rules, or other industry standards; and (17) new lawsuits, investigations, or proceedings, or changes to our potential exposure in connection with pending lawsuits, investigations or proceedings, and various other factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2016, including but not limited to, Item 1 - Business, Item 1A - Risk Factors, and Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations. Except as required by law, we do not intend to revise or update any forward-looking statement as a result of new information, future developments or otherwise.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## FIRST DATA CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
(in millions, except per share amounts)	2017	2016	2017	2016
Revenues:				
Transaction and processing service fees <sup>(a)</sup>	\$1,686	\$1,669	\$3,249	\$3,260
Product sales and other <sup>(a)</sup>	349	307	668	586
Total revenues (excluding reimbursable items)	2,035	1,976	3,917	3,846
Reimbursable debit network fees, postage, and other	990	952	1,909	1,859
Total revenues	3,025	2,928	5,826	5,705
Expenses:				
Cost of services (exclusive of items shown below)	691	698	1,391	1,429
Cost of products sold	91	86	171	164
Selling, general, and administrative	518	500	1,043	1,064
Depreciation and amortization	237	238	465	476
Other operating expenses	29	24	51	45
Total expenses (excluding reimbursable items)	1,566	1,546	3,121	3,178
Reimbursable debit network fees, postage, and other	990	952	1,909	1,859
Total expenses	2,556	2,498	5,030	5,037
Operating profit	469	430	796	668
Interest expense, net	(238 )	(284 )	(472 )	(547 )
Loss on debt extinguishment	(15 )	(9 )	(71 )	(55 )
Other (expense) income	(2 )	38	(3 )	44
Income before income taxes and equity earnings in affiliates	214	175	250	110
Income tax expense	28	28	40	33
Equity earnings in affiliates	57	68	112	132
Net income	243	215	322	209
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	58	63	101	113
Net income attributable to First Data Corporation	\$185	\$152	\$221	\$96
Net income attributable to First Data Corporation per share:				
Basic	\$0.20	\$0.17	\$0.24	\$0.11
Diluted	\$0.20	\$0.17	\$0.24	\$0.10
Weighted-average common shares outstanding:				
Basic	915	900	913	898
Diluted	938	914	935	916

Includes processing fees, administrative service fees, and other fees charged to merchant alliances accounted for (a) under the equity method of \$54 million and \$106 million for the three and six months ended June 30, 2017, respectively, and \$45 million and \$98 million for the comparable periods in 2016.

See notes to unaudited consolidated financial statements.



FIRST DATA CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

(in millions)	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Net income	\$243	\$215	\$322	\$209
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	18	(41)	108	(105)
Pension liability adjustments	19	—	19	—
Derivative instruments	(2)	—	(1)	—
Total other comprehensive income (loss), net of tax	35	(41)	126	(105)
Comprehensive income	278	174	448	104
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest	62	62	108	114
Comprehensive income (loss) attributable to First Data Corporation	\$216	\$112	\$340	\$(10)

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(Unaudited)

(in millions)	As of June 30, 2017	As of December 31, 2016
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$493	\$ 385
Accounts receivable, net of allowance for doubtful accounts of \$47 and \$74	1,791	1,877
Settlement assets	9,976	14,795
Prepaid expenses and other current assets	317	360
Total current assets	12,577	17,417
Property and equipment, net of accumulated depreciation of \$1,578 and \$1,416	914	883
Goodwill	16,885	16,696
Customer relationships, net of accumulated amortization of \$5,862 and \$5,660	1,593	1,739
Other intangibles, net of accumulated amortization of \$2,530 and \$2,365	1,882	1,800
Investment in affiliates	988	988
Other long-term assets	766	769
Total assets	\$35,605	\$ 40,292
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,504	\$ 1,564
Short-term and current portion of long-term borrowings	274	358
Settlement obligations	9,976	14,795
Total current liabilities	11,754	16,717
Long-term borrowings	18,033	18,131
Deferred tax liabilities	409	409
Other long-term liabilities	809	831
Total liabilities	31,005	36,088
Commitments and contingencies (See note 11)		
Redeemable noncontrolling interest	72	73
First Data Corporation stockholders' equity:		
Class A Common stock, \$0.01 par value; 1,600 shares authorized as of June 30, 2017 and December 31, 2016, respectively; 389 shares and 372 shares issued as of June 30, 2017 and December 31, 2016, respectively; and 379 shares and 367 shares outstanding as of June 30, 2017 and December 31, 2016, respectively	4	4
Class B Common stock, \$0.01 par value; 625 shares authorized as of June 30, 2017 and December 31, 2016, respectively; 543 shares and 544 shares issued and outstanding as of June 30, 2017 and December 31, 2016	5	5
Preferred stock, \$0.01 par value; 100 shares authorized as of June 30, 2017 and December 31, 2016, respectively; no shares issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	—	—
Class A Treasury stock, at cost, 10 shares and 5 shares as of June 30, 2017 and December 31, 2016, respectively	(138 )	(61 )
Additional paid-in capital	13,362	13,210
Accumulated loss	(10,391 )	(10,612 )
Accumulated other comprehensive loss	(1,207 )	(1,326 )



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Total First Data Corporation stockholders' equity	1,635	1,220
Noncontrolling interests	2,893	2,911
Total equity	4,528	4,131
Total liabilities and equity	\$35,605	\$ 40,292

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)

	Six months ended June 30,	
(in millions)	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$322	\$209
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	526	528
Charges related to other operating expenses and other income	54	1
Loss on debt extinguishment	71	55
Stock-based compensation expense	121	171
Other non-cash and non-operating items, net	4	(5 )
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	110	59
Other assets, current and long-term	(19 )	(8 )
Accounts payable and other liabilities, current and long-term	(165 )	(77 )
Income tax accounts	(23 )	(25 )
Net cash provided by operating activities	1,001	908
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to property and equipment	(123 )	(113 )
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(133 )	(119 )
Acquisitions, net of cash acquired	(85 )	(6 )
Proceeds from Visa Europe share sale	—	27
Proceeds from the maturity of net investment hedges	90	—
Other investing activities, net	12	1
Net cash used in investing activities	(239 )	(210 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Short-term borrowings, net	(160 )	196
Proceeds from issuance of long-term debt	3,548	2,377
Payment of call premiums and debt issuance cost	(63 )	(52 )
Principal payments on long-term debt	(3,811 )	(3,163 )
Payment of taxes related to settlement of equity awards	(83 )	(59 )
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interest	(126 )	(157 )
Other financing activities, net	33	35
Net cash used in financing activities	(662 )	(823 )
Effect of exchange rate changes on cash and cash equivalents	8	(22 )
Change in cash and cash equivalents	108	(147 )
Cash and cash equivalents at beginning of period	385	429
Cash and cash equivalents at end of period	\$493	\$282
<b>NON-CASH TRANSACTIONS</b>		
Capital leases, net of trade-ins	\$50	\$67

Other financing arrangements

\$103 \$22

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION  
CONSOLIDATED STATEMENTS OF EQUITY  
(Unaudited)

