

FIRST DATA CORP  
Form 10-K  
March 19, 2013

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**FORM 10-K**

---

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

For the fiscal year ended December 31, 2012

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

---

**DELAWARE**  
(State of incorporation)

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

**5565 GLENRIDGE CONNECTOR, N.E., SUITE 2000, ATLANTA, GEORGIA 30342**

(Address of principal executive offices) (Zip Code)

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

---

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act: **None**

---

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes  No

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 (§ 232.405 of this chapter) 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

## Edgar Filing: FIRST DATA CORP - Form 10-K

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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

The aggregate market value of the registrant's voting stock held by non-affiliates is zero. The registrant is privately held. There were 1,000 shares of the registrant's common stock outstanding as of March 1, 2013.

---

**PART I**

**ITEM 1. BUSINESS**

**General**

First Data Corporation ( FDC or the Company ) is a provider of electronic commerce and payment solutions for merchants, financial institutions and card issuers globally and has operations in 34 countries, serving approximately 6.2 million merchant locations. FDC was incorporated in Delaware in 1989 and was the subject of an initial public offering in connection with a spin-off from American Express in 1992. On September 24, 2007, the Company was acquired through a merger transaction (the merger ) with an entity controlled by affiliates of Kohlberg Kravis Roberts & Co. ( KKR ). The merger resulted in the equity of FDC becoming privately held.

The Company has acquired multiple domestic and international businesses over the last five years with the most significant acquisition being the formation of the Banc of America Merchant Services, LLC ( BAMS ) alliance on June 26, 2009. The Company owns 51% of BAMS and Bank of America N.A. owns 49%. Refer to Note 3 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the BAMS alliance.

**Operating locations.** The Company has domestic and international operations and regional or country offices where sales, customer service and/or administrative personnel are based. The international operations generate revenues from customers located and operating outside of the U.S. Revenues generated from processing transactions at locations within the U.S. (domestic) and outside of the U.S. (international), regardless of the segments to which the associated revenues applied, were 85% and 15% of FDC s consolidated revenues for the year ended December 31, 2012, respectively. Long-lived assets attributable to domestic and international operations as percentages of FDC s total long-lived assets as of December 31, 2012 were 86% and 14%, respectively. No individual foreign country is material to the Company s total revenues or long-lived assets. Further financial information relating to the Company s international and domestic revenues and long-lived assets is set forth in Note 15 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

**Products and Services Segment Information**

The Company is organized in three segments: Retail and Alliance Services, Financial Services and International.

Financial information relating to each of the Company s segments is set forth in Note 15 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K. The Retail and Alliance Services segment is reported on a proportionate consolidation basis. Proportionate consolidation reflects the Company s proportionate share of the results of non-wholly owned alliances based on equity ownership, net of a proportionate share of eliminations for amounts charged between the Company and the alliances. The segments profit measure is a form of EBITDA (earnings before net interest expense, income taxes, depreciation and amortization). A discussion of factors potentially affecting the Company s operations is set forth in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, of this form 10-K. The Company does not have any significant customers that account for 10% or more of total consolidated revenues. Refer to the following segment discussions, which address significant customer relationships within each segment.

**Retail and Alliance Services segment.** The Retail and Alliance Services segment is comprised of merchant acquiring and processing services, prepaid services and check verification, settlement and guarantee services.

Retail and Alliance Services segment revenues from external customers, segment EBITDA and assets represent the following percentages of total segment and All Other and Corporate revenues from external customers, total segment and All Other and Corporate EBITDA, and consolidated assets:

		Year ended December 31,		
	2012	2011	2010	
Segment revenues from external customers	53%	51%	51%	51%
Segment EBITDA	65%	63%	65%	65%
Assets (at December 31)	68%	69%	66%	66%

**Description of Retail and Alliance Services segment operations.** In the Retail and Alliance Services segment, revenues are derived primarily from providing merchant acquiring and processing services, prepaid services and check verification, settlement and guarantee services. Retail and Alliance Services businesses facilitate the acceptance of consumer transactions at the

point of sale ( POS ), whether it is a transaction at a physical merchant location or over the internet. A brief explanation of the segment's service and product offerings is presented below.

*Merchant acquiring and processing services.* Merchant acquiring services facilitate the merchants' ability to accept credit, debit, stored-value and loyalty cards by authorizing, capturing and settling the merchants' transactions. Acquiring services also provide POS devices and other equipment necessary to capture merchant transactions. A majority of these services are offered to the merchants through contractual alliance arrangements primarily with financial institutions, relationships with independent sales organizations and other referral/sales partners. The segment's processing services include authorization, transaction capture, settlement, chargeback handling, and internet-based transaction processing. The vast majority of these services pertain to transactions in which consumer payments to merchants are made through a card association (such as Visa or MasterCard), a debit network, or another payment network (such as Discover).

Revenues are generated from, among other things:

- discount fees charged to a merchant, net of credit card interchange and assessment fees charged by the bankcard associations or payment networks (Visa, MasterCard or Discover). The discount fee is typically either a percentage of the credit card transaction or the interchange fee plus a fixed dollar amount;
- processing fees charged to unconsolidated alliances discussed below;
- processing fees charged to merchant acquirers who have outsourced their transaction processing to the Company;
- selling and leasing POS devices; and
- debit network fees.

Most of this segment's revenue is derived from regional and local merchants. The items listed above are included in the Company's consolidated revenues and, for equity earnings from unconsolidated alliances, the Equity earnings in affiliates' line item in the Consolidated Statements of Operations. The Retail and Alliance Services segment revenue and EBITDA are presented using proportionate consolidation, accordingly, segment revenue also includes the alliance partner's share of processing fees charged to consolidated alliances. In addition, segment revenue excludes debit network fees and other reimbursable items.

Retail and Alliance Services provides merchant acquiring and processing services, prepaid services and check verification, guarantee and settlement services to merchants operating in approximately 3.9 million merchant locations across the U.S. and acquired \$1.6 trillion of payment transaction dollar volume on behalf of U.S. merchants in 2012. Retail and Alliance Services provides full service merchant processing primarily on Visa and MasterCard transactions and PIN-debit at the point of sale.

Retail and Alliance Services approaches the market through diversified sales channels including equity alliances, revenue sharing alliances and referral arrangements with more than 400 financial institution partners, more than 1,200 non-bank referral partners, and more than 600 independent sales organization partners, as of December 31, 2012. Growth in the Retail and Alliance Services business is derived from entering into new merchant relationships, new and enhanced product and service offerings, cross selling products and services into existing relationships, the shift of consumer spending to increased usage of electronic forms of payment and the strength of FDC's alliances and relationships with banks and other entities. The Company's alliance structures take on different forms, including consolidated subsidiaries, equity method investments and revenue sharing arrangements. Under the alliance and referral programs, the alliance/referral partners typically act as a merchant referral source. The Company benefits by providing processing services for the alliance/referral partners and their merchant customers. Both the Company and the alliance may provide management, sales, marketing, and other administrative services. The alliance strategy could be affected by consolidation among financial institutions.

The Company's strategy with banks, independent sales organizations and referral/sales partners provides the Company with broad geographic coverage, regionally and nationally, as well as a presence in various industries. The alliance/referral partner structure allows the Company to be the processor for multiple financial institutions, any one of which may be selected by the merchant as their bank partner. Additionally, bank partners provide brand loyalty and a distribution channel through their branch networks which increases merchant retention.

There are a number of different entities involved in a merchant transaction including the cardholder, card issuer, card association, merchant, merchant acquirer, electronic processor for credit and signature debit transactions, and debit network for personal identification number ( PIN ) debit transactions. The card issuer is the financial institution that issues credit or debit cards,

authorizes transactions after determining whether the cardholder has sufficient available credit or funds for the transaction, and provides funds for the transaction. Some of these functions may be performed by an electronic processor (such as the Company's Financial Services business) on behalf of the issuer. The card associations, Visa or MasterCard, a debit network (such as STAR Network) or another payment network (such as Discover) route transactions between the Company and the card issuer. The merchant is a business from which a product or service is purchased by a cardholder. The acquirer (such as the Company or one of its alliances) contracts with merchants to facilitate their acceptance of cards. A merchant acquirer may do its own processing or, more commonly, may outsource those functions to an electronic processor such as the Retail and Alliance Services segment. The acquirer/processor serves as an intermediary between the merchant and the card issuer by:

- (1) obtaining authorization from the card issuer through a card association or debit network;
- (2) transmitting the transaction to the card issuer through the applicable card association, payment network or debit network; and
- (3) paying the merchant for the transaction. The Company typically receives the funds from the issuer via the card association, payment network or debit network prior to paying the merchant.

A transaction occurs when a cardholder purchases something from a merchant who has contracted with the Company, an alliance partner or a processing customer. When the merchant swipes the card through the POS terminal (which is often sold or leased, and serviced by the Company), the Company obtains authorization for the transaction from the card issuer through the card association, payment network or debit network, verifying that the cardholder has sufficient credit or adequate funds for the transaction. Once the card issuer approves the transaction, the Company or the alliance acquires the transaction from the merchant and then transmits it to the applicable debit network, payment network or card association, which then routes the transaction information to the card issuer. Upon receipt of the transaction, the card issuer delivers funds to the Company via the card association, payment network or debit network. Generally, the Company funds the merchant after receiving the money from the card association, payment network or debit network. Each participant in the transaction receives compensation for processing the transaction. For example, in a transaction using a Visa or MasterCard for \$100.00 with an interchange rate of 1.5% (the cap on certain debit transactions has been changed to \$0.21), the card issuer will fund the association \$98.50 and bill the cardholder \$100.00 on its monthly statement. The card association will retain assessment fees of approximately \$0.10 and forward \$98.40 to the Company. The Company will retain, for example, \$0.40 and pay the merchant \$98.00. The \$1.50 retained by the card issuer is referred to as interchange and it, like assessment fees, is set by the card association. The \$0.40 is the merchant discount and is negotiated between the merchant and the merchant acquirer.

The Company and its alliances, as merchant acquirers/processors, have certain contingent liabilities for the transactions acquired from merchants. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In such a case, the transaction is charged back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. The Company may, however, collect this amount from the card association if the amount was disputed in error. If the Company or the alliance is unable to collect this amount from the merchant, due to the merchant's insolvency or other reasons, the Company or the alliance will bear the loss for the amount of the refund paid to the cardholder. In most cases, this contingent liability situation is unlikely to arise because most products or services are delivered when purchased, and credits are issued on returned items. However, where the product or service is not provided until sometime following the purchase (e.g., airline or cruise ship tickets), the risk is greater. The Company often mitigates its risk by obtaining collateral from merchants considered higher risk because they have a time delay in the delivery of services, operate in industries that experience chargebacks or are less creditworthy.

*Prepaid services.* First Data Prepaid Services manages prepaid stored-value card issuance and processing services (i.e. gift cards) for retailers and others. The full-service stored-value/gift card program offers transaction processing services, card issuance and customer service for over



## Edgar Filing: FIRST DATA CORP - Form 10-K

200 national brands and several thousand small and mid-tier merchants. The Company also provides program management and processing services for association-branded, bank-issued, open loop, stored-value, reloadable and one time prepaid card products.

Money Network offers prepaid products to address the needs of employers, employees, merchants and unbanked individuals. Money Network provides open loop electronic payroll distribution solutions that reduce or eliminate an employer's expense associated with traditional paper paychecks as well as other prepaid retail solutions.

*Check verification, settlement and guarantee services.* TeleCheck offers check verification, settlement and guarantee services using the Company's proprietary database system to assist merchants in deciding whether accepting checks at the point of sale is a reasonable risk, or, further, to guarantee checks presented to merchants if they are approved. These services include risk management services, which utilize software, information and analysis to assist the merchant in the decision process and include

identity fraud prevention and reduction. Revenues are earned primarily by charging merchant fees for check verification or guarantee services.

The majority of the Company's services involve providing check guarantee services for checks received by merchants. Under the guarantee service, when a merchant receives a check in payment for goods and services, the transaction is submitted to and analyzed by the Company. The Company either accepts or declines the check for warranty coverage under its guarantee service. If the Company approves the check for warranty coverage and the merchant accepts the check, the merchant will either deposit the check in its bank account or process it for settlement through the Company's Electronic Check Acceptance service. If the check is returned unpaid by the merchant's bank and the returned check meets the requirements for warranty coverage, the Company is required to purchase the check from the merchant at its face value. The Company then owns the purchased check and pursues collection of the check from the check writer. As a result, the Company bears the risk of loss if the Company is unable to collect the returned check from the check writer. The Company earns a fee for each check it guarantees, which generally is determined as a percentage of the check amount.

The Company's Electronic Check Acceptance service, which converts a paper check written at the point of sale into an electronic item, enables funds to be deposited electronically to the merchant's account and deducted electronically from the check writer's account.

Under the verification service, when a merchant receives a check in payment for goods or services, the transaction is submitted to and analyzed by the Company, which will either recommend the merchant accept or decline the check. If the merchant accepts the check, the merchant will deposit the check in its bank account. If the check is returned unpaid by the merchant's bank, the Company is not required to purchase the check from the merchant and the merchant bears all risk of loss on the check. The Company earns a fee for each check submitted for verification, which is generally a fixed amount per check.

***Retail and Alliance Services segment competition.*** The Company's Retail and Alliance Services business competes with several service providers and financial institutions that provide these services to their merchant customers. In many cases, the merchant alliances also compete against each other for the same business. The check guarantee and verification products compete principally with the products of four other national competitors as well as the migration to other non-check products.

The most significant competitive factors relate to price, brand, strength of financial institution partnership, breadth of features and functionality, scalability and servicing capability. The Retail and Alliance Services segment is further impacted by large merchant and large bank consolidation, card association business model expansion, and the expansion of new payment methods and devices.

In both the Retail and Alliance Services and Financial Services segments, the card associations and payment networks Visa, MasterCard and Discover are increasingly offering products and services that compete with the Company's products and services.

***Retail and Alliance Services seasonality.*** Retail and Alliance Services' revenues and earnings are impacted by the volume of consumer usage of credit cards, debit cards, stored value cards and checks written at the point of sale. Retail and Alliance Services generally experiences increased POS activity during the traditional holiday shopping period in the fourth quarter, the back-to-school buying period in the third quarter, and significant holidays.

## Edgar Filing: FIRST DATA CORP - Form 10-K

***Retail and Alliance Services geographic mix and revenues.*** Revenues from external customers for the Retail and Alliance Services segment are substantially all earned in the U.S. Merchant revenues outside of the U.S. are managed and reported by the Company's International segment. Within the U.S., revenues from external customers are spread across the country since Retail and Alliance Services has merchant customers and alliance partners across geographic regions and a large percentage of its transactions occur at national merchants.

***Retail and Alliance Services significant customers.*** The Retail and Alliance Services segment does not have any individually significant customers; however, the Company has two significant merchant alliance relationships with financial institutions.

**Financial Services segment.** The Financial Services segment is comprised of:

- (1) credit and retail card processing services;
- (2) debit network and processing services;
- (3) output services; and

- (4) other services including remittance processing.

Financial Services segment revenues from external customers, segment EBITDA, and assets represent the following percentages of total segment and All Other and Corporate revenues from external customers, total segment and All Other and Corporate EBITDA and consolidated assets:

	Year ended December 31,		
	2012	2011	2010
Segment revenues from external customers	20%	20%	21%
Segment EBITDA	25%	26%	27%
Assets (at December 31)	12%	12%	13%

**Description of Financial Services segment operations.** Financial Services provides issuer card and network solutions for credit, retail and debit card processing, debit network services (including the STAR network), output services to financial institutions and other organizations offering credit, debit and retail cards to consumers and businesses to manage customer accounts. Financial Services also provides PIN debit network services through the STAR Network which enables PIN-secured debit transaction acceptance at over approximately 2 million ATM and retail terminal locations in the U.S. as of December 31, 2012. Financial Services also offers payment management solutions for recurring bill payment and services to improve customer communications, billing, online banking and consumer bill payment as well as information and check clearing services. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012. Revenue and profit growth in these businesses is derived from retaining and growing the core business and improving the overall cost structure. Growing the core business comes primarily from an increase in debit and credit card usage, growth from existing clients and sales to new clients and the related account conversions.