(in millions)	First Data Corporation Stockholders										
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Loss	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total		
	Class A	Class B	Class A	Class A							
Shares	Amount	Shares	Amount	Shares	Amount						
Balance, December 31, 2016	367	\$ 4	544	\$ 5	5	\$(61)	\$ 13,210	\$(10,612)	\$(1,326)	\$ 2,911	\$ 4,131
Dividends and distributions paid to noncontrolling interests <sup>(a)</sup>	—	—	—	—	—	—	—	—	—	(110)	(110)
Net income <sup>(b)</sup>	—	—	—	—	—	—	221	—	—	85	306
Other comprehensive income	—	—	—	—	—	—	—	—	119	7	126
Adjustment to redemption value of redeemable noncontrolling interest	—	—	—	—	—	—	1	—	—	—	1
Stock compensation expense	—	—	—	—	—	—	121	—	—	—	121
Stock activity under stock compensation plans	12	—	(1)	—	5	(77)	30	—	—	—	(47)
Balance, June 30, 2017	379	\$ 4	543	\$ 5	10	\$(138)	\$ 13,362	\$(10,391)	\$(1,207)	\$ 2,893	\$ 4,528

(in millions)	First Data Corporation Stockholders										
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total		
	Class A	Class B	Class A	Class A							
Shares	Amount	Shares	Amount	Shares	Amount						
Balance, December 31, 2015	180	\$ 2	719	\$ 7	—	\$ —	\$ 12,910	\$(11,032)	\$(1,219)	\$ 2,992	\$ 3,660
Dividends and distributions paid to noncontrolling interests <sup>(a)</sup>	—	—	—	—	—	—	—	—	—	(141)	(141)
Net income <sup>(b)</sup>	—	—	—	—	—	—	96	—	—	96	192
Other comprehensive (loss) income	—	—	—	—	—	—	—	—	(106)	1	(105)
Adjustment to redemption value of redeemable noncontrolling interest	—	—	—	—	—	—	4	—	—	—	4
Stock compensation expense	—	—	—	—	—	—	171	—	—	—	171
Stock activity under stock compensation plans and other	162	1	(150)	(1)	5	(58)	22	—	—	—	(36)
Balance, June 30, 2016	342	\$ 3	569	\$ 6	5	\$(58)	\$ 13,107	\$(10,936)	\$(1,325)	\$ 2,948	\$ 3,745

The total distribution presented in the unaudited consolidated statements of equity for the six months ended (a) June 30, 2017 and 2016 excludes \$16 million in distributions paid to redeemable noncontrolling interest not included in equity.

The total net income presented in the unaudited consolidated statements of equity for the six months ended (b) June 30, 2017 and 2016 is \$16 million and \$17 million lower, respectively, than the amounts presented in the unaudited consolidated statements of operations due to the net income attributable to the redeemable noncontrolling interest not included in equity.

consolidated financial statements. See notes to unaudited

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation and Summary of Significant Accounting Policies

Business Description

First Data Corporation (FDC or the Company) is a global leader in commerce-enabling technology and solutions for merchants, financial institutions, and card issuers. The Company provides merchant transaction processing and acquiring; credit, retail, and debit card issuing and processing; prepaid and payroll services; check verification; settlement and guarantee services; statement printing and remittance services; as well as solutions to help clients grow their businesses including the Company's Clover line of payment solutions and related applications.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2016. 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, the consolidated results of the Company's operations, comprehensive income (loss), consolidated cash flows and changes in equity as of and for the periods presented. 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 unaudited consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Presentation

Depreciation and amortization, presented as a separate line item on the Company's unaudited consolidated statements of operations, does not include amortization of initial payments for new contracts which is recorded as contra-revenue within "Transaction and processing service fees." Also not included is amortization related to equity method investments which is netted within "Equity earnings in affiliates." The following table presents the amounts associated with such amortization for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017		Six months ended June 30, 2016	
(in millions)	2017	2016	2017	2016
Amortization of initial payments for new contracts	\$19	\$16	\$38	\$31
Amortization related to equity method investments	12	12	23	21

Revenue Recognition

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Interchange fees and assessments charged by issuing bank and credit card associations to the Company's consolidated subsidiaries and network fees related to PIN-debit and PINless-debit transactions charged by debit networks were as follows for the three and six months ended June 30, 2017 and 2016:

(in millions)	Three months ended		Six months ended	
	June 30, 2017	June 30, 2016	June 30, 2017	June 30, 2016
Interchange fees and assessments	\$6,592	\$5,935	\$12,631	\$11,222
Debit network fees	819	776	1,564	1,502

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Deferred Revenue

The Company records deferred revenue when it receives payments or invoices in advance of the delivery of products or the performance of services. The deferred revenue is recognized when underlying performance obligations are achieved. As of June 30, 2017 and December 31, 2016, current deferred revenue included within "Accounts payable and accrued liabilities" in the Company's unaudited consolidated balance sheets was \$163 million and \$149 million, respectively. As of June 30, 2017 and December 31, 2016, noncurrent deferred revenue included within "Other long-term liabilities" in the Company's unaudited consolidated balance sheets was \$176 million and \$184 million, respectively.

In January 2017, the Company determined that standalone value had been achieved for its Clover terminal devices, principally because a secondary market had been established. The Company accounted for the change on a prospective basis. Beginning January 1, 2017, the Company recognized revenue on sales of Clover terminal devices upon delivery, while Clover terminal devices sold prior to January 1, 2017 continued to be deferred over the term of the respective processing agreement. As of June 30, 2017, approximately \$65 million of the Company's deferred revenue represented sales of Clover terminal devices which did not have standalone value prior to the change in accounting.

Treasury Stock

In connection with the vesting of restricted stock awards or exercise of stock options, shares of Class A and Class B common stock are delivered to the Company by employees to satisfy tax withholding obligations. The Company accounts for treasury stock activities under the cost method whereby the cost of the acquired stock is recorded as treasury stock. Because Class B common stock converts automatically to Class A common stock upon any transfer, whether or not for value, except for certain transactions described in the Company's amended and restated certificate of incorporation, all shares of treasury stock reside as Class A.

Reclassifications

Certain amounts for prior years have been reclassified to conform with the current year financial statement presentation.

New Accounting Guidance

Revenue Recognition

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance that requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the Company expects to be entitled in an exchange for those goods or services. It also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively, and improves guidance for multiple-element arrangements. The FASB has subsequently issued several amendments to the standard, including clarification on accounting for licenses, identifying performance obligations, and principal versus agent consideration (reporting revenue gross vs. net).

Since the issuance of ASC 606 and ASC 340-40 (collectively, the New Revenue Standard) in May 2014, the Company has been preparing for the adoption of the New Revenue Standard. The Company has been monitoring the



activity of the FASB and the Transition Resource Group as it relates to specific industry interpretive guidance and further overall interpretations and clarifications.

Beginning in the second half of 2016, the Company began Phase I of its three-phase plan to complete its adoption of the New Revenue Standard:

Phase I entailed activities such as completion of an accounting guidance gap analysis, reviewing significant revenue streams (and related costs) and representative contracts to determine the potential changes to its existing accounting policies. The Company has completed Phase I.

Phase II will further determine the impact of the adoption of the New Revenue Standard and will include activities such as validating and concluding on potential accounting guidance gaps from Phase I, quantifying the effects the New Revenue Standard will have on its consolidated financial statements, identifying and documenting changes to its accounting policies, assessing disclosures as required by the New Revenue Standard, and identifying and addressing the impact the New Revenue Standard will have on business processes, systems and internal controls to support the recognition and disclosure requirements. The Company is continuing its efforts as part of Phase II.

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Phase III will complete the Company's adoption and implementation of the New Revenue Standard and will include activities such as running parallel reporting for impacted areas under the New and Current Revenue Standard (ASC 605), recording the accounting adjustments that were identified in Phase II, evaluating and testing modified and newly implemented internal controls over the New Revenue Standard, and revising the Company's financial statement disclosures.

While the Company is finalizing its evaluation of the full impact of the New Revenue Standard and related amendments on its consolidated financial statements and related disclosures, the Company has assessed certain changes which are not expected to have a material impact on its consolidated financial statements upon adoption of the New Revenue Standard such as:

- The capitalization of certain costs that are part of setting up a customer on the Company's platforms and certain customer acquisition costs that meet the definition of incremental costs of obtaining a contract, both of which are currently recognized as an expense when incurred;
- Certain software license arrangements that are currently recognized over the term of the software arrangement may be recognized earlier; and
- Certain services revenue associated with programming activities that currently have standalone value and are recognized as work is performed may need to be deferred and recognized over the contract period.

The Company is also continuing to validate and quantify potential changes, which may be significant to the consolidated financial statements, such as:

- Certain customer contractual arrangements with volume-based discounts which could result in a potential deferral of revenue; and
- Principal versus agent considerations (reporting revenue gross vs. net), including interchange fees and assessments charged by credit card associations, network fees related to PIN-debit and PINless debit transactions and revenue-based commission payments to Independent Sales Organizations (ISOs) and sales channels.

The Company plans to adopt the New Revenue Standard, as well as other clarifications and technical guidance issued by the FASB related to this New Revenue Standard, on January 1, 2018, and the Company will apply the modified retrospective transition method. This will result in an adjustment to retained earnings for the cumulative effect, if any, of applying the New Revenue Standard to contracts in process as of the adoption date. Under this method, the Company would not restate the prior consolidated financial statements presented. However, the Company will include additional disclosures of the amount by which each financial statement line item is affected in the current reporting period during 2018, as compared to the guidance that was in effect before the change, and an explanation of the reasons for significant changes, if any.

Leases

In February 2016, the FASB issued guidance which requires lessees to put most leases on their balance sheets. The guidance also modifies the classification criteria and the accounting for sales-type and direct financing leases for lessors and provides new presentation and disclosure requirements for both lessees and lessors. The standard is

effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period subsequent to adoption of the preceding revenue recognition guidance. The Company is currently evaluating the impact of adoption of the new guidance on its consolidated financial statements.

#### Stock-based Compensation

In March 2016, the FASB issued guidance that will change some aspects of the accounting for stock-based payments to employees. Under the new guidance, companies will be required to record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and to present excess tax benefits as an operating activity on the statement of cash flows. The guidance may also change how companies account for forfeitures and an employee's use of shares to satisfy the employer's statutory income tax withholding obligation. The Company adopted the various amendments in its consolidated financial statements for the quarterly period ending March 31, 2017 with an effective date of January 1, 2017. The Company has elected to continue to estimate forfeitures expected to occur to determine the amount of compensation cost to be recognized in each period. The adoption of these amendments did not have a material effect on its consolidated financial statements while the Company still has income tax valuation allowances within the U.S. When these income tax valuation allowances in the U.S. are fully or partially released, the Company could experience volatility in its income tax expense.

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

In May 2017, the FASB issued guidance that will clarify when changes to terms or conditions of a stock-based payment award must be accounted for as a modification. Under the new guidance, companies will only apply modification accounting guidance if the value, vesting conditions or classification of an award changes. This new guidance will be effective for fiscal years beginning after December 15, 2017 for all entities, including interim periods within those fiscal years with early adoption permitted. The guidance should be adopted prospectively to awards modified on or after the adoption date. The Company is currently evaluating the impact of adoption of the new guidance on its consolidated financial statements.

Credit Losses

In June 2016, the FASB issued guidance that will change the accounting for credit impairment. Under the new guidance, companies are required to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This new guidance will be effective for public companies for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Statement of Cash Flows

In November 2016, the FASB issued guidance that will change the presentation of restricted cash and restricted cash equivalents on the statement of cash flows. Under the new guidance, companies will be required to include restricted cash and restricted cash equivalents with the cash and cash equivalents line item when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Given this change, transfers between cash, cash equivalents, and restricted cash and cash equivalents will not be reported as cash flow activities on the statement of cash flows. In addition, the guidance requires entities to disclose information about the nature of restrictions on its cash and cash equivalents, including restricted cash and cash equivalents. This new guidance will be effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. The guidance should be applied using a retrospective transition method to each period presented. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Goodwill

In January 2017, the FASB issued guidance simplifying the test for goodwill impairment. This standard eliminates Step 2 from the goodwill impairment test, instead requiring an entity to recognize a goodwill impairment charge for the amount by which the goodwill carrying amount exceeds the reporting unit's fair value. This guidance is effective for interim and annual goodwill impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted. This guidance must be applied on a prospective basis. The Company does not expect the adoption of this guidance to have a material impact on the Company's financial position, results of operations or cash flows.

Pension Costs

In March 2017, the FASB issued guidance that requires employers that sponsor defined benefit plans for pensions and/or other post-retirement benefits to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of

any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in assets. This new guidance will be effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years with early adoption permitted, including adoption in an interim period. The Company plans to adopt the guidance on January 1, 2018. This guidance must be applied on a prospective basis. The Company does not expect the adoption of this guidance to have a material impact on the Company's financial position, results of operations or cash flows.

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## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## Note 2: Borrowings

(in millions)	As of June 30, 2017	As of December 31, 2016
Short-term borrowings:		
Foreign lines of credit and other arrangements	\$89	\$ 84
Receivable securitized loan at LIBOR plus 150 basis points or a base rate equal to the highest of (i) the applicable lender's prime rate, or (ii) the federal funds rate plus 0.50%	—	160
Unamortized deferred financing costs <sup>(a)</sup>	(4	) (2
Total short-term borrowings	85	242
Current portion of long-term borrowings:		
Senior secured term loan facility due June 2020 at LIBOR plus 2.0% or a base rate plus 1.0%	65	—
Other arrangements and capital lease obligations	124	116
Total current portion of long-term borrowings	189	116
Total short-term and current portion of long-term borrowings	274	358
Long-term borrowings:		
Senior secured term loan facility due March 2021 at LIBOR and euro LIBOR plus 3.0% or, solely with respect to U.S. dollar-denominated term loans, a base rate plus 2.0% <sup>(d), (e)</sup>	—	4,379
Senior secured term loan facility due July 2022 at LIBOR plus 3.0% or a base rate plus 2.0%, or solely with respect to euro-denominated term loans, euro LIBOR plus 3.25% <sup>(e)</sup>	—	3,583
Senior secured term loan facility due April 2024 at LIBOR plus 2.5% or a base rate plus 1.5%	4,217	—
Senior secured term loan facility due July 2022 at LIBOR plus 2.25% or a base rate plus 1.25%	3,758	—
Senior secured term loan facility due June 2020 at LIBOR plus 2.0% or a base rate plus 1.0%	1,203	—
6.75% Senior secured first lien notes due 2020	—	1,398
5.375% Senior secured first lien notes due 2023	1,210	1,210
5.0% Senior secured first lien notes due 2024	1,900	1,900
5.75% Senior secured second lien notes due 2024	2,200	2,200
7.0% Senior unsecured notes due 2023	3,400	3,400
Unamortized discount and unamortized deferred financing costs <sup>(a)</sup>	(143	) (154
Other arrangements and capital lease obligations	288	215
Total long-term borrowings <sup>(b)</sup>	18,033	18,131
Total borrowings <sup>(c)</sup>	\$18,307	\$ 18,489

Unamortized deferred financing costs are amortized on a straight-line basis, which approximates the interest method, over the remaining term of the respective debt. In addition, certain lenders' fees associated with debt transactions were capitalized as discounts and are similarly being amortized on a straight-line basis, which approximates the effective interest method, over the remaining term of the respective debt.