As of December 31, 2012, the Financial Services segment had more than 4,000 domestic client relationships. The Company has relationships and many long-term customer contracts with card issuers providing credit and retail card processing, output services for printing and embossing items, debit card processing services and STAR Network services. These contracts generally require a notice period prior to the end of the contract if a client chooses not to renew. Additionally, some contracts may allow for early termination upon the occurrence of certain events such as a change in control. The termination fees paid upon the occurrence of such events are designed primarily to cover balance sheet exposure related to items such as capitalized conversion costs or signing bonuses associated with the contract and, in some cases, may cover a portion of lost future revenue and profit. Although these contracts may be terminated upon certain occurrences, the contracts provide the segment with a steady revenue stream since a vast majority of the contracts are honored through the contracted expiration date.

**Credit and retail card issuing and processing services.** Credit and retail card issuing and processing services provide outsourcing services to financial institutions and other issuers of cards, such as consumer finance companies and retailers. Financial Services clients include a wide variety of banks, savings and loan associations, group service providers, retailers and credit unions. Services provided include, among other things, account maintenance, transaction authorizing and posting, fraud and risk management services and settlement.

The Company provides services throughout the period of each card's use, starting from a card-issuing client processing an application for a card. Services may include processing the card application, initiating service for the cardholder, processing each card transaction for the issuing retailer or financial institution and accumulating the card's transactions. The Company's fraud management services monitor the unauthorized use of cards which have been reported to be lost, stolen, or which exceed credit limits. The Company's fraud detection systems help identify fraudulent transactions by monitoring each cardholder's purchasing patterns and flagging unusual purchases. Other services provided include customized communications to cardholders, information verification associated with granting credit, debt collection, and customer service.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Revenues for credit and retail card issuing and processing services are derived from fees payable under contracts that depend primarily on the number of cardholder accounts on file. More revenue is derived from active accounts (those accounts on file that had a balance or any monetary posting or authorization activity during the period) than inactive accounts.

*Debit network and processing services.* The Company provides STAR Network access, PIN-debit and signature debit card processing services and ATM processing services, such as transaction routing, authorization, and settlement as well as ATM management and monitoring. The STAR Network represents a telecommunications network which is connected to thousands of financial institutions, merchants, payment processors, ATM processors, and card processors that participate in the network. In the merchant acquiring process flow described above in the Retail and Alliance Services segment discussion, STAR Network represents a debit network. When a merchant acquirer or ATM owner acquires a STAR Network transaction, it sends the transaction to the network switch, which is operated by the Company, which in turn routes the transaction to the appropriate participant for

authorization. To be routed through the STAR Network switch, a transaction must be initiated with a card participating in the STAR Network at an ATM or POS terminal also participating in the STAR Network. STAR Network's fees differ from those presented in the example above in the Retail and Alliance Services segment description in that the debit network charges less for PIN-debit transactions than do the card associations for credit and signature debit since there is substantially less risk involved in the PIN-debit transaction because PIN authentication is generally required and transactions are not approved unless there are sufficient funds in the customer's bank account.

Revenues related to the STAR Network and debit card and ATM processing services are derived from fees payable under contracts but are driven more by monetary transactions processed than by accounts on file. The Company provides services which are driven by client transactions and are separately priced and negotiated with clients. In a situation in which a PIN-secured debit transaction uses the Company's debit network and the Company is the debit card processor for the financial institution as well as the processor for the merchant, the Company receives: (1) a fee from the card issuing financial institution for running the transaction through the STAR Network switch, recognized in the Financial Services segment; (2) a fee from the card issuer for obtaining the authorization, recognized in the Financial Services segment; (3) a fee from the merchant for acquiring the transaction, which is recognized in the Retail and Alliance Services segment; and (4) a network acquirer fee from the merchant for accessing the STAR Network, which is recognized in the Financial Services segment. There are other possible configurations of transactions that result in the Company receiving multiple fees for a transaction, depending on the role the Company plays.

*Output services.* Output services consist of statement and letter printing, card embossing and mailing services. Services are provided to organizations that process accounts on the Company's platform as described above and for clients that process accounts on alternative platforms. The Company provides these services primarily through in-house facilities. Revenues for output services are derived primarily on a per piece basis and consist of fees for the production and materials related to finished products. The mailing services drive a majority of the Company's postage revenue.

*Other services.* Other services consist of the Company's remittance processing and other services. The remittance processing business processes mail-in payments for third-party organizations. Revenues for remittance processing services are derived primarily on a per transaction basis and consist of fees for processing consumer payments. Other services consist primarily of online banking and bill payment services, voice services as well as information and check clearing services. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012.

***Financial Services segment competition.*** The Company's Financial Services segment competes with several other third-party card processors and debit networks in the U.S., as well as financial institutions with in-house operations to manage card issuance and maintenance. The Company also faces significant competition from regional and national operators of debit networks.

The most significant competitive factors are price, system performance and reliability, breadth of features and functionality, disaster recovery capabilities and business continuity preparedness, data security, scalability, and flexibility of infrastructure and servicing capability. The Financial Services business is impacted by financial institution consolidation.

In both the Retail and Alliance Services and Financial Services segments, the card associations and payment networks Visa, MasterCard and Discover are increasingly offering products and services that compete with the Company's products and services.

***Financial Services seasonality.*** Debit processing and STAR Network revenues and earnings are impacted by the volume of consumer usage of debit cards at the point of sale. Such volumes are generally impacted by increased POS activity during the traditional holiday shopping period in the fourth quarter, the back-to-school buying period in the third quarter, and significant holidays.

**Financial Services geographic mix and revenues.** Revenues from external customers for the Financial Services segment are substantially all earned in the U.S. Card issuing revenues outside of the U.S. are reported by the Company's International segment. Within the U.S., revenues from external customers are geographically dispersed throughout the country.

**Financial Services significant customers.** No individual customer makes up more than 10% of the Financial Services segment revenue.

**International segment.** The International segment is comprised of:

- credit, retail, debit and prepaid card processing;
- merchant acquiring and processing; and
- ATM and POS processing, acquiring and switching services.

## Edgar Filing: FIRST DATA CORP - Form 10-K

International segment revenues from external customers, segment EBITDA and assets represent the following percentages of total segment and All Other and Corporate revenues from external customers, total segment and All Other and Corporate EBITDA and consolidated assets:

	Year ended December 31,		
	2012	2011	2010
Segment revenues from external customers	25%	27%	25%
Segment EBITDA	20%	20%	16%
Assets (at December 31)	14%	13%	14%

The merchant acquiring and card issuing services provided by the International segment are similar in nature to the services described above in the Retail and Alliance Services and Financial Services segments other than they include substantially all the services provided outside of the U.S. International has operations in 34 countries. For a description of the International segment's merchant acquiring and card issuing businesses refer to the Retail and Alliance Services and Financial Services segment descriptions provided above.

**International segment competition and seasonality.** Competition and seasonality within the International segment is similar to that of the Retail and Alliance Services and Financial Services segments for the respective product and service offerings and also includes third-party software providers. A noted difference from the U.S. operations is that generally there are more and smaller competitors because of the International segment's global span.

**International geographic mix.** The following countries accounted for more than 10% of the segment's revenues from external customers for the periods presented:

	Year ended December 31,		
	2012	2011	2010
United Kingdom	17%	18%	17%
Australia	15%	16%	15%
Germany	12%	13%	13%

No individual foreign country was material to the Company's consolidated revenues.

**International significant customers.** No individual customer makes up more than 10% of the International segment revenue.

**All Other and Corporate.** The remainder of the Company's business units are grouped in the All Other and Corporate category, which includes Integrated Payment Systems ( IPS ), First Data Government Solutions ( FDGS ) and smaller businesses as well as corporate operations.

The principal IPS business is official check services. Until May 2010, IPS issued official checks, which were sold by agents that were financial institutions. Official checks served as an alternative to a bank's own items such as cashiers or bank checks. The Company has gradually exited the official check line of business. The majority of the clients of this business deconverted during 2008 and there was no new official check and money order business beyond May 2010. IPS will continue to use its licenses to offer payment services that fall under state and federal regulations and the business will continue to operate in a much reduced capacity as outstanding official check and money order clearance



activity winds down.

FDGS operates payment systems and related technologies in the government sector. For instance, FDGS provides electronic tax payment processing services for the Electronic Federal Tax Payment System.

Corporate operations include administrative and shared service functions such as the executive group, legal, tax, treasury, internal audit, accounting, human resources, information technology and procurement. Costs incurred by Corporate that are directly related to a segment are allocated to the respective segment. Administrative and shared service costs are retained by Corporate.

***All Other and Corporate competition.*** The operations within All Other and Corporate have various competitors. No single competitor would have a material impact on the Company.

***All Other and Corporate significant customers.*** During 2012, the Company had a significant relationship with one client whose revenues represented approximately 50% of All Other and Corporate revenue for the year ended December 31, 2012.

## **Intellectual Property**

The Company owns a global portfolio of many trademarks, trade names, patents and other intellectual property that are important to its future success. The only intellectual property rights which are individually material to the Company are the FIRST DATA trademark and trade name and the STAR trademark and trade name. The STAR trademark and trade name are used in the Financial Services segment. The FIRST DATA trademark and trade name are associated with quality and reliable electronic commerce and payments solutions. Financial institutions and merchants associate the STAR trademark and trade name with quality and reliable debit network services and processing services. Loss of the proprietary use of the FIRST DATA or STAR trademarks and trade names or a diminution in the perceived quality associated with these names could harm the growth of the Company's businesses.

The Company uses a combination of technologies (including proprietary technology and technology obtained from third parties) to provide its products and services to its customers, and to remain competitive. The Company has various programs and procedures to protect its patents and other intellectual property rights. The patent protection associated with the Company's systems and software expires at different times over the next one to 20 years.

## **Employees and Labor**

At December 31, 2012, the Company employed approximately 24,000 employees, approximately 97% of which were full-time employees. The majority of the employees of the Company's subsidiaries outside of the U.S. are subject to the terms of individual employment agreements. One of the Company's wholly owned subsidiaries has approximately 1,500 employees in the United Kingdom, a portion of whom are members of the Unite trade union. Employees of the Company's subsidiaries in Vienna, Austria; Frankfurt, Germany; and Nürnberg, Germany are also represented by local works councils and a portion of the Frankfurt workforce is covered by a union contract. Certain employees of the Company's Korean subsidiary are represented by a Labor-Management council. Employees in certain other countries are also covered by the terms of industry-specific national collective agreements. None of the Company's employees are otherwise represented by any labor organization in the U.S. The Company believes that its relations with its employees and the labor organizations identified above are in good standing.

## **Available Information**

FDC's principal executive offices are located at 5565 Glenridge Connector, N.E., Suite 2000, Atlanta, Georgia 30342, telephone (404) 890-2000. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge to shareholders and other interested parties through the Investor Relations portion of the Company's web site at <http://investor.firstdata.com> as soon as reasonably practical after they are filed with the Securities and Exchange Commission (SEC). The SEC maintains a web site, [www.sec.gov](http://www.sec.gov), which contains reports and other information filed electronically with the SEC by the Company. The Company's Audit Committee Charter, Governance, Compensation and Nominations Committee Charter, Technology and Investment Committee Charter, and Code of Ethics for Senior Financial Officers are available without charge through the About First Data, Investor Relations, Corporate Governance portion of the Company's investor relations web site, listed above, or by writing to the attention of Investor Relations at the address listed above.

## **Executive Officers of the Company**

Refer to Item 10 of this Form 10-K.

### **Government Regulations**

Various aspects of the Company's service areas are subject to U.S. federal, state and local regulation, as well as regulation outside the U.S. Failure to comply with regulations may result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of service, and/or the imposition of civil and criminal penalties, including fines. Certain of the Company's services also are subject to rules promulgated by various payment networks, such as Visa, MasterCard and Discover, as more fully described below.

**Dodd-Frank Act.** In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") was signed into law in the United States. The Dodd-Frank Act will result in significant structural and other changes to the regulation of the financial services industry. Among other things, Title X of the Dodd-Frank Act establishes a new, independent regulatory agency known as the Consumer Financial Protection Bureau to regulate consumer financial products and services (including many offered by the Company's customers). Separately, under Section 1075 of the Dodd-Frank Act, debit interchange transaction fees that a card issuer receives and that are established by a payment card network for an electronic debit transaction will now be regulated by the Federal Reserve Board and must be "reasonable and proportional" to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. On June 29, 2011, the Federal Reserve Board announced the final rules governing

debit card interchange fees, and routing and exclusivity restrictions as well as a proposed rule governing the fraud prevention adjustment in response to Section 1075 of the Dodd-Frank Act. Effective October 1, 2011, debit interchange rates for card issuers operating in the U.S. with assets of \$10 billion or more are capped at the sum of \$.21 per transaction and an ad valorem component of 5 basis points to reflect a portion of the issuer's fraud losses plus, for qualifying issuers, an additional \$.01 per transaction in debit interchange for fraud prevention costs. In addition, the new regulations ban debit payment card networks from prohibiting an issuer from contracting with any other payment card network that may process an electronic debit transaction involving an issuer's debit cards and prohibit card issuers and payment networks from inhibiting the ability of merchants to direct the routing of debit card transactions over any network that can process the transaction. Beginning April 1, 2012, all debit card issuers in the U.S. were required to participate in at least two unaffiliated debit payment card networks. On April 1, 2013, the ban on network exclusivity arrangements becomes effective for prepaid card and healthcare debit card issuers, with some leeway for prepaid cards issued before that date. Additionally, Section 1075 of the Dodd-Frank Act provides two self-executing statutory provisions that became effective on July 22, 2010. The first provision allows merchants to set minimum dollar amounts (not to exceed \$10) for the acceptance of a credit card (while federal governmental entities and institutions of higher education may set maximum amounts for the acceptance of credit cards). The second provision allows merchants to provide discounts or incentives to entice consumers to pay with an alternative payment method, such as cash, checks or debit cards. Separate from Title X, the Dodd-Frank Act creates a new entity, known as the Financial Stability Oversight Council, and authorizes it to require that a nonbank financial company that is deemed to pose a systemic risk to the U.S. financial system become subject to consolidated, prudential supervision by the Federal Reserve Board. At this point it is unclear whether the Company would be subject to additional systemic risk related oversight.

The Company experienced some benefit due mostly to lower debit interchange rates. A discussion of the overall impact on the Company is set forth in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

**Association and network rules.** A number of the Company's subsidiaries are subject to payment network rules of MasterCard, Visa and other associations. Several of the Company's subsidiaries in the International segment are members of MasterCard and/or Visa in the countries where the subsidiaries do business and are subject to the rules of such associations. First Data Resources, LLC, First Data Merchant Services Corporation, and STAR Network, along with a number of the Company's subsidiaries in the International segment are registered with Visa and/or MasterCard as service providers for member institutions. In those situations where the Company serves as a service provider to member institutions, the Company is not an issuer or an acquirer under Visa's and MasterCard's rules. In addition, First Data Canada Merchant Solutions ULC is a member of Interac and subject to its rules and First Data Global Services Limited is a subscriber to PULSE and is therefore subject to rules applicable to its members.

Various subsidiaries of the Company are also processor level members of numerous debit and electronic benefits transaction (EBT) networks, such as Star Networks, Inc., Star Processing Inc., First Data Merchant Services Corporation, and Concord Transaction Services, LLC, or are otherwise subject to various network rules in connection with processing services and other services they provide to their customers and a number of the Company's subsidiaries are providing processing and other services related to ATM deployment to customers. As such, the Company is subject to applicable card association, network and national scheme rules, which could subject the Company to a variety of fines or penalties that may be levied by the card associations, banking associations or networks for certain acts and/or omissions by the Company, its sponsors, acquirer customers, processing customers and/or merchants. The Company mitigates this risk by maintaining an extensive card association and network compliance function. The Company is also subject to network operating rules promulgated by the National Automated Clearing House Association relating to payment transactions processed by the Company using the Automated Clearing House Network and to various state and Federal laws regarding such operations, including laws pertaining to EBT.

Cashcard Australia Limited (Cashcard) is a member of the Australian Consumer Electronic Clearing System (CECS), which is a debit payment system regulated by network operating rules established and administered by Australian Payments Clearing Association Limited and which facilitates the clearing and settlement of ATM payments in Australia and a member of EFTPOS Payments Australia Limited (EPAL), which is a debit payment system regulating Electronic Funds Transfer at Point of Sale (EFTPOS) payments in Australia. Cashcard is also a member of the ATM Access Company Limited and the EFTPOS Access Company Limited which respectively administers reciprocal access and interchange arrangements for ATMs and EFTPOS in Australia. The network operating rules, ATM Access Code and EFTPOS Access Code impose a variety of sanctions, including suspension or termination of membership and fines for non-compliance. Cashcard also operates its own network of members, regulated by rules promulgated by Cashcard, which facilitates access to CECS and EPAL for Cashcard's member institutions. To

## Edgar Filing: FIRST DATA CORP - Form 10-K

enable Cashcard to settle in CECS direct with banks and financial institutions, Cashcard maintains an Exchange Settlement Account ( ESA ) which is supervised by the Reserve Bank of Australia through its delegate, the Australian Prudential Regulatory Authority ( APRA ), and which requires Cashcard to adhere to conditions imposed by APRA, such as maintaining a minimum balance in the ESA.

## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company's subsidiary in Germany, TeleCash GmbH & Co. KG ( TeleCash ), is certified and regulated as a processor for domestic German debit card transactions by the Deutsche Kreditwirtschaft ( DK ), the German banking association. Failure to comply with the technical requirements set forth by the DK may result in suspension or termination of services.

**Banking regulation.** Because a number of the Company's subsidiary businesses, including card issuer processing, merchant processing and STAR Network businesses as well as those subsidiaries engaged in the business of ATM deployment, provide data processing services for financial institutions, they are subject to examination by the Federal Financial Institutions Examination Council, an interagency body comprised of the federal bank and thrift regulators and the National Credit Union Association and national regulatory bodies.

FDR Limited ( FDRL ) in the United Kingdom is authorized and regulated by the Financial Services Authority ( FSA ). The FSA is the single regulatory authority for the full range of financial services in the United Kingdom, including banking, investment, mortgage and insurance mediation services. FDRL is authorized by the FSA to carry on an insurance mediation business for the purpose of arranging insurance to its issuer customers' cardholders. As an FSA regulated firm, FDRL is required to meet certain prudential and conduct of business requirements.

In the European Union, Directive 2007/60 EC, the Payment Services Directive, was released by the European Parliament and by the Council on November 13, 2007, setting a framework for future regulation of bodies and corporations such as the national central banks, financial institutions, e-money institutes and payment institutions. The Payment Services Directive was implemented in most EU member states via national legislation effective November 1, 2009. As a result of the implementation of the Payment Services Directive, a number of the Company's subsidiaries in the International segment have applied for and received a Payment Institution License in the countries where such subsidiaries do business. As licensed payment institutions, the relevant entities are subject to regulation and oversight in the applicable member state, which includes amongst other things, the requirement to maintain specified regulatory capital.

First Data Loan Company Canada ( FDLCC ), through which the Company conducts some of its merchant acquiring activities in Canada, is a Canadian loan company subject to regulation, examination and oversight by the Office of the Superintendent of Financial Institutions and to various provincial registration and licensing requirements. First Data Trust Company, LLC ( FDTC ), engages in trust activities previously conducted by the trust department of a former banking subsidiary of the Company. FDTC is subject to regulation, examination and oversight by the Division of Banking of the Colorado Department of Regulatory Agencies. These financial institution subsidiaries are also subject to various national and local banking and consumer protection laws and regulations that apply to the activities they conduct. Since FDTC is not a bank under the Bank Holding Company Act of 1956, as amended ( BHCA ), and FDLCC does not operate any banking offices in the U.S. or do business in the U.S., except such business as may be incidental to its activities outside the U.S., the Company's affiliation with FDTC and FDLCC does not cause it to be regulated as a bank holding company or financial holding company under the BHCA.

TeleCheck Payment Systems Limited in Australia holds an Australian Financial Services License under Chapter 7 of the Corporations Act, which regulates the provision of a broad range of financial services in Australia. The license, issued by the Australian Securities and Investments Commission, entitles the Australian operations of TeleCheck to deal in and provide general financial product advice about its check guarantee and check verification product (which falls within the definition of a risk management product under the legislation). The License and the Act requires that TeleCheck's Australian operations issue product documents that comply with specific content requirements and follow prescribed procedures failing which penalties apply.

Further, in the Company's International segment, several subsidiaries provide services such as factoring or settlement that make them subject to regulation by local banking agencies, including the National Bank of Slovakia, the National Bank of Poland and the German Federal Financial Supervision Agency.

**Privacy and information security regulations.** Each of the Company's segments provides services that may be subject to various state, federal and foreign privacy laws and regulations. Relevant federal privacy laws include the Gramm-Leach-Bliley Act, which applies directly to a broad range of financial institutions and indirectly (or in some instances directly) to companies that provide services to financial institutions. Relevant foreign privacy laws include Directive 95/46 EC of the European Parliament and of the Council of 24 October 1995, as such directive is implemented in each member state of the European Union, however each member state has its own data protection and privacy laws which in some cases may be more restrictive than the Directive and impose additional duties on companies regarding registration/notification requirements and handling/transfer of personal data; the Australian Privacy Act of 1988; and the Personal Information Protection and Electronic Documents Act in Canada. These laws and their implementing regulations restrict the collection, processing, storage, use and disclosure of personal information, requires notice to individuals of privacy practices and provides individuals with certain rights to prevent use and disclosure of protected information. These laws also impose requirements for safeguarding and proper destruction of personal information through the issuance of data security standards or guidelines. In addition, there are state laws restricting the ability to collect and utilize certain types of information

such as Social Security and driver's license numbers. Certain state laws impose similar privacy obligations as well as, in certain circumstances, obligations to provide notification to affected individuals, state officers and consumer reporting agencies, as well as businesses and governmental agencies that own data, of security breaches of computer databases that contain personal information.

**Credit reporting and debt collections regulations.** TeleCheck Services Inc. ( TeleCheck ) is subject to the Federal Fair Credit Reporting Act ( FCRA ) and various similar state laws based on TeleCheck's maintenance of a database containing the check-writing histories of consumers and the use of that information in connection with its check verification and guarantee services.

The collection business within TRS Recovery Services, Inc. ( TRS ) is subject to the Federal Fair Debt Collection Practices Act and various similar state laws. TRS has licenses in a number of states in order to engage in collection in those states. In the United Kingdom, FDRL has a license under the Consumer Credit Act of 1974 ( CCA ) to enable it to undertake, among other things, credit administration and debt collections activities on behalf of its card issuing customers through calls and correspondence with the cardholders. FDRL is also licensed under the CCA to carry on the activity of a consumer hire business for the purpose of leasing terminals to merchants. The CCA establishes a comprehensive code of regulations for the origination, administration and enforcement of credit and hire agreements.

Significant portions of federal regulatory oversight of both the Fair Credit Reporting Act and the Fair Debt Collection Practices Act have been transferred from the Federal Trade Commission to the Consumer Financial Protection Bureau. TeleCheck and TRS are subject to regulation, supervision, and examination from the Consumer Financial Protection Bureau. Further regulations may be imposed in the future as both state governments, the Consumer Financial Protection Bureau and other federal agencies identify and consider supplementary consumer financial protection measures involving, among other things, collection activities, the collection, storage and use of data and databases regarding consumers. In particular, laws regulating activities with respect to current or emerging technology such as the use of automated dialers or pre-recorded messaging or calls to cellular phones could impair the collection by TRS of returned checks, including those purchased under TeleCheck's guarantee services. Moreover, reducing or eliminating access to and use of information on drivers licenses, requiring blocking of access to credit reports or scores, mandating score or scoring methodology disclosure and proscribing the maintenance or use of consumer databases, including a consumer's rights to affect the usable content of databases, could reduce the effectiveness of TeleCheck's risk management tools or otherwise increase its costs of doing business. Such legislation could also affect the business of First Data Solutions, Inc., which provides access to non-FCRA data for identity verification and fraud-prevention purposes, by imposing new regulatory requirements or restricting the availability and completeness of consumer data.

In addition, several subsidiaries in the Company's International segment are subject to comparable local laws regarding collection activities and obtaining credit reports.

**Anti-money laundering and counter terrorist regulation.** Certain of the Company's businesses are subject to regulation by the U.S., including anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (collectively, the BSA ). The BSA, among other things, requires money services businesses (such as money transmitters, issuers of money orders and official checks, and providers of prepaid access) to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity, and to maintain transaction records. Recently, the Financial Crimes Enforcement Network, the agency that enforces the BSA, finalized its rule that defines Stored Value under the BSA, and places requirements on entities that are either the Provider or Seller of Prepaid Access. Money Network, a First Data entity, will be the Provider of Prepaid Access for various open loop prepaid programs for which it is the Program Manager.

The Company is also subject to certain economic and trade sanctions programs that are administered by the Treasury Department's Office of Foreign Assets Control ( OFAC ) that prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics



traffickers, and terrorists or terrorist organizations.

Similar anti-money laundering and counter terrorist financing and proceeds of crime laws apply to movements of currency and payments through electronic transactions and to dealings with persons specified in lists maintained by the country equivalents to the OFAC lists in several other countries and require specific data retention obligations to be observed by intermediaries in the payment process. The Company's businesses in those jurisdictions are subject to those data retention obligations.

The Company has developed and is enhancing global compliance programs to monitor and address legal and regulatory requirements and developments.

**Money transmission and payment instrument licensing and regulation.** The Company is subject to various U.S. federal, state and foreign laws and regulations governing money transmission and the issuance and sale of payment instruments.

In the U.S., most states license money transmitters and issuers of payment instruments. Many states exercise authority over the operations of the Company's services related to money transmission and payment instruments and, as part of this authority, subject the Company to periodic examinations. Many states require, among other things, that proceeds from money transmission activity and payment instrument sales be invested in high-quality marketable securities prior to the settlement of the transactions. Such licensing laws also may cover matters such as regulatory approval of consumer forms, consumer disclosures and the filing of periodic reports by the licensee, and require the licensee to demonstrate and maintain levels of net worth. Many states also require money transmitters, issuers of payment instruments and their agents to comply with federal and/or state anti-money laundering laws and regulations.

Government agencies may impose new or additional rules on money transmission and sales of payment instruments, including regulations which (i) impose additional identification, reporting or recordkeeping requirements; (ii) limit the entities capable of providing the sale of payment instruments; and (iii) require additional consumer disclosures.

**Escheat regulations.** The Company is subject to unclaimed or abandoned property (escheat) laws in the U.S. and abroad which require the Company to turn over to certain government authorities the property of others held by the Company that has been unclaimed for a specified period of time such as, in the Integrated Payment Systems business, payment instruments that have not been presented for payment or, in the Retail and Alliance Services segment, account balances that cannot be returned to a merchant following discontinuation of its relationship with the Company. A number of the Company's subsidiaries hold property subject to escheat laws and the Company has an ongoing program to comply with those laws. The Company is subject to audit by individual U.S. states with regard to the Company's escheatment practices.

**Other.** Stored-value services offered to issuers by First Data Prepaid Services ( FDPS ) in the U.S., and by First Data's International businesses ( First Data International ) outside the U.S. are subject to various federal, state and foreign laws and regulations, which may include laws and regulations related to consumer and data protection, licensing, escheat, anti-money laundering, banking, trade practices and competition and wage and employment. For example, the Credit Card Accountability Responsibility and Disclosure Act of 2009 created new requirements applicable to general-use prepaid cards, store gift cards, and electronic gift certificates effective August 22, 2010, and the Federal Reserve Board published on March 23, 2010 final rules to amend Regulation E with respect to such cards and electronic certificates effective August 22, 2010. These laws and regulations are evolving, unclear and sometimes inconsistent and subject to judicial and regulatory challenge and interpretation, and therefore the extent to which these laws and rules have application to, and their impact on, FDPS, First Data International, financial institutions, merchants or others is in flux. At this time the Company is unable to determine the impact that the clarification of these laws and their future interpretations, as well as new laws, may have on FDPS, First Data International, financial institutions, merchants or others in a number of jurisdictions. These services may also be subject to the rules and regulations of the various international, domestic and regional schemes, Networks and Associations in which FDPS, First Data International and the card issuers participate. These schemes, Networks or Associations may, generally in their discretion, modify these rules and regulations and such modifications could also impact FDPS, First Data International, financial institutions, merchants and others.

In addition, the Housing Assistance Tax Act of 2008 included an amendment to the Internal Revenue Code that requires information returns to be made for each calendar year by merchant acquiring entities and third-party settlement organizations with respect to payments made in settlement of payment card transactions and third-party payment network transactions occurring in that calendar year. This requirement to make information returns applies to returns for calendar years beginning after December 31, 2010. Reportable transactions are also subject to backup withholding requirements. The Company could be liable for penalties if it is not in compliance with these regulations.

**ITEM 1A. RISK FACTORS**

The following are certain risks that could affect the Company's business and its results of operations. The risks identified below are not all encompassing but should be considered in establishing an opinion of the Company's future operations.

*The Company's substantial leverage could adversely affect its ability to raise additional capital to fund its operations, limit the Company's ability to react to changes in the economy or its industry, expose the Company to interest rate risk to the extent of its variable rate debt and prevent the Company from meeting its debt obligations.*

The Company is highly leveraged. The Company's high degree of leverage could have important consequences, including:

- increasing the Company's vulnerability to adverse economic, industry or competitive developments;
- requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on the Company's indebtedness, therefore reducing the Company's ability to use its cash flow to fund the Company's operations, capital expenditures and future business opportunities;
- exposing the Company to the risk of increased interest rates because certain of its borrowings, including and most significantly borrowings under the Company's senior secured credit facilities, are at variable rates of interest;
- making it more difficult for the Company to satisfy its obligations with respect to its indebtedness, and any failure to comply with the obligations of any of the Company's debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indenture governing the notes and the agreements governing such other indebtedness;
- restricting the Company from making strategic acquisitions or causing the Company to make non-strategic divestitures;
- making it more difficult for the Company to obtain network sponsorship and clearing services from financial institutions;
- limiting the Company's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and
- limiting the Company's flexibility in planning for, or reacting to, changes in the Company's business or market conditions and placing the Company at a competitive disadvantage compared to its competitors who are less highly leveraged and who, therefore, may be able to take advantage of opportunities that the Company's leverage prevents it from exploiting.

The first significant amount of the Company's indebtedness matures in September 2015 and consists of \$783.5 million of indebtedness under its senior unsecured notes. Refer to Note 8 to the Company's Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further discussion regarding future debt maturities. The Company's senior secured revolving credit facility has \$499.1 million in commitments that mature in September 2013 and \$1,016.2 million in commitments that mature between June 2015 and September 2016, depending upon certain conditions. The Company may not be able to refinance its senior unsecured notes or its other existing indebtedness because of the Company's high level of debt, debt incurrence restrictions under its debt agreements or because of adverse conditions in credit markets generally.

***Despite the Company's high indebtedness level, the Company and its subsidiaries still may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with the Company's substantial indebtedness.***

The Company and its subsidiaries may be able to incur substantial additional indebtedness in the future. Although the indentures governing the Company's senior secured notes, senior second lien notes, senior notes, payment-in-kind (PIK) toggle senior second lien notes, and senior subordinated notes; the indenture governing the senior PIK notes of First Data Holdings Inc.; and the Company's senior secured credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to the Company's and its subsidiaries' existing debt levels, the related risks that the Company will face would increase.

***The ability to adopt technology to changing industry and customer needs or trends may affect the Company's competitiveness or demand for the Company's products, which may adversely affect the Company's operating results.***

Changes in technology may limit the competitiveness of and demand for the Company's services. The Company's businesses operate in industries that are subject to technological advancements, developing industry standards and changing customer needs and preferences. Also, the Company's customers continue to adopt new technology for business and personal uses. The Company must anticipate and respond to these industry and customer changes in order to remain competitive within the Company's relative markets. For example, the ability to adopt technological advancements surrounding point-of-sale (POS) technology available to merchants could have an impact on the Company's International and Retail and Alliance Services business. The Company's inability to respond to new competitors and technological advancements could impact all of the Company's businesses.