As of June 30, 2017 and December 31, 2016, the fair value of the Company's long-term borrowings was \$18.6 billion and \$18.8 billion, respectively. The estimated fair value of the Company's long-term borrowings was primarily based on market trading prices and is considered to be a Level 2 measurement.

The effective interest rate is not substantially different than the coupon rate on any of the Company's debt tranches.

The U.S. dollar denominated portion of the Senior secured term loan facility maturing March 2021 was refinanced on April 26, 2017.

The U.S. dollar denominated portion of the Senior secured term loan facility maturing July 2022 was refinanced on (e) June 14, 2017. Additionally, the March 2021 and July 2022 Euro term loans were both paid off on June 14, 2017 with the proceeds from the \$1.0 billion upside of the July 2022 term loan facility.

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Foreign Lines of Credit and Other Arrangements

As of June 30, 2017 and December 31, 2016, the Company had \$317 million and \$489 million, respectively, available under short-term lines of credit and other arrangements with foreign banks and alliance partners primarily to fund settlement activity. As of June 30, 2017 and December 31, 2016, this includes a \$165 million and \$355 million, respectively, committed line of credit for one of the Company's consolidated alliances. The remainder of 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. Of the amounts outstanding as of June 30, 2017 and December 31, 2016, \$20 million and \$10 million, respectively, were uncommitted. As of June 30, 2017 and December 31, 2016, the weighted average interest rate associated with foreign lines of credit and other arrangements was 2.6%.

Senior Secured Revolving Credit Facility

The Company has a \$1.25 billion senior secured revolving credit facility maturing on June 2, 2020 subject to certain earlier springing maturity provisions in certain circumstances. Up to \$250 million of the senior secured revolving credit facility is available for letters of credit, of which \$44 million and \$41 million of letters of credit were issued under the facilities as of June 30, 2017 and December 31, 2016, respectively. As of June 30, 2017, \$1.2 billion remained available.

Receivable Securitization Agreement

The Company has a fully consolidated and wholly owned subsidiary, First Data Receivables, LLC (FDR). FDR and FDC entered into an agreement where certain wholly owned subsidiaries of FDC agreed to transfer and contribute receivables to FDR. FDR's assets are not available to satisfy obligations of any other entities or affiliates of FDC. FDR's creditors will be entitled, upon its liquidation, to be satisfied out of FDR's assets prior to any assets or value in FDR becoming available to FDR's equity holders. The Company did not have an outstanding balance on its securitization facility as of June 30, 2017. As of December 31, 2016, the Company transferred \$312 million in receivables to FDR as part of the securitization program and FDR utilized the receivables as collateral for borrowings of \$160 million. The maximum borrowing capacity under the agreement has increased to \$600 million as of June 30, 2017. The term of the Company's receivables securitization agreement has been extended through June 2020. The receivables held by FDR are recorded within "Accounts receivable, net" in the Company's unaudited consolidated balance sheets.

Recent Events

On January 23, 2017, the Company incurred an aggregate principal amount of \$1.3 billion in new U.S. dollar denominated term loans maturing on June 2, 2020. The interest rate applicable to the new term loans is either LIBOR plus 2.0% or a base rate plus 1.0%. The Company is required to make quarterly principal payments of 1.25% on the new term loans. The new term loans were utilized to pay down all of the existing 6.75% senior secured first lien notes. In connection with this transaction, the Company expensed \$56 million in loss on debt extinguishment.

On April 26, 2017, the Company refinanced \$4.2 billion of U.S. dollar-denominated senior secured term loans due March 2021 through new and existing lenders to provide approximately \$4.2 billion of U.S. dollar-denominated senior secured term loans due April 2024. The senior secured term loan due April 2024 bears interest at a rate of LIBOR plus 250 basis points or a base rate plus 150 basis points. In connection with this transaction, the Company expensed \$6



million in loss on debt extinguishment and \$5 million in debt issuance costs.

On June 14, 2017, the Company refinanced approximately \$2.7 billion of U.S. dollar-denominated senior secured term loans due July 2022 and paid off approximately \$1.1 billion of euro-denominated senior secured term loans due March 2021 and July 2022. The U.S. dollar-denominated July 2022 term loan facility was upsized by \$1.0 billion, to pay off the euro-denominated term loans. Post transaction, the U.S. dollar-denominated July 2022 term loan facility approximates \$3.8 billion of U.S. dollar-denominated term loans maturing July 2022 at an interest rate of LIBOR plus 225 basis points or a base rate plus 125 basis points. In connection with this transaction, the Company expensed \$9 million in loss on debt extinguishment and \$4 million in debt issuance costs.

Note 3: Stock Compensation Plans

The Company provides stock-based compensation awards to its employees under the 2015 Omnibus Incentive Plan (stock plan), which the Company adopted in conjunction with its initial public offering (IPO) on October 15, 2015. Total stock-based compensation expense recognized in the "Cost of services" and "Selling, general, and administrative" line items of the unaudited consolidated statements of operations resulting from stock options, non-vested restricted stock awards, and non-vested restricted stock units was as follows for the three and six months ended June 30, 2017 and 2016:

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## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Cost of services	\$ 16	\$ 23	\$ 35	\$ 72
Selling, general, and administrative	40	33	86	99
Total	\$ 56	\$ 56	\$ 121	\$ 171

Substantially all of the Company's employees are granted restricted stock awards or units on an annual basis, which generally vest 20% on the first anniversary, 40% on the second anniversary, and the remaining 40% on the third anniversary. For the six months ended June 30, 2017, 12 million restricted stock awards and units were granted at a weighted average price per share of \$15.83. For the six months ended June 30, 2016, 18 million restricted stock awards and units were granted at a weighted average price per share of \$12.51.

As of June 30, 2017, there was \$64 million and \$265 million of total unrecognized compensation expense related to non-vested stock options and restricted stock awards and units, respectively.

The Company paid approximately \$23 million and \$20 million for the three months ended June 30, 2017 and 2016, respectively, and \$83 million and \$59 million for the six months ended June 30, 2017 and 2016, respectively, of taxes related to the settlement of vested stock-based awards.

For additional information on the Company's stock compensation plans, refer to note 4 "Stock Compensation Plans" in "Item 8. Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

## Note 4: Net Income Attributable to First Data Corporation Per Share

Basic net income attributable to FDC per share is calculated by dividing "Net income attributable to FDC" by the weighted-average shares outstanding during the period, without consideration for any potential dilutive shares. Diluted net income attributable to FDC per share has been computed to give effect to the impact, if any, of shares issuable upon the assumed exercise of the Company's common stock equivalents, which consist of outstanding stock options and unvested restricted stock. The dilutive effect of potentially dilutive securities is reflected in net income attributable to FDC per share by application of the treasury stock method. Under the treasury stock method, an increase in the fair market value of the Company's common stock can result in a greater dilutive effect from potentially dilutive securities.

Other than voting rights, the Company's Class A Common Stock and Class B Common Stock have the same rights and therefore both are treated as the same class of stock for purposes of the net income attributable to FDC per share calculation.

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The following table sets forth the computation of the Company's basic and diluted net income attributable to First Data Corporation per share for the three and six months ended June 30, 2017 and 2016:

(in millions, except per share amounts)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income attributable to First Data Corporation	\$ 185	\$ 152	\$ 221	\$ 96
Denominator:				
Weighted average shares used in computing net income per share, basic	915	900	913	898
Effect of dilutive securities	23	14	22	18
Total dilutive securities	938	914	935	916
Net income attributable to First Data Corporation per share:				
Basic	\$0.20	\$0.17	\$0.24	\$0.11
Diluted	\$0.20	\$0.17	\$0.24	\$0.10

Anti-dilutive shares excluded from diluted net income per share<sup>(a)</sup> 13 30 13 28

<sup>(a)</sup> Potentially dilutive securities whose effect would have been anti-dilutive are excluded from the computation of diluted earnings per share for the three and six months ended June 30, 2017 and 2016.

## Note 5: Segment Information

For a detailed discussion of the Company's accounting principles and its reportable segments refer to note 7 "Segment Information" in the Company's consolidated financial statements in "Item 8. Financial Statements and Supplementary Data" and "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, 2016.

The following tables present the Company's reportable segment results for the three and six months ended June 30, 2017 and 2016:

(in millions)	Three months ended June 30, 2017				
	Global Business Solutions	Global Financial Solutions	Network & Security Solutions	Corporate	Total
Revenues:					
Transaction and processing service fees	\$823	\$ 347	\$ 330	\$ —	\$1,500
Product sales and other	235	55	51	—	341
Equity earnings in affiliates	8	—	—	—	8
Total segment revenues	\$1,066	\$ 402	\$ 381	\$ —	\$1,849
Depreciation and amortization	\$106	\$ 90	\$ 31	\$ 4	\$231
Segment EBITDA	483	167	180	(44)	786
Other operating expenses and other income (expense) excluding divestitures	(11)	(5)	(1)	(14)	(31)



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(in millions)	Three months ended June 30, 2016				Corporate Total
	Global Business Solutions	Global Financial Solutions	Network & Security Solutions		
Revenues:					
Transaction and processing service fees	\$819	\$ 341	\$ 321	\$ —	\$1,481
Product sales and other	209	54	45	—	308
Equity earnings in affiliates	9	—	—	—	9
Total segment revenues	\$1,037	\$ 395	\$ 366	\$ —	\$1,798
Depreciation and amortization	\$110	\$ 88	\$ 30	\$ 3	\$231
Segment EBITDA	448	160	166	(28 )	746
Other operating expenses and other income (expense) excluding divestitures	39	—	—	(26 )	13

(in millions)	Six months ended June 30, 2017				Corporate Total
	Global Business Solutions	Global Financial Solutions	Network & Security Solutions		
Revenues:					
Transaction and processing service fees	\$1,566	\$ 694	\$ 646	\$ —	\$2,906
Product sales and other	454	101	96	—	651
Equity earnings in affiliates	17	—	—	—	17
Total segment revenues	\$2,037	\$ 795	\$ 742	\$ —	\$3,574
Depreciation and amortization	\$212	\$ 175	\$ 61	\$ 5	\$453
Segment EBITDA	865	322	336	(86 )	1,437
Other operating expenses and other income (expense) excluding divestitures	(21 )	(7 )	(2 )	(24 )	(54 )

(in millions)	Six months ended June 30, 2016				Corporate Total
	Global Business Solutions	Global Financial Solutions	Network & Security Solutions		
Revenues:					
Transaction and processing service fees	\$1,574	\$ 678	\$ 634	\$ —	\$2,886
Product sales and other	398	103	84	—	585
Equity earnings in affiliates	20	—	—	—	20
Total segment revenues	\$1,992	\$ 781	\$ 718	\$ —	\$3,491
Depreciation and amortization	\$213	\$ 182	\$ 57	\$ 7	\$459
Segment EBITDA	824	315	317	(74 )	1,382
Other operating expenses and other income (expense) excluding divestitures	22	4	(2 )	(26 )	(2 )



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## FIRST DATA CORPORATION

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The following table presents a reconciliation of reportable segment amounts to the Company's consolidated balances for the three and six months ended June 30, 2017 and 2016:

(in millions)	Three months ended		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Total segment revenues	\$1,849	\$1,798	\$3,574	\$3,491
Adjustments:				
Non-wholly owned entities <sup>(a)</sup>	25	20	35	34
Independent sales organizations (ISOs) commission expense <sup>(b)</sup>	161	158	308	321
Reimbursable debit network fees, postage, and other	990	952	1,909	1,859
Consolidated revenues	\$3,025	\$2,928	\$5,826	\$5,705
Total segment EBITDA	\$786	\$746	\$1,437	\$1,382
Adjustments:				
Non-wholly owned entities <sup>(a)</sup>	6	7	12	17
Depreciation and amortization	(237 )	(238 )	(465 )	(476 )
Interest expense, net	(238 )	(284 )	(472 )	(547 )
Loss on debt extinguishment	(15 )	(9 )	(71 )	(55 )
Other items <sup>(c)</sup>	(33 )	14	(59 )	(21 )
Income tax expense	(28 )	(28 )	(40 )	(33 )
Stock-based compensation	(56 )	(56 )	(121 )	(171 )
Net income attributable to First Data Corporation	\$185	\$152	\$221	\$96

Net adjustment to reflect the Company's proportionate share of the results of the Company's investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. Segment revenue for the Company's significant affiliates is reflected based on the Company's proportionate share of the results of the Company's investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. For other affiliates, the Company includes equity earnings in affiliates, excluding amortization expense, in segment revenue.

<sup>(a)</sup> Reported within "Selling, general, and administrative expense" in the unaudited consolidated statements of operations.

<sup>(b)</sup> Includes restructuring, non-normal course litigation and regulatory settlements, debt issuance expenses and "Other income (expense)" as presented in the unaudited consolidated statements of operations, which includes divestitures, derivative gains (losses), non-operating foreign currency gains (losses), and other, as applicable to the periods presented.