***Material breaches in security of the Company's systems may have a significant effect on the Company's business.***

The uninterrupted operation of the Company's information systems and the confidentiality of the customer/consumer information that resides on such systems are critical to the successful operations of the Company's business. The Company has security, backup and recovery systems in place, as well as a business continuity plan to ensure the system will not be inoperable. The Company also has what it deems sufficient security around the system to prevent unauthorized access to the system. However, the Company's visibility in the global payments industry may attract hackers to conduct attacks on the Company's systems that could compromise the security of the Company's data. An information breach in the system and loss of confidential information such as credit card numbers and related information could have a longer and more significant impact on the business operations than a hardware failure. The loss of confidential information could result in losing the customers' confidence and thus the loss of their business, as well as imposition of fines and damages.

***Global economics, political and other conditions may adversely affect trends in consumer spending, which may adversely impact the Company's revenue and profitability.***

The global electronic payments industry depends heavily upon the overall level of consumer, business and government spending. A sustained deterioration in the general economic conditions, particularly in the United States or Europe, or increases in interest rates in key countries in which the Company operates may adversely affect the Company's financial performance by reducing the number or average purchase amount of transactions involving payment cards. A reduction in the amount of consumer spending could result in a decrease of the Company's revenue and profits.

A weakening in the economy could also force some retailers to close resulting in exposure to potential credit losses and transaction declines and the Company earning less on transactions due also to a potential shift to large discount merchants. Additionally, credit card issuers may reduce credit limits and be more selective with regard to whom they issue credit cards. Changes in economic conditions could adversely impact future revenues and profits of the Company and result in a downgrade of its debt ratings which may lead to termination or modification of certain contracts and make it more difficult for the Company to obtain new business.

***The Company's debt agreements contain restrictions that will limit the Company's flexibility in operating its business.***

The indentures governing the Company's senior secured notes, senior second lien notes, senior notes, PIK toggle senior second lien notes, and senior subordinated notes; the indenture governing senior PIK notes of First Data Holdings Inc.; and the Company's senior secured credit facilities contain various covenants that limit the Company's ability to engage in specified types of transactions. These covenants limit the Company's and its restricted subsidiaries' ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of the Company's capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;

## Edgar Filing: FIRST DATA CORP - Form 10-K

- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's assets;
- enter into certain transactions with the Company's affiliates; and
- designate the Company's subsidiaries as unrestricted subsidiaries.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of the revolving credit facility, permit the lenders to cease making loans to the Company. Upon the occurrence of an event of default under the Company's senior secured credit facilities, the lenders could elect to declare all amounts outstanding under the Company's senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under the Company's other indebtedness. If the Company was unable to repay those amounts, the lenders under the Company's senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness and the Company's secured and second lien notes. The Company has pledged a significant portion of the Company's assets as collateral under the Company's senior secured credit facilities. If the lenders under the senior secured credit facilities accelerate the repayment of borrowings, the Company may not have sufficient assets to repay the Company's senior secured credit facilities and senior secured notes as well as the Company's second lien notes and unsecured indebtedness.

***Changes in card association and debit network fees or products could increase costs or otherwise limit the Company's operations.***

From time to time, card associations and debit networks increase the organization and/or processing fees (known as interchange fees) that they charge. It is possible that competitive pressures will result in the Company absorbing a portion of such increases in the future, which would increase its operating costs, reduce its profit margin and adversely affect its business, operating results and financial condition. Furthermore, the rules and regulations of the various card associations and networks prescribe certain capital requirements. Any increase in the capital level required would further limit the Company's use of capital for other purposes.

***The Company depends, in part, on its merchant relationships and alliances to grow the Company's Retail and Alliance Services business. If the Company is unable to maintain these relationships and alliances, the Company's business may be adversely affected.***

Growth in the Company's Retail and Alliance Services business is derived primarily from acquiring new merchant relationships, new and enhanced product and service offerings, cross selling products and services into existing relationships, the shift of consumer spending to increased usage of electronic forms of payment and the strength of the Company's alliance partnerships with banks and financial institutions and other third parties. A substantial portion of the Company's business is conducted through alliances with banks and other institutions. The Company's alliance structures take on different forms, including consolidated subsidiaries, equity method investments and revenue sharing arrangements. Under the alliance program, the Company and a bank or other institution form an alliance, either contractually or through a separate legal entity. Merchant contracts may be contributed to the alliance by the Company and/or the bank or institution. The banks and other institutions generally provide card association sponsorship, clearing and settlement services. These institutions typically act as a merchant referral source when the institution has an existing banking or other relationship. The Company provides transaction processing and related functions. Both alliance partners may provide management, sales, marketing, and other administrative services. The alliance structure allows the Company to be the processor for multiple financial institutions, any one of which may be selected by the merchant as their bank partner. The Company relies on the continuing growth of its merchant relationships, alliances and other distribution channels. There can be no guarantee that this growth will continue. The loss of merchant relationships or alliance and financial institution partners could negatively impact the Company's business and result in a reduction of the Company's revenue and profit.

***The Company may experience breakdowns in its processing systems that could damage customer relations and expose it to liability.***

The Company depends heavily on the reliability of its processing systems in the Company's core businesses. A system outage or data loss could have a material adverse effect on the Company's business, financial condition and results of operations. Not only would the Company suffer damage to its reputation in the event of a system outage or data loss, but the Company may also be liable to third parties. Many of the Company's contractual agreements with financial institutions require the payment of penalties if the Company's systems do not meet certain operating standards. To successfully operate the Company's business, the Company must be able to protect its processing and other systems from interruption, including from events that may be beyond the Company's control. Events that could cause system interruptions include, but are not limited to, fire, natural disaster, unauthorized entry, power loss, telecommunications failure, computer viruses, terrorist acts and war. Although the Company has taken steps to protect against data loss and system failures, there is still risk that it may lose critical data or experience system failures. The Company performs the vast majority of disaster recovery operations itself, though it utilizes select third parties for some aspects of recovery, particularly internationally. To the extent the Company outsources its disaster recovery, it is at risk of the vendor's unresponsiveness in the event of breakdowns in the Company's systems. Furthermore, the Company's property and business interruption insurance may not be adequate to compensate it for all losses or failures that may occur.

***The Company may experience software defects, computer viruses and development delays, which could damage customer relations, decrease the Company's potential profitability and expose it to liability.***

The Company's products are based on sophisticated software and computing systems that often encounter development delays, and the underlying software may contain undetected errors, viruses or defects. Defects in the Company's software products and errors or delays in the Company's processing of electronic transactions could result in:

- additional development costs;
- diversion of technical and other resources from the Company's other development efforts;
- loss of credibility with current or potential customers;
- harm to the Company's reputation; or
- exposure to liability claims.



In addition, the Company relies on technologies supplied to it by third parties that may also contain undetected errors, viruses or defects that could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company attempts to limit its potential liability for warranty claims through disclaimers in the Company's software documentation and limitation-of-liability provisions in the Company's license and customer agreements, the Company cannot assure that these measures will be successful in limiting the Company's liability.

***Acquisitions and integrating such acquisitions create certain risks and may affect the Company's operating results.***

The Company has been an active business acquirer both in the United States and internationally, and may continue to be active in the future. The acquisition and integration of businesses involves a number of risks. The core risks are in the areas of valuation (negotiating a fair price for the business based on inherently limited diligence) and integration (managing the complex process of integrating the acquired company's people, products, technology and other assets so as to realize the projected value of the acquired company and the synergies projected to be realized in connection with the acquisition).

In addition, international acquisitions often involve additional or increased risks including, for example:

- managing geographically separated organizations, systems and facilities;
- integrating personnel with diverse business backgrounds and organizational cultures;
- complying with foreign regulatory requirements;
- fluctuations in currency exchange rates;
- enforcement of intellectual property rights in some foreign countries;
- difficulty entering new foreign markets due to, among other things, customer acceptance and business knowledge of these new markets; and
- general economic and political conditions.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the Company's combined businesses and the possible loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with acquisitions and the integration of the two companies' operations could have an adverse effect on the Company's business, results of operations, financial condition or prospects.

***The Company relies on various financial institutions to provide clearing services in connection with its settlement activities. If the Company is unable to maintain clearing services with these financial institutions and is unable to find a replacement, the Company's business may be adversely affected.***

## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company relies on various financial institutions to provide clearing services in connection with the settlement activities of the Company. If such financial institutions should stop providing clearing services the Company must find other financial institutions to provide those services. If the Company is unable to find a replacement financial institution the Company may no longer be able to provide processing services to certain customers which could negatively impact the revenue and earnings of the Company.

*Changes in laws, regulations and enforcement activities may adversely affect the products, services and markets in which the Company operates.*

The Company and its customers are subject to laws and regulations that affect the electronic payments industry in the many countries in which the Company's services are used. In particular, the Company's customers are subject to numerous laws and regulations applicable to banks, financial institutions and card issuers in the United States and abroad, and, consequently, the Company is at times affected by these federal, state and local laws and regulations. The U.S. Congress and governmental agencies have increased their scrutiny of a number of credit card practices, from which some of the Company's customers derive significant revenue. Regulation of the payments industry, including regulations applicable to the Company and its customers, has increased significantly in recent years. Failure to comply with laws and regulations may result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of services, and/or the imposition of consent orders or civil and criminal penalties, including fines which could have an adverse effect on the Company's results of operation and financial condition. The Company is subject to U.S. and international financial services regulations, a myriad of consumer protection laws, economic sanctions, laws and regulations and anti-corruption laws, escheat regulations and privacy and information security regulations to name only a few. Changes to legal rules and regulations, or interpretation or enforcement thereof, could have a negative financial effect on the Company. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law in July 2010, significantly changes the U.S. financial regulatory system, including creating a new independent agency funded by the Federal Reserve Board to regulate consumer financial products and services (including many offered by the Company's customers), restricting debit card fees paid by merchants to issuer banks and allowing merchants to offer discounts for different

payment methods. On June 29, 2011, the Federal Reserve Board announced the final rules governing debit card interchange fees, and routing and exclusivity restrictions as well as a proposed rule governing the fraud prevention adjustment in response to the Dodd-Frank Act. Within the Retail and Alliance Services segment the Company experienced some transitory benefit due mostly to lower debit interchange rates, however, the overall impact of the Dodd-Frank Act on the Company is difficult to estimate because it will take some time for the market to react and adjust to the new regulations and additional regulations may be developed by the newly created Bureau of Consumer Financial Protection (CFPB), with respect to consumer financial products and services that impact the Company or its customers. Pursuant to final rules published by the CFPB specifying the criteria for agencies with consumer reporting activities that will be subject to direct supervision and regulatory oversight by the CFPB, two of the Company's subsidiaries, TeleCheck Services Inc. and TRS Recovery Services, Inc., are subject to CFPB oversight. At this point it is unclear as to whether other parts of the Company's business also will be subject to CFPB oversight in the future or what such oversight may entail. Each of the proposed regulations may adversely affect the Company's business or operations, directly or indirectly (if, for example, the Company's customers' business and operations are adversely affected). In addition, an inadvertent failure by the Company to comply with laws and regulations, as well as rapidly evolving social expectations of corporate fairness, could damage the Company's reputation or brands. Furthermore, the Company is subject to tax laws in each jurisdiction where it does business. Changes in tax laws or their interpretations could decrease the value of revenues the Company receives, the value of tax loss carryforwards and tax credits recorded on the Company's balance sheet and the amount of the Company's cash flow and have a material adverse impact on the Company's business.

***Future consolidation of client financial institutions or other client groups may adversely affect the Company's financial condition.***

The Company has experienced the negative impact of the substantial bank industry consolidation in recent years. Bank industry consolidation impacts existing and potential clients in the Company's service areas, primarily in Financial Services and Retail and Alliance Services. The Company's alliance strategy could be negatively impacted as a result of consolidations, especially where the banks involved are committed to their internal merchant processing businesses that compete with the Company. Bank consolidation has led to an increasingly concentrated client base in the industry, resulting in a changing client mix for Financial Services as well as increased price compression. Further consolidation in the bank industry or other client base could have a negative impact on the Company.

***The Company is subject to the credit risk that its merchants will be unable to satisfy obligations for which the Company may also be liable.***

The Company is subject to the credit risk of its merchants being unable to satisfy obligations for which the Company also may be liable. For example, the Company and its merchant acquiring alliances are contingently liable for transactions originally acquired by the Company that are disputed by the card holder and charged back to the merchants. If the Company or the alliance are unable to collect this amount from the merchant, due to the merchant's insolvency or other reasons, the Company or the alliance will bear the loss for the amount of the refund paid to the cardholder. The Company has an active program to manage its credit risk and often mitigates its risk by obtaining collateral. Notwithstanding the Company's program for managing its credit risk, it is possible that a default on such obligations by one or more of the Company's merchants could have a material adverse effect on the Company's business.

***Changes in credit card association or other network rules or standards could adversely affect the Company's business.***

In order to provide the Company's transaction processing services, several of the Company's subsidiaries are registered with Visa and MasterCard and other networks as members or service providers for member institutions. As such, the Company and many of its customers are subject to card association and network rules that could subject the Company or its customers to a variety of fines or penalties that may be levied by the card associations or networks for certain acts or omissions by the Company, acquirer customers, processing customers and merchants. Visa, MasterCard and other networks, some of which are the Company's competitors, set the standards with respect to which the Company must comply. The termination of the Company's member registration or the Company's status as a certified service provider, or any changes in card

association or other network rules or standards, including interpretation and implementation of the rules or standards, that increase the cost of doing business or limit the Company's ability to provide transaction processing services to or through the Company's customers, could have an adverse effect on the Company's business, operating results and financial condition.

*The Company's business may be adversely affected by risks associated with foreign operations.*

The Company is subject to risks related to the changes in currency rates as a result of its investments in foreign operations and from revenues generated in currencies other than the U.S. dollar. Revenue and profit generated by international operations will increase or decrease compared to prior periods as a result of changes in foreign currency exchange rates. From time to time, the Company utilizes foreign currency forward contracts or other derivative instruments to mitigate the cash flow or market value risks

associated with foreign currency denominated transactions. However, these hedge contracts may not eliminate all of the risks related to foreign currency translation. Furthermore, the Company is subject to exchange control regulations that restrict the conversion of its revenue and assets denominated in Argentine pesos into U.S. dollars. Those regulations may become more restrictive in the future. Similar regulations also may be adopted in other jurisdictions that restrict or prohibit the conversion of the Company's other foreign currencies into U.S. dollars. The occurrence of any of these factors could decrease the value of revenues and earnings the Company derives from its international operations and have a material adverse impact on the Company's business.

***Increase in interest rates may negatively impact the Company's operating results and financial condition.***

Certain of the Company's borrowings, including borrowings under the Company's senior secured credit facilities to the extent the interest rate is not fixed by an interest rate swap, are at variable rates of interest. An increase in interest rates would have a negative impact on the Company's results of operations by causing an increase in interest expense.