The following table presents a reconciliation of reportable segment depreciation and amortization expense to the Company's consolidated balances in the unaudited consolidated statements of cash flows for the three and six months ended June 30, 2017 and 2016:

(in millions)	Three months ended		Six months ended	
	June 30, 2017	2016	June 30, 2017	2016
Segment depreciation and amortization	\$231	\$231	\$453	\$459
Adjustments for non-wholly owned entities	18	19	35	38
Amortization of initial payments for new contracts <sup>(a)</sup>	19	16	38	31

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Total consolidated depreciation and amortization per unaudited consolidated statements of cash flows	268	266	526	528
Amortization of equity method investments <sup>(b)</sup>	(12 )	(12 )	(23 )	(21 )
Amortization of initial payments for new contracts <sup>(a)</sup>	(19 )	(16 )	(38 )	(31 )
Total consolidated depreciation and amortization per unaudited consolidated statements of operations	\$237	\$238	\$465	\$476

(a) Included in "Transaction and processing service fees" as contra-revenue in the Company's unaudited consolidated statements of operations.

(b) Included in "Equity earnings in affiliates" in the Company's unaudited consolidated statements of operations.



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## Note 6: Income Taxes

The following table presents the Company's income tax expense and effective income tax rate for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Income tax expense	\$28	\$28	\$40	\$33
Effective income tax rate	10 %	12 %	11 %	14 %

The effective tax rates for the three and six months ended June 30, 2017 and 2016 were different from the statutory tax rate as a result of the Company recording tax expense on its foreign earnings, but not on its domestic earnings, as a result of the valuation allowance recorded in the U.S. The Company's tax expense in all periods was also impacted by the Company not recording tax expense on noncontrolling interests from pass through entities. In addition, the three and six months ended June 30, 2017 included a \$10 million benefit associated with the release of a valuation allowance as a result of the deferred tax liabilities recorded with the purchase of Acculynk.

The Company's liability for unrecognized tax benefits was approximately \$241 million as of June 30, 2017. The Company anticipates it is reasonably possible that the liability for unrecognized tax benefits may decrease by up to \$122 million over the next twelve months beginning June 30, 2017 as a result of the possible closure of federal tax audits, potential settlements with certain states and foreign countries and the lapse of the statute of limitations in various state and foreign jurisdictions.

## Note 7: Redeemable Noncontrolling Interest

One of the Company's noncontrolling interests is redeemable at the option of the holder and is presented outside of equity and carried at its estimated redemption value.

The following table presents a summary of the redeemable noncontrolling interest activity during the six months ended June 30, 2017 and 2016:

(in millions)	2017	2016
Balance as of January 1,	\$73	\$77
Distributions	(16 )	(16 )
Share of income	16	17
Adjustment to redemption value of redeemable noncontrolling interest	(1 )	(4 )
Balance as of June 30,	\$72	\$74

## Note 8: Other Operating Expenses

The following table details the components of "Other operating expenses" in the unaudited consolidated statements of operations for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Restructuring, net	\$16	\$24	\$39	\$45

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Asset impairment	6	—	6	—
Deal integration costs	5	—	5	—
Other	2	—	1	—
Other operating expenses	\$29	\$24	\$51	\$45

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## FIRST DATA CORPORATION

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## Restructuring

During the three and six months ended June 30, 2017 and 2016, the Company recorded restructuring charges in connection with management's alignment of the business with strategic objectives, cost savings initiatives, and the departure of certain executive officers. The \$16 million incurred during the second quarter of 2017 was driven by a workforce productivity initiative. The Company expects to incur additional costs in restructuring as this initiative will continue throughout 2017. The Company continues to evaluate operating efficiencies and could incur further restructuring costs beyond this initiative.

A summary of net pretax charges incurred by segment was as follows for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30, 2017		Six months ended June 30, 2016	
(in millions)				
Global Business Solutions	\$6	\$2	\$15	\$5
Global Financial Solutions	4	1	8	2
Network & Security Solutions	1	—	3	2
Corporate	5	21	13	36
Restructuring, net	\$16	\$24	\$39	\$45

The following table summarizes the Company's utilization of restructuring accruals for the six months ended June 30, 2017:

(in millions)	Employee Severance
Remaining accrual as of January 1, 2017	\$ 9
Restructuring, net	39
Cash payments and other	(37 )
Remaining accrual as of June 30, 2017	\$ 11

## Note 9: Acquisitions and Dispositions

## Acculynk Acquisition

On May 1, 2017, the Company acquired Acculynk, a leading technology company that delivers eCommerce solutions for debit card acceptance. The acquisition provides access to Acculynk's PaySecure debit routing technology and its range of other services. The purchase price was approximately \$85 million and Acculynk is reported as part of the Company's Global Business Solutions segment.

## Note 10: Derivative Financial Instruments

The Company enters into the following types of derivatives:

**Floating to fixed interest rate collar contracts:** The Company uses interest rate collar contracts to mitigate its exposure to interest rate fluctuations on interest payments related to variable rate debt. No payments or receipts are exchanged on interest rate collar contracts unless interest rates rise or fall in excess of a predetermined ceiling or floor rate. The Company uses these contracts in a qualifying hedging relationship.

Foreign exchange contracts: The Company uses cross-currency swaps to protect the net investment in certain foreign subsidiaries and/or affiliates with respect to changes in foreign currency exchange rates. The Company uses these contracts in both qualifying and non-qualifying hedging relationships.

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The Company held the following derivative instruments as of June 30, 2017 and December 31, 2016:

(in millions)	Notional Currency	As of June 30, 2017			As of December 31, 2016		
		Notional Value	Assets <sup>(a)</sup>	Liabilities	Notional Value	Assets <sup>(a)</sup>	Liabilities
Derivatives designated as hedges of net investments in foreign operations:							
Foreign exchange contracts	AUD	100	\$ 29	\$ —	211	\$ 57	\$ —
Foreign exchange contracts <sup>(b)</sup>	EUR	915	—	(22 )	—	—	—
Foreign exchange contracts	GBP	150	1	—	300	78	—
Foreign exchange contracts	CAD	95	1	—	130	9	—
			31	(22 )		144	—
Derivatives designated as cash flow hedges:							
Interest rate collar contracts	USD	4,300	3	—	3,000	3	—
			\$ 34	\$ (22 )		\$ 147	\$ —

Our derivatives are subject to master netting agreements to the extent that the swaps are with the same (a) counterparty. 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.

(b) The Company entered into new foreign exchange contracts with a notional value of EUR 915 million on June 14, 2017.

The maximum length of time over which the Company is hedging its currency exposure of net investments in foreign operations, through utilization of foreign exchange contracts, is through June 2020.

The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable interest on existing financial instruments is through January 2019.

As of June 30, 2017, the Company has not posted any collateral related to any of its derivative financial instruments.

**Cross-Currency Swaps Settlements**

In January 2017, the Company entered into \$1.3 billion of interest rate collars with an interest rate cap of 1.5% and interest rate floors ranging between 1.160% - 1.168%. The interest rate collars will hedge variability in the interest rates on the senior secured term loan facilities.

In April 2017, three cross-currency swaps matured (notional values of AUD 111 million, GBP 150 million and CAD 35 million) and the Company received \$90 million.

**Fair Value Measurement**

The carrying amounts for the Company's derivative financial instruments are the estimated fair value of the financial instruments. The Company's derivatives are not exchange listed and therefore the fair value is estimated under an income approach using Bloomberg analytics models that are based on readily observable market inputs. These models reflect the contractual terms of the derivatives, such as notional value and expiration date, as well as market-based

observables including interest and foreign currency exchange rates, yield curves, and the credit quality of the counterparties. The models also incorporate the Company's creditworthiness in order to appropriately reflect non-performance risk. Inputs to the derivative pricing models are generally observable and do not contain a high level of subjectivity and, accordingly, the Company's derivatives were classified within Level 2 of the fair value hierarchy. While the Company believes its estimates result in a reasonable reflection of the fair value of these instruments, the estimated values may not be representative of actual values that could have been realized or that will be realized in the future.

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## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Effect of Derivative Instruments on the Unaudited Consolidated Financial Statements

Derivative gains and (losses) were as follows for the three and six months ended June 30, 2017 and 2016:

(in millions, pretax)	Three months ended June 30, 2017		Six months ended June 30, 2016	
	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts
Derivatives designated as hedging instruments:				
Gain (loss) recognized in "Foreign currency translation adjustment" in the unaudited consolidated statements of comprehensive income (loss) (effective portion)	\$—	\$(29)	\$—	\$30
Loss recognized in "Derivative instruments" in the unaudited consolidated statements of comprehensive income (loss) (effective portion)	(2)	—	(1)	—
Derivatives not designated as hedging instruments:				
Loss recognized in "Other (expense) income" in the unaudited consolidated statements of operations	—	—	(1)	—

## Accumulated Derivative Gains and Losses

The following table summarizes activity in other comprehensive income (loss) related to derivative instruments classified as cash flow hedges and net investment hedges held by the Company for the three and six months ended June 30, 2017 and 2016:

(in millions, after tax)	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Accumulated gain included in other comprehensive income (loss) at beginning of period	\$115	\$81	\$124	\$86
(Decrease) increase in fair value of derivatives that qualify for hedge accounting, net of tax <sup>(a)</sup> <sup>(b)</sup>	(19)	19	(28)	14
Accumulated gain included in other comprehensive income (loss) at end of period	\$96	\$100	\$96	\$100

(a) Losses are included in "Derivative instruments" and "Foreign currency translation adjustment" in the unaudited consolidated statements of comprehensive income (loss).

(b) Net of tax of \$12 million and \$11 million for the three months ended June 30, 2017 and 2016, respectively, and \$16 million and \$8 million for the six months ended June 30, 2017 and 2016, respectively.

## Note 11: 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 unaudited 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

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 or other claims arising from our merchant business; and (3) other matters which may include issues such as employment and indemnification obligations to purchasers of former subsidiaries. The Company's estimates of the possible ranges of losses in excess of any amounts accrued

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## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

are \$0 to \$5 million for patent infringement, \$0 to \$140 million for merchant matters, and \$0 to \$5 million for other matters, resulting in a total estimated range of possible losses of \$0 to \$150 million for all of the matters described above.

The estimated range of reasonably possible losses is based on information currently available 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 the high end of the estimated range.

## Note 12: Investment in Affiliates

Segment results include the Company's proportionate share of income from affiliates, which consist of unconsolidated investments accounted for under the equity method of accounting. The most significant of these affiliates are related to the Company's merchant bank alliance program.

As of June 30, 2017, the Company had one unconsolidated significant subsidiary that was not required to be consolidated, but represents more than 20% of the Company's pretax income. Summarized unaudited financial information for the affiliate is presented below for the three and six months ended June 30, 2017 and 2016:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Net operating revenues	\$214	\$232	\$422	\$451
Operating expenses	103	94	201	190
Operating income	\$111	\$138	\$221	\$261
Net income	\$111	\$138	\$221	\$261
FDC equity earnings	38	46	76	89

## Note 13: Subsequent Events

## Joint Venture

In March 2017, the Company entered into a joint venture agreement with FleetCor Technologies, Inc. (FleetCor), which was expected to offer expanded gift card distribution solutions benefits to customers and other stakeholders. As a result of challenges in obtaining regulatory approval, both companies came to the mutual conclusion that termination of the joint venture agreement was the best course of action. The Company intends to continue to explore partnership opportunities with FleetCor while also growing First Data's Gift Solutions business.

## CardConnect Acquisition

In July 2017, the Company acquired 100% of CardConnect for approximately \$779 million in cash, including closing costs of \$9 million. The cash consideration was funded by a combination of cash on hand and funds available under existing credit facilities. Of the cash consideration, \$200 million was paid to retire CardConnect's outstanding debt and the redemption of CardConnect's preferred stock. CardConnect is an innovative provider of payment processing and technology solutions and is one of the Company's largest distribution partners. The acquisition will be accounted for as a business combination. The transaction is expected to enable the Company to improve its ability to innovate and deliver leading technology-oriented commerce solutions to its customers and partners. CardConnect operations will be reported as part of the Company's Global Business Solutions segment. The Company has not yet completed its accounting to obtain the fair value of the acquired assets and liabilities assumed related to this acquisition in order

disclose the purchase price allocation or detailed intangible assets information.

**Baltics Divestiture**

On July 25, 2017, the Company entered into an agreement to divest all of its businesses in Lithuania, Latvia and Estonia for €73 million (approximately \$85 million), subject to closing adjustments. The transaction is expected to close in the third quarter of 2017. The businesses are currently reported within the GFS segment.

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Stock Compensation Award

In July 2017, the Company awarded 5 million restricted stock awards to its Chief Executive Officer which vest over seven years, but can be accelerated to five years based on stock price appreciation. The Company also awarded 2 million restricted stock awards to other senior executives, which vest 20% on the first anniversary, 40% on the second anniversary, and the remaining 40% on the third anniversary.

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

For an understanding of the significant factors that influenced our results, the following discussion should be read in conjunction with our unaudited consolidated financial statements and related notes appearing elsewhere in this report. This management's discussion and analysis should also be read in conjunction with the management's discussion and analysis and consolidated financial statements for the year ended December 31, 2016 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2017.

## Executive Overview

First Data Corporation sits at the center of global electronic commerce. We believe we offer our clients the most complete array of integrated solutions in the industry, covering their needs across next generation commerce technologies, merchant acquiring, issuing, and network solutions. We believe we have the industry's largest distribution network, driven by our partnerships with many of the world's leading financial institutions, our direct sales force, and a network of distribution partners. We are the largest merchant acquirer, issuer processor, and third largest network services provider in the United States, enabling businesses to accept electronic payments, helping financial institutions issue credit, debit and prepaid cards, and routing secure transactions between them. As evidenced by the following metrics, we continue to grow our global business which operates in over 100 countries:

Business Trends	2016	2015	2014
Transactions processed <sup>(a)</sup>	88 billion	79 billion	74 billion
Payment volumes	\$1.9 trillion	\$1.7 trillion	\$1.7 trillion

(a) 2,800, 2,500 and 2,300 per second in 2016, 2015 and 2014, respectively

Our business is characterized by transaction related fees, multi-year contracts, and a diverse client base, which allows us to grow alongside our clients. Our multi-year contracts allow us to achieve a high level of recurring revenues with the same clients. While the contracts typically do not specify fixed revenues to be realized thereunder, they do provide a framework for revenues to be generated based on volume of services provided during such contracts' terms. Our business also generally requires minimal incremental capital expenditures and working capital to support additional revenue within our existing business lines.