As of December 31, 2012, the Company had \$8.3 billion aggregate principal amount of variable rate long-term indebtedness, of which interest rate swaps fix the interest rate on \$5.0 billion in notional amount prior to the impact of \$750 million of fixed to floating interest rate swaps. As a result, using balances as of December 31, 2012, a 10% proportionate increase in short-term interest rates on an annualized basis compared to the interest rates as of December 31, 2012 would result in a \$1.1 million increase in interest expense related to the Company's balance of variable interest rate debt, net of interest rate swaps. Refer to the discussion of the Company's interest rate swap transactions in Note 6 to the Company's Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

***Failure to protect the Company's intellectual property rights and defend itself from potential patent infringement claims may diminish the Company's competitive advantages or restrict it from delivering the Company's services.***

The Company's trademarks, patents and other intellectual property are important to its future success. The FIRST DATA trademark and trade name and the STAR trademark and trade name are intellectual property rights which are individually material to the Company. These trademarks and trade names are widely recognized and associated with quality and reliable service. Loss of the proprietary use of the FIRST DATA or STAR trademarks and trade names or a diminution in the perceived quality associated with them could harm the growth of the Company's businesses. The Company also relies on proprietary technology. It is possible that others will independently develop the same or similar technology. Assurance of protecting its trade secrets, know-how or other proprietary information cannot be guaranteed. The Company's patents could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide the Company with any meaningful protection or advantage. If the Company was unable to maintain the proprietary nature of its technologies, the Company could lose competitive advantages and be materially adversely affected. The laws of certain foreign countries in which the Company does business or contemplates doing business in the future do not recognize intellectual property rights or protect them to the same extent as do the laws of the United States. Adverse determinations in judicial or administrative proceedings could prevent the Company from selling the Company's services or prevent the Company from preventing others from selling competing services, and thereby may have a material adverse effect on the business and results of operations. Additionally, claims have been made, are currently pending, and other claims may be made in the future, with regards to the Company's technology infringing on a patent or other intellectual property rights. Unfavorable resolution of these claims could either result in the Company being restricted from delivering the related service or result in a settlement that could be material to the Company.

***The Company is the subject of various legal proceedings which could have a material adverse effect on the Company's revenue and profitability.***

## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company is involved in various litigation matters. The Company is also involved in or is the subject of governmental or regulatory agency inquiries or investigations from time to time. If the Company is unsuccessful in its defense in the litigation matters, or any other legal proceeding, it may be forced to pay damages or fines and/or change its business practices, any of which could have a material adverse effect on the Company's revenue and profitability. For more information about the Company's legal proceedings, refer to Item 3: Legal Proceedings herein.

*The ability to recruit, retain and develop qualified personnel is critical to the Company's success and growth.*

All of the Company's businesses function at the intersection of rapidly changing technological, social, economic and regulatory developments that requires a wide ranging set of expertise and intellectual capital. For the Company to successfully compete and grow, it must retain, recruit and develop the necessary personnel who can provide the needed expertise across the entire spectrum of its intellectual capital needs. In addition, the Company must develop its personnel to provide succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. However, the market for qualified personnel is competitive and the Company may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart

with qualified or effective successors. The Company's effort to retain and develop personnel may also result in significant additional expenses, which could adversely affect the Company's profitability. The Company cannot assure that key personnel, including executive officers, will continue to be employed or that it will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on the Company.

*Failure to comply with state and federal antitrust requirements could adversely affect the Company's business.*

Through the Company's merchant alliances, it holds an ownership interest in several competing merchant acquiring businesses while serving as the electronic processor for those businesses. In order to satisfy state and federal antitrust requirements, the Company actively maintains an antitrust compliance program. Notwithstanding the Company's compliance program, it is possible that perceived or actual violation of state or federal antitrust requirements could give rise to regulatory enforcement investigations or actions. Regulatory scrutiny of, or regulatory enforcement action in connection with, compliance with state and federal antitrust requirements could have a material adverse effect on the Company's reputation and business.

*The market for the Company's electronic commerce services is evolving and may not continue to develop or grow rapidly enough for the Company to maintain and increase its profitability.*

If the number of electronic commerce transactions does not continue to grow or if consumers or businesses do not continue to adopt the Company's services, it could have a material adverse effect on the profitability of the Company's business, financial condition and results of operations. The Company believes future growth in the electronic commerce market will be driven by the cost, ease-of-use, and quality of products and services offered to consumers and businesses. In order to consistently increase and maintain the Company's profitability, consumers and businesses must continue to adopt the Company's services.

*Unfavorable resolution of tax contingencies could adversely affect the Company's tax expense.*

The Company's tax returns and positions are subject to review and audit by federal, state, local and international taxing authorities. An unfavorable outcome to a tax audit could result in higher tax expense, thereby negatively impacting the Company's results of operations. The Company has established contingency reserves for material, known tax exposures relating to deductions, transactions and other matters involving some uncertainty as to the proper tax treatment of the item. These reserves reflect what the Company believes to be reasonable assumptions as to the likely final resolution of each issue if raised by a taxing authority. While the Company believes that the reserves are adequate to cover reasonably expected tax risks, there is no assurance that, in all instances, an issue raised by a tax authority will be finally resolved at a financial cost not in excess of any related reserve. An unfavorable resolution, therefore, could negatively impact the Company's effective tax rate, financial position, results of operations and cash flows in the current and/or future periods.

**ITEM 1B. UNRESOLVED STAFF COMMENTS.**

None.

**ITEM 2. PROPERTIES**

As of December 31, 2012, the Company and its subsidiaries owned or leased approximately 62 domestic properties and approximately 85 international properties. These facilities are used for operational, sales and administrative purposes, and are substantially all currently being utilized.

	Leased Facilities		Owned Facilities	
	No.	Sq. Ft.	No.	Sq. Ft.
<b>Facilities in the United States</b>				
Retail and Alliance Services	22	881,590	8	935,310
Financial Services	17	575,413	7	1,261,987
All Other and Corporate	4	554,724	4	322,664
<b>International Facilities</b>				
International Facilities	75	986,495	10	375,217

Retail and Alliance Services principal operations are conducted in Melville, New York; Hagerstown, Maryland; Marietta, Georgia; Coral Springs, Florida; and Houston, Texas. The principal operations for Financial Services are located in Omaha, Nebraska; Wilmington, Delaware; Maitland, Florida; and Chesapeake, Virginia. The principal operations for International are located in Basildon, United Kingdom; Frankfurt, Germany; Athens (Kryoneri), Greece; Sydney, Australia; and Buenos Aires, Argentina. The



Company's All Other and Corporate facilities include the Company's corporate offices in Atlanta, Georgia and Greenwood Village, Colorado.

The Company believes that its facilities are suitable and adequate for its current business; however, the Company periodically reviews its space requirements and may acquire new space to meet the needs of its businesses or consolidate and dispose of or sublet facilities which are no longer required.

### **ITEM 3. LEGAL PROCEEDINGS**

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. None of these matters, either individually or in the aggregate, currently is material to the Company except the matter reported below.

#### ATM Fee Antitrust Litigation

On July 2, 2004, Pamela Brennan, Terry Crayton, and Darla Martinez filed a class action complaint on behalf of themselves and all others similarly situated in the United States District Court for the Northern District of California against the Company, its subsidiary Concord EFS, Inc., and various financial institutions ( Brennan ). Plaintiffs claim that the defendants violated antitrust laws by conspiring to artificially inflate foreign ATM fees that were ultimately charged to ATM cardholders. Plaintiffs seek a declaratory judgment, injunctive relief, compensatory damages, attorneys' fees, costs and such other relief as the nature of the case may require or as may seem just and proper to the court. Five similar suits were filed and served in July, August and October 2004, two in the Central District of California (Los Angeles), two in the Southern District of New York, and one in the Western District of Washington (Seattle). All cases were transferred to the Northern District Court of California and the Court consolidated all of the ATM interchange cases pending against the defendants in Brennan (referred to collectively as the ATM Fee Antitrust Litigation ).

On August 3, 2007, Concord filed a motion for summary judgment seeking to dismiss plaintiffs' *per se* claims. On March 24, 2008, the Court entered an order granting the defendants' motions for partial summary judgment. On February 2, 2009, the plaintiffs filed a Second Amended Complaint and on April 6, 2009, the defendants filed a Motion to Dismiss the Second Amended Complaint. On September 4, 2009, the Court entered an order dismissing the Second Amended Complaint and, on October 16, 2009, the plaintiffs filed a Third Amended Complaint. The defendants filed a motion to dismiss the Third Amended Complaint on November 13, 2009. On June 21, 2010, the Court partially dismissed plaintiffs' Third Amended Complaint and ordered the parties to brief a summary judgment on an alternative claim by plaintiffs. On September 16, 2010, the Court entered an order granting defendants' motion for summary judgment, dismissing all of the claims against the defendants except for the claims for equitable relief. The Court granted judgment in favor of the defendants, dismissing the case on September 17, 2010. On October 14, 2010, the plaintiffs appealed the summary judgment. 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.

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

### **ITEM 4. MINING SAFETY DISCLOSURES**

Not applicable.

## PART II

**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

There is no established public trading market for the Company's common stock. The Company had one record holder of common stock on March 1, 2013, and no equity securities of the Company are authorized for issuance under any equity compensation plan.

In 2012, the Company paid four dividends totaling \$6.7 million. In 2011, the Company paid one dividend in the amount of \$0.2 million. The senior secured revolving credit facility, senior secured term loan facility, and the indentures for the senior secured notes, senior second lien notes, PIK toggle senior second lien notes, senior notes and senior subordinated notes limit the Company's ability to pay dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations- Capital Resources and Liquidity and Note 12 to the accompanying financial statements included in Item 8 of this Form 10-K.

**ITEM 6. SELECTED FINANCIAL DATA**

The following data should be read in conjunction with the Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this annual report.

The Notes to the Consolidated Financial Statements contain additional information about various acquisitions, dispositions, and certain charges and benefits resulting from other operating expenses, and other income (expense) which affect the comparability of information presented. Certain prior years' amounts have been reclassified to conform to the current year presentation.

Amounts below include acquisitions since the date acquired.

(in millions)	Year ended December 31,					
	2012	2011	2010	2009	2008	
<b>Statement of operations data:</b>						
Revenues	\$ 10,680.3	\$ 10,713.6	\$ 10,380.4	\$ 9,313.8	\$ 8,811.3	
Operating expenses (a)	9,578.3	9,728.2	9,782.2	8,869.3	8,032.6	
Other operating expenses (b)(c)	28.2	43.9	81.5	289.7	3,255.6	
Interest expense	(1,897.8)	(1,833.1)	(1,796.6)	(1,796.4)	(1,964.9)	
Net loss (c)	(527.3)	(336.1)	(846.9)	(1,014.6)	(3,608.0)	
Net loss attributable to First Data Corporation	(700.9)	(516.1)	(1,021.8)	(1,086.4)	(3,764.3)	
Depreciation and amortization (d)	1,330.9	1,344.2	1,526.0	1,553.8	1,559.6	
<b>Balance sheet data (at year-end):</b>						
Total assets	\$ 37,899.0	\$ 40,276.3	\$ 37,544.1	\$ 39,735.4	\$ 38,176.1	

Edgar Filing: FIRST DATA CORP - Form 10-K

Total current and long-term settlement assets	9,228.1	10,839.3	7,059.1	7,351.0	8,662.9
Total liabilities	35,205.2	36,800.9	33,456.1	34,408.4	35,773.8
Settlement obligations	9,226.3	10,837.8	7,058.9	7,394.7	8,680.6
Long-term borrowings	22,528.9	22,521.7	22,438.8	22,304.9	22,075.2
Other long-term liabilities (e)	1,331.4	1,459.0	2,153.3	2,648.3	2,920.6
Redeemable noncontrolling interests	67.4	67.4	28.1	226.9	
Total equity	2,626.4	3,408.0	4,059.9	5,100.1	2,402.3

- 
- (a) Operating expenses include Cost of services; Cost of products sold; Selling, general and administrative; Reimbursable debit network fees, postage and other; and Depreciation and amortization.
- (b) Other operating expenses include Restructuring, net; Impairments; and Litigation and regulatory settlements.
- (c) Includes a goodwill impairment charge in 2008 of \$3.2 billion (pretax).
- (d) Includes amortization of initial payments for new contracts, which is recorded as a contra-revenue within Transaction and processing service fees and amortization related to equity method investments, which is netted within Equity earnings in affiliates in the Consolidated Statements of Operations.
- (e) Other long-term liabilities include Long-term deferred tax liabilities.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Overview**

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

**Regulatory reform.** On June 29, 2011, the Federal Reserve Board announced the final rules governing debit card interchange fees and routing and exclusivity restrictions as well as a proposed rule governing the fraud prevention adjustment in response to Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ). Effective October 1, 2011, debit interchange rates for card issuers with more than \$10 billion of assets are capped at \$.21 per transaction with an ad valorem component of 5 basis points to reflect a portion of the issuer's fraud losses plus, for qualifying issuers, an additional \$.01 per transaction in debit interchange for fraud prevention costs. In addition, the new regulations ban debit payment card networks from prohibiting an issuer from contracting with any other payment card network that may process an electronic debit transaction involving an issuer's debit cards and prohibit card issuers and payment networks from inhibiting the ability of merchants to direct the routing of debit card transactions over any network that can process the transaction. On April 1, 2013, the ban on network exclusivity arrangements becomes effective for non-reloadable prepaid card and healthcare prepaid issuers. Additionally, each debit card issuer must participate in two unaffiliated networks beginning April 1, 2012 and each debit payment card network must comply with applicable exclusivity requirements by October 1, 2011.

The Company's consolidated and segment results benefited from the impact of the Dodd-Frank Act as discussed in the Consolidated results and Segment results sections below. Within the Retail and Alliance Services segment, the Company experienced benefit due mostly to lower debit interchange rates as discussed in the Retail and Alliance Services segment results section below. Within the Financial Services segment, the implementation of the Dodd-Frank Act resulted in a net increase in debit issuer transactions in 2012 compared to 2011 with minimal impact to revenue as discussed in the Financial Services segment results section below.

**Banc of America Merchant Services, LLC ( BAMS ).** In 2009, the Company and Bank of America N.A. ( BofA ) formed the BAMS alliance. When the alliance was formed, the intent was to shift processing for merchants contributed to the alliance by BofA from three existing bank platforms to FDC. After evaluating the conversion strategy, the Company and BofA jointly decided to have FDC operate BofA's legacy settlement platform and provide the necessary operational support for legacy BofA merchants. The transfer of ownership was effective October 1, 2011.

The shift of processing to FDC as described above increased the Retail and Alliance Services segment revenue and segment EBITDA for 2012 compared to 2011. This benefit did not impact consolidated revenues because the BAMS alliance is consolidated by the Company. Consolidated expenses decreased in 2012 as a result of cost efficiencies resulting from the shift of processing to FDC. Beginning October 1, 2011, costs incurred related to the transfer and operation of the platform were billed to the BAMS alliance resulting in a portion of the costs being attributed to the BofA noncontrolling interest.

**Segment Discussion**

**Retail and Alliance Services segment.** The Retail and Alliance Services segment is comprised of businesses that provide services which facilitate the merchants' ability to accept credit, debit, stored-value and loyalty cards and checks. The segment's merchant processing and acquiring services include authorization, transaction capture, settlement, chargeback handling and internet-based transaction processing and are the largest component of the segment's revenue. A majority of these services pertain to transactions in which consumer payments to merchants are made through a card association (such as Visa or MasterCard), a debit network (such as STAR or Interlink), or another payment network (such as Discover or American Express). Many of the segment's services are offered through alliance arrangements. Financial results of the merchant alliance strategy appear both in the Transaction and processing service fees revenue and Equity earnings in affiliates line items of the Consolidated Statements of Operations. The Company evaluates the Retail and Alliance Services segment based on the Company's proportionate share of the results of these alliances. Refer to Segment Results below for a more detailed discussion.

Merchant processing and acquiring revenues are driven most significantly by the number of transactions, dollar volumes of those transactions and trends in consumer spending between national, regional and local merchants. Consumers continue to increase the use of credit, debit and stored-value cards in place of cash and paper checks. Internet payments continue to grow but account for a small portion of the segment's transactions. While transactions over the internet may involve increased risk, these transactions typically generate higher profits for the Company. The Company continues to enhance its fraud detection and other systems to address such risks.

In addition, Retail and Alliance Services provides check verification, settlement and guarantee services. The Company continues to see a decrease in the use of checks which negatively affects the Company's check verification, settlement and guarantee business. The segment also manages prepaid stored-value card issuance and processing services (i.e. gift cards) for retailers and others.