## Components of Revenue

We generate revenue by providing commerce-enabling solutions. Our major components of revenue have not changed from those discussed within "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the year ended December 31, 2016.

## Factors Affecting the Comparability of Our Results of Operations

As a result of a number of factors, our historical results of operations are not comparable from period to period and may not be comparable to our financial results of operations in future periods. Key factors affecting the comparability of our results of operations are summarized below.

## Currency Impact

Although the majority of our revenue is earned in U.S. dollars, a portion of our revenues and expenses are in foreign currencies. As a result, changes in foreign currencies against the U.S. dollar can impact our results of operations. Additionally, we have intercompany debts in foreign currencies, which impacts our results of operations. In recent periods, the U.S. dollar has appreciated against most foreign currencies, which has negatively impacted our revenues generated in foreign currencies as presented in U.S. dollars in our unaudited consolidated financial statements. We

believe the presentation of constant currency provides relevant information and we use this non-GAAP financial measure to, among other things, evaluate our ongoing operations in relation to foreign currency fluctuations. The presentation of non-GAAP financial measures should not be considered in isolation or as a substitute for our related financial results prepared in accordance with GAAP (Generally Accepted Accounting Principles). For additional information on our constant currency calculation, see “Segment Results” within this Form 10-Q.

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## Interest Expense

As a result of our capital market activities over the past few years, we have lowered the weighted average interest rate of our outstanding borrowings from 5.7% as of June 30, 2016 to 4.7% as of June 30, 2017.

## Stock-Based Compensation Expense

Stock-based compensation expense decreased for the six months ended June 30, 2017 compared to the same periods in 2016, as we recognized \$52 million in expense in the first quarter of 2016 that was directly associated with our initial public offering as we began recognizing stock-based compensation expense over the respective service period which commenced upon the completion of our initial public offering on October 15, 2015. See note 3 "Stock Compensation Plans" to our unaudited consolidated financial statements in Part I of this Form 10-Q for additional information about our stock compensation plans.

## Results of Operations

Consolidated results should be read in conjunction with note 5 "Segment Information" to our unaudited consolidated financial statements in Part I of this Form 10-Q, which provides more detailed discussions concerning certain components of our unaudited consolidated statements of operations. All significant intercompany accounts and transactions have been eliminated within the consolidated results.

## Overview

Revenue increased 3% to \$3.0 billion for the three months ended June 30, 2017, and 2% to \$5.8 billion for the six months ended June 30, 2017. Operating profits increased 9% to \$469 million for the three months ended June 30, 2017 and 19% to \$796 million for the six months ended June 30, 2017. On a constant currency basis, revenue increased 4% and 3% for the three and six months ended June 30, 2017, respectively.

Net income attributable to First Data Corporation improved to \$185 million and \$221 million for the three and six months ended June 30, 2017, respectively, from the comparable periods in 2016. The chart below reconciles Net income attributable to First Data Corporation for the three and six months ended June 30, 2016 to June 30, 2017:

(in millions)	Three months ended June 30, 2016	Six months ended June 30, 2017
Net income attributable to First Data Corporation ending June 30, 2016	\$ 152	\$ 96
Better (worse):		
Stock-based compensation expense	—	50
Interest expense, net	46	75
Total revenues (excluding reimbursable items)	59	71
Depreciation and amortization	1	11
Loss on debt extinguishment	(6 )	(16 )
Visa Europe share gain on sale - Q2 2016	(29 )	(29 )
Equity earnings in affiliates	(11 )	(20 )
Other miscellaneous, net	(27 )	(17 )
Net income attributable to First Data Corporation ending June 30, 2017	\$ 185	\$ 221

## Segment Results

We operate three reportable segments: Global Business Solutions (GBS), Global Financial Solutions (GFS), and Network & Security Solutions (NSS). Our segments are designed to establish global lines of businesses that work

seamlessly with our teams in our regions of North America (United States and Canada), EMEA (Europe, Middle East, and Africa), LATAM (Latin America and Caribbean region), and APAC (Asia Pacific).

The business segment measurements provided to and evaluated by the chief operating decision maker are computed in accordance with the principles listed below:

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The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies.

Intersegment revenues are eliminated in the segment that sells directly to the end market.

Segment revenue excludes reimbursable debit network fees, postage, and other revenue.

Segment EBITDA includes equity earnings in affiliates and excludes depreciation and amortization expense, net income attributable to noncontrolling interests, other operating expenses, other income (expense) and stock-based compensation.

For significant affiliates, segment revenue and segment EBITDA are reflected based on our proportionate share of the results of our investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. For other affiliates, we include equity earnings in affiliates, excluding amortization expense, in segment revenue and segment EBITDA. In addition, GBS measures reflect revenue-based commission payments to Independent Sales Organizations (ISOs) and non-FDC owned sales channels, which are treated as an expense in the unaudited consolidated statements of operations, as contra revenue.

Corporate operations include corporate-wide governance functions such as our executive management team, tax, treasury, internal audit, corporate strategy, and certain accounting, human resources and legal costs related to supporting the corporate function. Costs incurred by Corporate that are attributable to a segment are allocated to the respective segment.

Certain measures exclude the estimated impact of foreign currency changes (constant currency). To present this information, monthly results during the periods presented for entities with functional currencies other than U.S. dollars are translated into U.S. dollars at the average exchange rates in effect during the corresponding month of the prior fiscal year, rather than the actual average exchange rates in effect during the current fiscal year. Once translated, each month during the periods presented is added together to calculate the constant currency results for the periods presented.

## Operating revenues overview

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2017	2016	Percent Change	Constant Currency Percent Change	2017	2016	Percent Change	Constant Currency Percent Change
Consolidated revenues	\$3,025	\$2,928	3 %	4 %	\$5,826	\$5,705	2 %	3 %
Adjustments:								
Non-wholly owned entities	(25 )	(20 )	25 %	NM	(35 )	(34 )	3 %	NM
Independent sales organizations (ISOs) commissions	(161 )	(158 )	2 %	NM	(308 )	(321 )	(4 )%	NM
Reimbursable debit network fees, postage, and other	(990 )	(952 )	4 %	4 %	(1,909 )	(1,859 )	3 %	3 %
Total segment revenues	\$1,849	\$1,798	3 %	4 %	\$3,574	\$3,491	2 %	3 %
Segment revenues:								
Global Business Solutions	\$1,066	\$1,037	3 %	4 %	\$2,037	\$1,992	2 %	3 %
Global Financial Solutions	402	395	2 %	4 %	795	781	2 %	5 %



Network & Security Solutions	381	366	4	%	4	%	742	718	3	%	3	%
NM represents not meaningful												

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## Global Business Solutions segment results

The following table displays total segment revenue for the three and six months ended June 30, 2017 and 2016 by region and illustrates, on a percentage basis, the impact of foreign currency fluctuations on revenue growth:

(in millions)	Three months ended June 30,				Six months ended June 30,			
	2017	2016	Percent Change	Constant Currency Percent Change	2017	2016	Percent Change	Constant Currency Percent Change
Revenues:								
North America	\$826	\$815	1 %	1 %	\$1,577	\$1,552	2 %	2 %
EMEA								