**Financial Services segment.** The Financial Services segment provides issuer card and network solutions and payment management solutions for recurring bill payments. Financial Services also offers services to improve customer communications, billing, online banking and consumer bill payment. Issuer card and network solutions includes credit, retail and debit card processing, debit network services (including the STAR Network), and output services for financial institutions and other organizations offering credit cards, debit cards and retail private label cards to consumers and businesses to manage customer accounts. Output services include statement and letter printing, embossing and mailing services. The segment also provides remittance processing services, information services and other payment services such as remote deposit, clearing services and processing for payments which occur in such forms as checks, ACH, wire transfer and stored-value cards. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012. The segment's largest components of revenue consist of fees for account management, transaction authorization and posting and network switching.

Credit and retail based revenue is derived primarily from the card processing services offered to financial institutions and other issuers of cards. Revenue from these markets is driven primarily by accounts on file, with active accounts having a larger impact on revenue than inactive accounts. Retail account portfolios typically have a lower proportionate share of active accounts than credit account portfolios and product usage is different between the card types resulting in lower revenue per active retail account. In addition, contract pricing at the customer level is dependent upon the volume of accounts, mix of account types (e.g. retail, credit, co-branded credit and debit) and product usage.

Debit processing revenue is derived mostly from the processing of transactions where the Company could receive multiple fees for a transaction, depending on the role of the Company. The Company continues to see a shift to the use of debit cards from checks and cash, a decrease that negatively affects the Company's remittance processing business.

The underlying economic drivers of card issuance are population demographics and employment. Strengthening in the economy typically results in an improved credit risk profile, allowing card issuers to be more aggressive in their marketing campaigns to issue cards. Conversely, a weakening in the economy typically results in a tightening of the credit market with fewer consumers qualifying for credit.

**International segment.** The International segment businesses provide the following services outside of the U.S.: credit, retail, debit and prepaid card processing; merchant acquiring and processing; ATM and point-of-sale ( POS ) processing, driving, acquiring and switching services; and card processing software. The primary service offerings of the International segment are substantially the same as those provided in the Retail and Alliance Services and Financial Services segments. The largest components of the segment's revenue are fees for facilitating the merchant's ability to accept credit, retail and debit cards by authorizing, capturing, and settling merchants' credit, retail, debit, stored-value and loyalty card transactions as well as for transaction authorization and posting, network switching and account management.

**All Other and Corporate.** All Other and Corporate is comprised of the Company's business units not included in the segments noted above, primarily its government services business and its official check business that is winding down, as well as the Company's headquarter functions.

**Components of Revenue and Expenses**

The following briefly describes the components of operating revenues and expenses as presented in the Consolidated Statements of Operations. Descriptions of the revenue recognition policies are included in Note 1 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K.



**Transaction and processing service fees.** Transaction and processing service fee revenue is comprised of fees related to merchant acquiring; check processing; credit, retail and debit card processing; output and remittance processing; and payment management services. Revenues are based on a per transaction fee, a percentage of dollar volume processed, accounts on file or some combination thereof. These revenues represent approximately 60% of FDC's 2012 revenue and are most reflective of the Company's core business performance. Merchant related services revenue is comprised primarily of fees charged to merchants and processing fees charged to alliances accounted for under the equity method. For segment reporting purposes, the proportionate consolidation presentation results in revenue including the alliance partners' share of processing fees charged to both consolidated and unconsolidated alliances. Merchant discount revenue from credit card and signature debit card transactions acquired from merchants is recorded net of interchange and assessments charged by the credit card associations. Check services revenues include check verification, settlement and guarantee fees which are charged on a per transaction basis or as a percentage of the face value of the check. Card services' revenue related to credit and retail card processing is comprised primarily of fees charged to the client based on cardholder accounts on file, both active and inactive. Card services' revenue for output services consists of fees for printing statements and letters and embossing plastics. Debit processing and network service fees included in Card services' revenues are typically based on transaction volumes processed. Other services' revenue includes all other types of transactional revenue not specifically related to the classifications noted above.

**Product sales and other.** Sales and leasing of POS devices in the Retail and Alliance Services and International segments are the primary drivers of this revenue component, providing a recurring revenue stream. This component also includes contract termination fees, royalty income and gain/loss from the sale of merchant portfolios, all of which occur less frequently but are considered a part of ongoing operations. Also included within this line item is revenue recognized from custom programming and system consulting services, software licensing and maintenance revenue generated primarily from the VisionPLUS software in the International segment and investment income generated by invested settlement assets, realized net gains and losses and, if applicable, impairment losses from such assets within the Retail and Alliance Services, Financial Services and International segments and All Other and Corporate.

**Reimbursable debit network fees, postage and other.** Debit network fees from personal identification number (PIN)-debit card transactions acquired from merchants are recorded gross with the associated network fee recorded in the corresponding expense caption, principally within the Retail and Alliance Services segment. In addition, the reimbursable component and the offsetting expense caption include postage, telecommunications and similar costs that are passed through to customers principally within the Financial Services segment. Reimbursable debit network fees, postage and other revenue and the corresponding expense are not included in segment results.

**Cost of services.** This caption includes the costs directly associated with providing services to customers and includes the following: telecommunications costs, personnel and infrastructure costs to develop and maintain applications, operate computer networks and provide associated customer support, losses on check guarantee services and merchant chargebacks, and other operating expenses.

**Cost of products sold.** These costs include those directly associated with product and software sales such as cost of POS devices, merchant terminal leasing costs and software licensing and maintenance costs.

**Selling, general and administrative.** This caption primarily consists of salaries, wages and related expenses paid to sales personnel, administrative employees and management as well as advertising and promotional costs and other selling expenses.

**Depreciation and amortization.** This caption consists of the Company's depreciation and amortization expense. Excluded from this caption is the amortization of initial payments for contracts which is recorded as a contra-revenue within the Transaction and processing services fees' line as well as amortization related to equity method investments which is netted within the Equity earnings in affiliates' line.

**Results of Operations**

The following discussion for both consolidated results and segment results are for the year ended December 31, 2012 compared to the year ended December 31, 2011 as well as for the year ended December 31, 2011 compared to the year ended December 31, 2010. Consolidated results should be read in conjunction with segment results, which provide more detailed discussions concerning certain components of the Consolidated Statements of Operations. All significant intercompany accounts and transactions have been eliminated.

**Consolidated results.**

(in millions)	Year ended December 31,			Percent Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
<b>Revenues:</b>					
Transaction and processing service fees	\$ 6,452.1	\$ 6,330.0	\$ 6,181.5	2%	2%
Product sales and other	866.7	852.1	809.3	2%	5%
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6	(5)%	4%
	10,680.3	10,713.6	10,380.4	0%	3%
<b>Expenses:</b>					
Cost of services (exclusive of items shown below)	2,863.5	2,888.4	3,023.3	(1)%	(4)%
Cost of products sold	336.3	369.6	375.2	(9)%	(1)%
Selling, general and administrative	1,825.4	1,693.7	1,579.7	8%	7%
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6	(5)%	4%
Depreciation and amortization	1,191.6	1,245.0	1,414.4	(4)%	(12)%
Other operating expenses, net (a)	28.2	43.9	81.5	*	*
	9,606.5	9,772.1	9,863.7	(2)%	(1)%
Operating profit	1,073.8	941.5	516.7	14%	82%
Interest income	8.8	7.9	7.8	11%	1%
Interest expense	(1,897.8)	(1,833.1)	(1,796.6)	4%	2%
Other income (expense) (b)	(94.3)	124.1	(15.9)	*	*
	(1,983.3)	(1,701.1)	(1,804.7)	17%	(6)%
Loss before income taxes and equity earnings in affiliates	(909.5)	(759.6)	(1,288.0)	20%	(41)%
Income tax benefit	(224.0)	(270.1)	(323.8)	(17)%	(17)%
Equity earnings in affiliates	158.2	153.4	117.3	3%	31%
Net loss	(527.3)	(336.1)	(846.9)	57%	(60)%
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	173.6	180.0	174.9	(4)%	3%
Net loss attributable to First Data Corporation	\$ (700.9)	\$ (516.1)	\$ (1,021.8)	36%	(49)%

\* Calculation not meaningful.

(a) Other operating expenses, net includes restructuring, net, impairments and litigation and regulatory settlements as applicable to the periods presented.

(b) Other income (expense) includes investment gains and losses, derivative financial instruments gains and losses, divestitures, net, non-operating foreign currency exchange gains and losses and other as applicable to the periods presented.

The following provides highlights of revenue and expense growth on a consolidated basis while a more detailed discussion is included in the Segment Results section below.

*Operating revenues overview.*

*Transaction and processing service fees.* Revenue increased in 2012 compared to 2011 due to new business, growth in merchant transactions and dollar volumes both domestically and internationally and lower debit interchange rates as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act ( Dodd-Frank Act ). Lower debit interchange rates positively impacted the transaction and processing service fees growth rate by approximately 1 percentage point. Partially offsetting these increases were decreases due to lost business, price compression, changes in merchant and pricing mix and foreign currency exchange rate movements. Foreign currency exchange rate movements negatively impacted the transaction and processing service fees growth rate in 2012 compared to 2011 by approximately 1 percentage point.

Revenue increased in 2011 compared to 2010 due to growth in merchant transactions and dollar volumes both domestically and internationally, growth in debit issuer transactions, new business, lower debit interchange rates as a result of the Dodd-Frank Act described in the Regulatory Reform section above, and foreign currency exchange rate movements. Partially offsetting these increases were decreases due to price compression, changes in merchant and pricing mix, lower overall check volumes and lost business. Foreign currency exchange rate movements positively impacted the transaction and processing service fees growth rate by approximately 1 percentage point.

*Product sales and other.* Revenue increased in 2012 compared to 2011 due to increases in software licensing and maintenance revenue, primarily internationally, as well as professional services revenue. These increases were partially offset by decreases in terminal sales both domestically and internationally and foreign currency exchange rate movements. Foreign currency exchange rate movements adversely impacted the product sales and other growth rate in 2012 compared to 2011 by approximately 2 percentage points.

Revenue increased in 2011 compared to 2010 mainly resulting from an increase in equipment sales internationally due in part to new regulations and new business, increases in the leasing business domestically and internationally resulting from new lease originations as well as fees associated with lease renewals and an increase in investment income due to a lesser impairment of Student Loan Auction Rate Securities ( SLARS ) recognized in 2011 compared to 2010 as discussed below. In addition, foreign currency exchange rate movements positively impacted the product sales and other growth rate in 2011 compared to 2010 by approximately 1 percentage point. Partially offsetting these increases were decreased contract termination fees mostly related to Financial Services and a decrease in professional services revenue due to the completion of prior year projects in Financial Services and All Other and Corporate

*Reimbursable debit network fees, postage and other.* Revenue and expense decreased in 2012 compared to 2011 due to the cap on debit interchange rates imposed by the Dodd-Frank Act in October 2011 partially offset by growth of PIN debit transaction and dollar volumes. The cap on debit interchange rates imposed by the Dodd-Frank Act impacted the reimbursable debit network fees, postage and other growth rate in 2012 compared to 2011 by approximately 13 percentage points.

Revenue and expense increased in 2011 compared to 2010 due to growth of PIN-debit transaction volumes as well as an increase in debit network fees resulting from rate increases imposed by the debit networks. Partially offsetting these increases was a decrease due to the cap on debit interchange rates imposed by the Dodd-Frank Act described above which impacted the reimbursable debit network fees, postage and other growth rate by approximately 5%.

***Operating expenses overview.***

*Cost of services.* Expenses decreased slightly in 2012 compared to 2011 due most significantly to cost efficiencies as a result of the shift in processing from the alliance partner to the Company related to the Banc of America Merchant Services, LLC ( BAMS ) alliance beginning in October 2011 and the impact of foreign currency exchange rate movements. In addition, the expense growth rate in 2012 benefited from the 2011 error correction described below. Partially offsetting these decreases were increases in outside professional services expenses. Foreign currency exchange rate movements benefited the Cost of services expense growth rate in 2012 compared to 2011 by 1 percentage point.

Expenses decreased in 2011 compared to 2010 due most significantly to decreases in certain costs associated with the BAMS alliance and net check warranty expense. Certain costs associated with the BAMS alliance decreased due to lower technology costs and improved expense management. Net check warranty expense decreased due to lower check volumes and better risk assessment data. Expenses associated with outside professional services and lower merchant credit losses also contributed to the decrease. Partially offsetting these decreases was the 2011

## Edgar Filing: FIRST DATA CORP - Form 10-K

correction of cumulative errors in the amortization of initial payments for new contracts related to purchase accounting associated with the Company's 2007 merger with an affiliate of Kohlberg Kravis and Roberts & Co. (KKR) which totaled a \$10.2 million expense in Cost of services (the correction of related errors totaled a \$58.5 million benefit in aggregate) and occurred over a four year period. Foreign currency exchange rate movements also partially offset the aforementioned decreases by approximately 1 percentage point.

*Cost of products sold.* Expenses decreased in 2012 compared to 2011 driven by the International segment due most significantly to lower terminal sales, lower cost terminal replacements, the write-off of capitalized commissions in 2011 relating to the international leasing business and foreign currency exchange rate movements. Foreign currency exchange rate movements positively impacted the growth rate in 2012 compared to 2011 by approximately 2 percentage points. The impact of the write-off benefited the growth rate by approximately 2 percentage points.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Expenses decreased in 2011 compared to 2010 resulting mostly from the write-off of international terminal inventory and leasing receivables in 2010 as well as exiting low margin businesses in 2011. These decreases are partially offset by the write-off of capitalized commissions related to the international leasing business in 2011, growth in the leasing business both domestically and internationally and foreign currency exchange rate movements. The net impact of the 2010 and 2011 write-offs benefited the cost of products sold growth rate by 4 percentage points while foreign currency exchange rate movements had an approximate 1 percentage point offsetting impact.

*Selling, general and administrative.* Expenses increased in 2012 compared to 2011 due most significantly to growth in outside commissions, primarily payments made to independent sales organizations (ISOs). Growth in outside commissions resulted mostly from the Company increasing the number of ISOs and an increase in ISO transaction volumes which negatively impacted the selling, general and administrative growth rate for 2012 versus 2011 by approximately 4 percentage points. Additionally, expenses increased due to legal fees related primarily to the debt restructurings that occurred during the third quarter of 2012 as well as increased employee related expenses. Partially offsetting these increases was a decrease resulting from the impact of foreign currency exchange rate movements which benefited the growth rate in 2012 compared to 2011 by 1 percentage point.

Expenses increased in 2011 compared to 2010 due to growth in payments made to ISOs as a result of the Company increasing its number of ISO partners as well as an increase in ISO transaction volumes, higher incentive compensation expense and net increases in various expense items that were not individually significant. The payments to ISOs impacted the selling, general and administrative growth rate by approximately 5 percentage points. Foreign currency exchange rate movements also contributed to the increase in expenses by approximately 1 percentage point.

*Depreciation and amortization.* Expenses decreased in 2012 compared to 2011 due to decreases in amortization of certain intangible assets that are being amortized on an accelerated basis resulting in higher amortization in the prior periods, certain other intangible assets that have been fully amortized and decreases resulting from foreign currency exchange rate movements. These decreases were partially offset by an increase driven by the benefit recorded in 2011 related to the correction of errors described below. The error corrections adversely impacted the depreciation and amortization growth rate in 2012 versus 2011 by 5 percentage points.

Expenses decreased in 2011 compared to 2010 due most significantly to the 2011 correction of cumulative depreciation and amortization errors related to purchase accounting associated with the Company's 2007 merger with an affiliate of KKR and certain assets becoming fully amortized. The errors and the cumulative correction, which totaled a \$57.7 million benefit in Depreciation and amortization (the correction of total depreciation and amortization errors was a \$58.5 million benefit in aggregate) and occurred over a four year period, were deemed immaterial to prior years and the current year, respectively. In addition, depreciation and amortization declined due to a decrease in the amortization of certain intangible assets that are being amortized on an accelerated basis resulting in higher amortization in the prior period. These decreases were partially offset by increases due to newly capitalized assets and foreign currency exchange rate movements. The error corrections benefited the depreciation and amortization growth rate by 4 percentage points in 2011 compared to 2010.

*Other operating expenses, net.*

### 2012 Activities

Year ended December 31, 2012 (in millions)	Retail and Alliance	Financial Services	Pretax Benefit (Charge) International	All Other and	Totals
---	------------------------	-----------------------	--	------------------	--------

Edgar Filing: FIRST DATA CORP - Form 10-K

	Services				Corporate	
Restructuring charges	\$	(7.5)	\$	(18.5)	\$	(28.2)
Restructuring accrual reversals		1.0		2.8		5.1
Impairments				(5.1)		(5.1)
Total pretax charge, net of reversals	\$	(6.5)	\$	(15.7)	\$	(28.2)

The Company recorded restructuring charges during 2012 primarily related to employee reduction and certain employee relocation efforts in Germany. The Company expects to record approximately \$2 million of additional restructuring charges in 2013 in connection with the restructuring event 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. Approximately 650 employees



## Edgar Filing: FIRST DATA CORP - Form 10-K

were impacted by the 2012 restructurings. The Company expects to record additional restructuring charges in 2013 associated with similar events and the departure of executive officers.

The Company estimates cost savings resulting from restructuring activities recorded during 2012 of approximately \$11 million in 2012 and approximately \$31 million on an annual basis.

During 2012, within Financial Services, the Company recorded approximately \$5.1 million in impairment charges related to an adjustment to fair value of an investment.

The following table summarizes the Company's utilization of restructuring accruals for the years ended December 31, 2011 and 2012 (in millions):

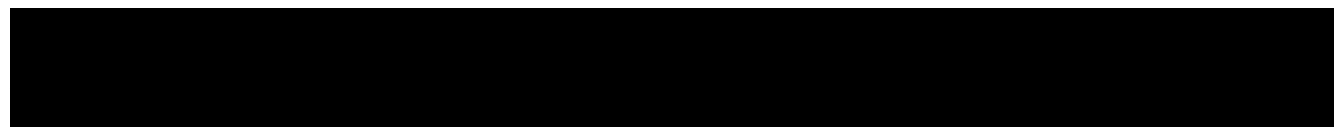
	<b>Employee Severance</b>	<b>Facility Closure</b>
Remaining accrual as of January 1, 2011	\$ 38.7	\$ 0.2
Expense provision	45.0	6.3
Cash payments and other	(62.2)	(5.5)
Changes in estimates	(4.8)	(0.1)
	16.7	0.9
Remaining accrual as of December 31, 2011		
Expense provision	28.2	
Cash payments and other	(26.8)	(0.8)
Changes in estimates	(5.0)	(0.1)
Remaining accrual as of December 31, 2012	\$ 13.1	\$

### 2011 Activities

<b>Year ended December 31, 2011 (in millions)</b>	<b>Pretax Benefit (Charge)</b>				<b>Totals</b>
	<b>Retail and Alliance Services</b>	<b>Financial Services</b>	<b>International</b>	<b>All Other and Corporate</b>	
Restructuring charges	\$ (2.8)	\$ (10.5)	\$ (34.2)	\$ (3.8)	\$ (51.3)
Restructuring accrual reversals	1.1		2.5	1.3	4.9
Litigation and regulatory settlements				2.5	2.5
Total pretax charge, net of reversals	\$ (1.7)	\$ (10.5)	\$ (31.7)	\$	\$ (43.9)

The 2011 restructurings resulted from the elimination of management and other positions, approximately 750 employees, as part of the Company aligning the business with strategic objectives. Partially offsetting the charges were reversals of excess 2009 and 2010 restructuring accruals as well as reversals resulting from the refinement of 2011 estimates.

### 2010 Activities



Restructuring charges	\$	(20.3)	\$	(11.3)	\$	(28.2)	\$	(27.7)	\$	(87.5)
Restructuring accrual reversals		0.7		0.8		10.9		3.1		15.5
Impairments		(1.6)				(9.9)				(11.5)
Litigation and regulatory settlements				2.0						2.0
Total pretax charge, net of reversals	\$	(21.2)	\$	(8.5)	\$	(27.2)	\$	(24.6)	\$	(81.5)

The 2010 restructurings resulted from the elimination of management and other positions, approximately 1,200 employees, as part of the Company aligning the business with strategic objectives as well as domestic site consolidations and the reorganization of executive officers. Partially offsetting the charges were reversals of excess 2008 and 2009 restructuring accruals as well as reversals resulting from the refinement of 2010 estimates.

In the fourth quarter of 2010, within Retail and Alliance Services, the Company recorded approximately \$1.6 million in impairment charges related to other intangibles. Also during the fourth quarter of 2010, the Company recorded approximately \$9.9

million in asset impairment charges related to the International segment. Approximately \$6.2 million of the total impairment occurred because the Company did not complete a software project and determined that there were no likely alternative uses for the software. The remaining \$3.7 million of impairment charges resulted from the write off of assets the Company determined have no future use or value.

**Interest expense.** Interest expense increased in 2012 compared to 2011 due to higher average interest rates resulting primarily from the March 2012, August 2012 and April 2011 debt modifications and amendments partially offset by a decrease due to the expiration of certain interest rate swaps which were replaced by swaps with lower fixed interest rates.

Interest expense increased in 2011 compared to 2010 due to higher average interest rates resulting primarily from the August 2010 and April 2011 debt modifications and amendments as well as the December 2010 debt exchange and higher debt balances due to payment-in-kind ( PIK ) interest accretion. Partially offsetting these increases was a decrease resulting from the expiration of interest rate swaps with a notional balance of \$2.5 billion.

The Company utilizes interest rate swaps to hedge its interest payments on a portion of its variable rate debt from fluctuations in interest rates. While these swaps do not qualify for hedge accounting, they continue to be effective economically in eliminating variability in interest rate payments. Additionally, the Company utilizes a fixed to floating interest rate swap, which does not qualify for hedge accounting, to maintain a desired ratio of fixed rate and floating rate debt. The fair value adjustments for interest rate swaps that do not qualify for hedge accounting as well as interest rate swap ineffectiveness are recorded in the Other income (expense) line item of the Consolidated Statements of Operations and totaled charges of \$89.9 million, benefits of \$55.7 million and charges of \$67.9 million for the years ended December 31, 2012, 2011 and 2010, respectively

**Other income (expense).**

(in millions)	Year ended December 31,		
	2012	2011	2010
Investment gains (losses)	\$ (7.7)	\$ 58.2	\$ 2.5
Derivative financial instruments gains (losses)	(91.4)	57.4	(58.3)
Divestitures, net		5.3	18.7
Non-operating foreign currency gains	4.8	3.2	21.2
Other			
Other income (expense)	\$ (94.3)	\$ 124.1	\$ (15.9)

**Investment losses.** The net investment losses in 2012 relate primarily to the impairment of a strategic investment.

**Derivative financial instruments gains and (losses).** The net gains and losses for the periods presented were due most significantly to the fair value adjustments for cross currency swaps and interest rate swaps that are not designated as accounting hedges. The loss in 2012 compared to the gain in 2011 was primarily driven by fair value adjustments related to new interest rate swaps entered into during 2012 and 2011. The gain in 2011 compared to the loss in 2010 was mostly driven by a new interest rate swap entered into in conjunction with the April 2011 debt modifications and amendments as well as the expiration of interest rate swaps noted above in the Interest expense discussion.

## Edgar Filing: FIRST DATA CORP - Form 10-K

*Divestitures, net.* The gain recognized in 2011 resulted most significantly from the contribution of the Company's transportation business to an alliance in exchange for a 30% interest in that alliance. The 2010 gain related most significantly to a contingent payment received in connection with the Company's November 2009 sale of a merchant acquiring business in Canada.

*Non-operating foreign currency gains and (losses).* Amounts represent net gains and losses related to currency translations on the Company's intercompany loans and its euro-denominated debt.

*Income taxes.* The Company's effective tax rates on pretax loss from continuing operations were tax benefits of 29.8% in 2012, 44.6% in 2011, and 27.7% in 2010. The calculation of the effective tax rate includes most of the equity earnings in affiliates in pretax income because this item relates principally to entities that are considered pass-through entities for income tax purposes.

The effective tax rate benefit in 2012 was less than the statutory rate primarily due to an increase in the Company's valuation allowance against foreign tax credits, foreign and state net operating losses and capital losses. The negative adjustment was partially offset by net income attributable to noncontrolling interests from pass through entities for which there was no tax expense provided, lower tax earnings and profits than book income for foreign entities, a decrease in the Company's liability for unrecognized tax

benefits, discussed below, and state tax benefits. The 2012 effective income tax rate was negatively impacted by approximately 9 percentage points due to the current year cumulative correction of immaterial prior year errors.

The effective tax rate benefit in 2011 was greater than the statutory rate due primarily to net income attributable to noncontrolling interests from pass through entities for which there was no tax expense provided, state tax benefits, lower tax earnings and profits than book income for foreign entities, a decrease in the Company's liability for unrecognized tax benefits, a net benefit relating to tax effects of foreign exchange gains and losses on intercompany notes and prior year income tax return true-ups. These positive adjustments were partially offset by an increase in the Company's valuation allowance against foreign tax credits and the tax impact of a contribution of the Company's transportation business in exchange for a 30% interest in an alliance.

The effective tax rate benefit in 2010 was less than the statutory rate primarily due to an increase in the Company's valuation allowance against foreign tax credits. This negative adjustment was partially offset by state tax benefits, net income attributable to noncontrolling interests for which there was no tax expense provided and a decrease in the Company's liability for unrecognized tax benefits.

As a result of the Company recording pretax losses in each of the periods, the favorable impacts caused increases to the effective tax rate, while the unfavorable impacts caused decreases to the effective tax rate.

Subsequent to the merger and as part of the First Data Holdings, Inc. ( Holdings ) consolidated federal group and consolidated, combined or unitary state groups for income tax purposes, the Company has been and continues to be in a tax net operating loss position. The Company currently anticipates being able to utilize in the future most of its existing federal net operating loss carryforwards due to the existence of significant deferred tax liabilities established in connection with purchase accounting for the merger and the Company's consideration of a tax planning strategy related to its investments in affiliates. Implementation of this tax planning strategy would result in the immediate reversal of temporary differences associated with the excess of book basis over tax basis in the investments. Accordingly, the Company has not established valuation allowances against these loss carryforwards. The Company, however, may not be able to realize a benefit related to losses in most states and certain foreign countries, requiring the establishment of valuation allowances. The Company currently anticipates that it will be required to establish a valuation allowance against its federal net operating loss carryforwards in 2013.

Despite the net operating loss position discussed above, the Company continues to incur income taxes in states for which it files returns on a separate entity basis and in certain foreign countries. Generally, these foreign income taxes would result in a foreign tax credit in the U.S. to the extent of any U.S. income taxes on the income upon repatriation. However, the Company does not generate sufficient foreign source income to be able to fully utilize its foreign tax credits. As a result, the Company has established valuation allowances, including \$182 million in 2010 upon enactment of federal legislation which changed tax law, against that portion of the credits for which it is likely that no benefit will be realized in the future.

During the year ended December 31, 2012, the Company's liability for unrecognized tax benefits was reduced by \$52 million upon closure of the 2003 and 2004 federal tax years and the resolution of certain state audit issues. As of December 31, 2012, the Company anticipates it is reasonably possible that its liability for unrecognized tax benefits may decrease by approximately \$126 million within the next twelve months as the result of the possible closure of its 2005 through 2007 federal tax years, potential settlements with certain states and foreign countries and the lapse of the statute of limitations in various state and foreign jurisdictions. The potential decrease relates to various federal, state and foreign tax benefits including research and experimentation credits, transfer pricing adjustments and certain amortization and loss deductions.

## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of December 31, 2012, the Company was no longer subject to income tax examination by the U.S. federal jurisdiction for years before 2005. State and local examinations are substantially complete through 2002. Foreign jurisdictions generally remain subject to examination by their respective authorities from 2005 forward, none of which are considered major jurisdictions.

Under the Tax Allocation Agreement executed at the time of the spin-off of The Western Union Company ( Western Union ) on September 29, 2006, Western Union is responsible for and must indemnify the Company against all taxes, interest and penalties that relate to Western Union for periods prior to the spin-off date. If Western Union were to agree to or be finally determined to owe any amounts for such periods but were to default in its indemnification obligation under the Tax Allocation Agreement, the Company as parent of the tax group during such periods generally would be required to pay the amounts to the relevant tax authority, resulting in a potentially material adverse effect on the Company's financial position and results of operations. As of December 31, 2012, the

Company had approximately \$110 million of income taxes payable, including approximately \$4 million of uncertain income tax liabilities, recorded related to Western Union for periods prior to the spin-off date. The Company has recorded a corresponding account receivable of equal amount from Western Union, which is included as a long-term account receivable in the Other long-term assets line of the Company's Consolidated Balance Sheets, reflecting the indemnification obligation. During the year ended December 31, 2012, the uncertain income tax liabilities related to Western Union decreased by approximately \$14 million as a result of the closure of the 2003-2004 federal tax years. As of December 31, 2012, the Company anticipates it is reasonably possible that the uncertain tax liabilities related to Western Union may decrease by approximately \$4 million within the next twelve months as the result of the possible closure of its 2005 and 2006 federal tax years. The uncertain income tax liabilities and corresponding receivable are based on information provided by Western Union regarding its tax contingency reserves for periods prior to the spin-off date. There is no assurance that a Western Union-related issue raised by the Internal Revenue Service (IRS) or other tax authority will be finally resolved at a cost not in excess of the amount reserved and reflected in the Company's uncertain income tax liabilities and corresponding receivable from Western Union. The Western Union contingent liability is in addition to the Company's liability for unrecognized tax benefits discussed above.

The IRS completed its examination of the U.S. federal consolidated income tax returns of the Company for 2005 through 2007 and issued a 30-Day letter on October 31, 2012. The 30-Day letter claims that the Company and its subsidiaries, which included Western Union during some of the years at issue, owe additional taxes with respect to a variety of adjustments. The Company and Western Union agree with several of the adjustments in the 30-Day letter, such adjustments representing tax due of approximately \$40 million. This undisputed tax and associated interest due (pretax) of approximately \$16 million through December 31, 2012, have been fully reserved. The undisputed tax for which Western Union would be required to indemnify the Company is greater than the total tax due, such that settlement of the undisputed tax would result in a net refund to the Company. As to the adjustments that are disputed, such issues represent total taxes allegedly due of approximately \$59 million, of which \$40 million relates to the Company and \$19 million relates to Western Union. The Company estimates that total interest due (pretax) on the disputed amounts is approximately \$16 million through December 31, 2012, of which \$9 million relates to the Company and \$7 million relates to Western Union. As to the disputed issues, the Company and Western Union have contested the adjustments by filing a protest with the IRS. The IRS has prepared a rebuttal to the protest and has forwarded the case to Appeals. The Company believes that it has adequately reserved for the disputed issues in its liability for unrecognized tax benefits described above and that final resolution of those issues will not have a material adverse effect on its financial position or results of operations.

**Equity earnings in affiliates.** Equity earnings in affiliates increased in 2012 compared to 2011 due mostly to transaction growth, dollar volume growth, pricing increases and the positive impact of lower debit interchange rates as a result of the Dodd-Frank Act. These increases were partially offset by a decrease resulting from the 2011 error correction described below which adversely impacted the equity earnings in affiliates growth rate for 2012 compared to 2011 by 7 percentage points.

Equity earnings in affiliates increased in 2011 compared to 2010 mostly due to the 2011 correction of cumulative depreciation and amortization errors related to purchase accounting associated with the Company's 2007 merger with an affiliate of KKR. The error corrections, which totaled an \$11 million benefit in Equity earnings in affiliates (a \$58.5 million benefit in aggregate) and occurred over a four year period, benefited the equity earnings in affiliates growth rate in 2011 compared to 2010 by 9 percentage points.

**Net income attributable to noncontrolling interests and redeemable noncontrolling interests.** Most of the net income attributable to noncontrolling interests and redeemable noncontrolling interests relates to the Company's consolidated merchant alliances. Net income attributable to noncontrolling interests and redeemable noncontrolling interests decreased in 2012 compared to 2011 due to increased processing expense in the BAMS alliance resulting from a shift in processing from the alliance partner to FDC partially offset by the impact of lower debit interchange rates as a result of the Dodd-Frank Act, transaction and dollar volume growth and pricing increases.

**Segment results.** FDC classifies its businesses into three segments: Retail and Alliance Services, Financial Services and International. All Other and Corporate is not discussed separately as its results that had a significant impact on operating results are discussed in the Consolidated Results discussion above.

## Edgar Filing: FIRST DATA CORP - Form 10-K

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

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



## Edgar Filing: FIRST DATA CORP - Form 10-K

- Segment revenue includes equity earnings in affiliates (excluding amortization expense) and intersegment revenue. Retail and Alliance Services segment revenue does not include equity earnings because it is reported using proportionate consolidation as described below.
- Segment revenue excludes reimbursable debit network fees, postage and other revenue.
- Segment earnings before net interest expense, income taxes, depreciation and amortization ( EBITDA ) includes equity earnings in affiliates and excludes depreciation and amortization expense, net income attributable to noncontrolling interests, other operating expenses and other income (expense). Retail and Alliance Services segment EBITDA does not include equity earnings because it is reported using proportionate consolidation as described below. Additionally, segment EBITDA is adjusted for items similar to certain of those used in calculating the Company s compliance with debt covenants. The additional items that are adjusted to determine segment EBITDA are:
  - stock based compensation and related expense is excluded;
  - official check and money order businesses EBITDA are excluded;
  - expenses related to the reorganization of global application development resources (applicable to 2010), expenses associated with domestic data center consolidation initiatives and planned workforce reduction expenses (applicable to 2010), certain platform development and other costs directly associated with the termination of the Chase Paymentech Solutions alliance, and expenses related to the conversion of certain BAMS alliance merchant clients onto the Company s platforms all of which are considered nonrecurring projects (excludes costs accrued in purchase accounting). Effective October 1, 2011, First Data and Bank of America N.A. ( the Bank ) jointly decided to have First Data operate the Bank s legacy settlement platform. Transition costs associated with the revised strategy are also excluded from segment EBITDA.
  - debt issuance costs are excluded and represent costs associated with issuing debt and modifying the Company s debt structure;
  - KKR related items including annual sponsor and other fees for management, consulting, financial and other advisory services are excluded.
- Retail and Alliance Services segment revenue and EBITDA are reflected based on the Company s proportionate share of the results of its investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. In addition, Retail and Alliance Services segment measures reflect commission payments to certain ISO s, which are treated as an expense in the Consolidated Statements of Operations, as contra revenue to be consistent with revenue share arrangements with other ISO s that are recorded as contra revenue.

## Edgar Filing: FIRST DATA CORP - Form 10-K

- Corporate operations include administrative and shared service functions such as the executive group, legal, tax, treasury, internal audit, accounting, human resources, information technology and procurement. Costs incurred by Corporate that are directly attributable to a segment are allocated to the respective segment. Administrative, shared service and certain information technology costs are retained by Corporate.

*Retail and Alliance Services segment results.*

Revenues:								
Transaction and processing service fees	\$	3,198.8	\$	2,974.5	\$	2,923.9	8%	2%
Product sales and other		404.0		407.5		390.9	(1)%	4%
Segment revenue	\$	3,602.8	\$	3,382.0	\$	3,314.8	7%	2%
Segment EBITDA	\$	1,594.8	\$	1,407.5	\$	1,322.3	13%	6%
Segment margin		44%		42%		40%	2pts	2pts
Key indicators:								
Domestic merchant transactions (a)		37,362.6		35,619.8		33,543.8	5%	6%

(a) Domestic merchant transactions include acquired VISA and MasterCard credit and signature debit, PIN-debit, electronic benefits transactions, processed-only and gateway customer transactions at the POS. Domestic merchant transactions reflect 100% of alliance transactions.

*Transaction and processing service fees revenue.*

(in millions)	Year ended December 31,			Percent Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
Acquiring revenue	\$ 2,368.7	\$ 2,204.4	\$ 2,169.7	7%	2%
Check processing revenue	306.1	330.1	370.7	(7)%	(11)%
Prepaid revenue	306.5	291.1	263.2	5%	11%
Processing fees and other revenue from alliance partners	217.5	148.9	120.3	46%	24%
Total transaction and processing service fees revenue	\$ 3,198.8	\$ 2,974.5	\$ 2,923.9	8%	2%

*Acquiring revenue.* Acquiring revenue increased in 2012 compared to 2011 and 2011 compared to 2010 mainly from lower debit interchange rates as a result of the Dodd-Frank Act described in the Regulatory Reform section above which benefited growth for acquiring revenue by an estimated \$75 million or 3 percentage points and \$26 million or 1 percentage point, respectively. Acquiring revenue also benefited from increases in merchant transactions and dollar volumes, new sales and pricing increases for a certain segment of merchants. These increases were partially offset by decreases resulting from the impact of merchant mix on transactions and dollar volumes, the affect of shifts in pricing mix, merchant attrition and price compression. In addition, acquiring revenue in 2011 was adversely impacted compared to 2010 by a card association fee increase which only benefited the third quarter of 2010 and impacted the acquiring revenue growth rate in 2011 compared to 2010 by 1 percentage point.

Revenue growth outpaced transaction growth in 2012 compared to 2011 driven most significantly by the impact of lower debit interchange rates discussed above partially offset by merchant mix, pricing mix and price compression. Revenue per transaction increased 4% for 2012 compared to 2011 driven by the items impacting acquiring revenue discussed above as well as the shift in processing described in the Processing fees and other revenue from alliance partners section below.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Transaction growth outpaced revenue growth in 2011 compared to 2010 driven by the factors noted above, particularly merchant mix, pricing mix and price compression. A greater proportion of transaction growth was driven by the Company's national merchants which contributed to lower revenue per transaction. The average ticket size of signature based transactions decreased slightly in 2012 as compared to 2011. The average ticket size of signature based transactions was flat in 2011 as compared to 2010.

*Check processing revenue.* Check processing revenue decreased in 2012 versus 2011 and in 2011 versus 2010 due most significantly to lower overall check volumes from check writer and merchant attrition and the impact of merchant mix resulting from a shift in regional to national merchants.

*Prepaid revenue.* Prepaid revenue increased in 2012 compared to 2011 due most significantly to higher transaction volumes within the open loop payroll distribution program related to existing customers and new business.

Prepaid revenue increased in 2011 compared to 2010 due mostly to higher transaction volumes within the open loop payroll distribution program related to new and existing customers. In addition, sales of gift cards increased in 2011 compared to the prior year related to a large sale to a national retailer associated with an incentive program as well as volume growth from existing clients and new clients. These increases were partially offset by sales of promotional gift cards in 2010 driven by a specific direct marketing campaign. Additionally, 2011 was impacted by a change in merchant mix resulting from increased card shipments to merchants that generate less revenue per card.

*Processing fees and other revenue from alliance partners.* The increases in processing fees and other revenue from alliance partners in 2012 compared to 2011 and in 2011 compared to 2010 resulted from increased fees from the BAMS alliance due to a shift of processing from the alliance partner to the Company beginning in October 2011, as well as increased transaction and dollar volumes within the Company's merchant alliances. The impact of the shift in processing benefited the 2012 and 2011 revenue and growth rates by approximately \$55 million or 37 percentage points and approximately \$18 million or 15 percentage points, respectively.

*Product sales and other revenue.* Product sales and other revenue decreased in 2012 compared to 2011 primarily due to a decline in equipment sales including lower bulk sales and a gain on the sale of a portfolio in 2011 partially offset by growth in leasing revenue resulting from increased lease originations and lease renewals.

Product sales and other revenue increased in 2011 compared to 2010 primarily due to increases in the leasing business resulting from new clients as well as increased fees from lease renewals. Equipment sales decreased slightly in 2011 compared to 2010 resulting from higher terminal demand in the prior year due to new regulations and a shift in the mix of terminals in 2011 to lower cost, proprietary models.

*Segment EBITDA.* The impact of the revenue items noted above primarily contributed to the increase in Retail and Alliance Services segment EBITDA in 2012 compared 2011. The Dodd-Frank Act benefited the segment EBITDA growth rate in 2012 compared to the prior year by an estimated \$70 million or 5 percentage points. The impact from the shift in processing related to the BAMS alliance positively impacted the segment EBITDA growth rate for 2012 compared to 2011 by approximately \$44 million or 3 percentage points.

Retail and Alliance Services segment EBITDA in 2011 compared to 2010 was positively impacted by the revenue items noted above in the revenue discussion. The decrease in debit interchange rates positively impacted the segment EBITDA growth rate in 2011 compared to 2010 by approximately \$24 million or 2 percentage points. Expense reductions also benefited Retail and Alliance Services segment EBITDA in 2011 compared to the prior year. Also contributing to the increase in segment EBITDA for 2011 compared to 2010 was decreased credit losses due to a lower level of merchant delinquencies which benefited the segment EBITDA growth rate by 1 percentage point. The card association fee noted above negatively impacted the segment EBITDA growth rate in 2011 compared to 2010 by 2 percentage points.

*Financial Services segment results.*

Revenues:								
Transaction and processing service fees	\$	1,350.0	\$	1,350.0	\$	1,362.2	0%	(1)%
Product sales and other		40.1		29.5		46.8	36%	(37)%
Segment revenue	\$	1,390.1	\$	1,379.5	\$	1,409.0	1%	(2)%
Segment EBITDA	\$	603.1	\$	593.5	\$	553.0	2%	7%
Segment margin		43%		43%		39%	0pts	4pts
Key indicators:								
Domestic debit issuer transactions (a)		12,113.8		13,042.6		12,201.2	(7)%	7%
Domestic active card accounts on file (end of period) (b)								
Bankcard		55.4		50.5		47.8	10%	6%
Retail		89.3		72.6		70.7	23%	3%
Total		144.7		123.1		118.5	18%	4%
Domestic card accounts on file (end of period) (c)								
Bankcard		152.2		137.2		127.3	11%	8%
Retail		492.2		423.0		398.4	16%	6%
Debit		93.7		146.5		129.9	(36)%	13%
Total		738.1		706.7		655.6	4%	8%

(a) Domestic debit issuer transactions include signature and PIN-debit transactions, STAR and non-STAR branded.

(b) Domestic active card accounts on file include bankcard and retail accounts that had a balance or any monetary posting or authorization activity during the last month of the quarter.

(c) Domestic card accounts on file include credit, retail and debit card accounts as of the last day of the last month of the period.

*Transaction and processing service fees revenue.*

*Components of transaction and processing service fees revenue.*

(in millions)	Year ended December 31,			Percent Change				
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010			
Credit card, retail card and debit processing	\$	911.5	\$	907.2	\$	924.7	0%	(2)%
Output services		229.8		225.3		219.5	2%	3%
Other revenue		208.7		217.5		218.0	(4)%	0%
Total transaction and processing service fees revenue	\$	1,350.0	\$	1,350.0	\$	1,362.2	0%	(1)%

## Edgar Filing: FIRST DATA CORP - Form 10-K

*Credit card, retail card and debit processing revenue.* Credit card and retail card processing revenue increased for 2012 compared to 2011 due to net new business and volume growth from existing customers mostly offset by price compression on contract renewals as well as volume based pricing incentives. Growth in domestic active card accounts on file in 2012 versus 2011 benefited primarily from net new account conversions, mostly retail accounts; the substantial majority of which were converted in March 2012. Credit card and retail card processing revenue declined in 2011 versus 2010 with net new account conversions more than offset by price compression, declines in revenue from existing customers and the loss of call center business not driven by active accounts on file. Growth in domestic active card accounts on file in 2011 compared to 2010 benefited primarily from net new account conversions.

Debit processing revenue decreased for 2012 compared to 2011 due primarily to net lost business and price compression on contract renewals as well as other net contractual pricing incentives partially offset by new fees implemented in 2011, primarily regulatory compliance fees and volume growth from existing customers. Debit processing revenue increased slightly in 2011

compared to 2010 due to debit issuer transaction growth from existing customers substantially offset by net lost business and price compression.

Debit issuer transactions in 2012 decreased compared to 2011 due to lost business, including the loss of a large financial institution that completed its deconversion in the third quarter of 2012. This decrease was partially offset by net impacts from the implementation of the Dodd-Frank Act discussed below and growth of existing clients due in part to the shift to debit cards from cash and checks. The deconversion noted above also impacted domestic card accounts on file in 2012 versus 2011. Debit issuer transactions grew in 2011 compared to 2010 resulted from growth of existing clients due in part to the shift to debit cards from cash and checks, and new business partially offset by lost business.

The implementation of the Dodd-Frank Act described in the *Regulatory Reform* section above resulted in a net increase in debit issuer transactions in 2012 compared to 2011. Growth benefited from new contracts with financial institutions and transactions routed on behalf of other networks through the Company's gateway. This growth was partially offset by losses in the existing customer base from merchant routing decisions. The net revenue impact in 2012 from the implementation of the Dodd-Frank Act was minimal because of lower rates on new transactions from regulated financial institutions and gateway transactions compared to rates on transactions lost due to routing decisions.

*Output services revenue.* Output services revenue increased in 2012 compared to 2011 due to growth from existing customers and net new business which was partially offset by price compression on contract renewals as well as volume based pricing incentives.

Output services revenue increased in 2011 compared to 2010 due to net new plastic and print business and growth in plastics volumes from existing customers partially offset by lower print volumes from existing customers and price compression.

*Other revenue.* Other revenue consists mostly of revenue from remittance processing, online banking and bill payment services, voice services as well as information services. Other revenue for 2012 decreased compared to 2011 due to decreases in information services, voice services and check clearing driven by lost or disposed business and decreases in volumes from existing customers partially offset by increases in online banking and bill payment services driven by new business and growth from existing customers. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012.

Other revenue was flat in 2011 compared to 2010 due to a decrease in volumes related to remittance processing and information services mostly offset by an increase in online banking and bill payment services volumes as well as net new business primarily in remittance processing.

*Product sales and other revenue.* Product sales and other revenue increased in 2012 compared to 2011 primarily due to new software license sales and professional services for programming.

Product sales and other revenue decreased in 2011 compared to 2010 due most significantly to higher contract termination fees recognized in 2010 as well as a decline in professional services revenue resulting from projects that were completed in 2010.



## Edgar Filing: FIRST DATA CORP - Form 10-K

*Segment EBITDA.* Financial Services segment EBITDA increased in 2012 compared to 2011 due most significantly to the revenue items noted above partially offset by a sales tax recovery recorded in 2011.

Financial Services segment EBITDA increased in 2011 compared to 2010 due most significantly to decreased technology and operations costs resulting from reduced headcount and operational efficiencies, and a sales tax recovery. In addition, 2011 also benefited compared to 2010 from higher expenses in the prior year due to a billing adjustment recorded in the second quarter of 2010. These increases were partially offset by the adverse impact of the items noted in the revenue discussion above. The decrease in technology and operations costs, the sales tax recovery and the prior year billing adjustment benefited the segment EBITDA growth rate in 2011 versus 2010 by 11, 2 and 1 percentage points, respectively.

*International segment results.*

(in millions)	Year ended December 31,			Percent Change	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
<b>Revenues:</b>					
Transaction and processing service fees	\$ 1,291.2	\$ 1,337.9	\$ 1,237.5	(3)%	8%
Product sales and other	391.0	388.8	353.9	1%	10%
Equity earnings in affiliates	36.2	34.6	29.4	5%	18%
Segment revenue	\$ 1,718.4	\$ 1,761.3	\$ 1,620.8	2%	9%
Segment EBITDA	\$ 483.8	\$ 454.3	\$ 329.8	6%	38%
Segment margin	28%	26%	20%	2pts	6pts
<b>Key indicators:</b>					
International transactions (a)	8,458.4	7,637.9	6,777.8	11%	13%
International card accounts on file (end of period) (b)	73.6	75.0	88.8	(2)%	(16)%

(a) International transactions include VISA, MasterCard and other card association merchant acquiring and switching and debit issuer transactions for clients outside the U.S. Transactions include credit, signature debit and PIN-debit POS, POS gateway and ATM transactions. International transactions for the years ended December 31, 2011 and December 31, 2010 reflect an updated count of international transactions.

(b) International card accounts on file include bankcard and retail.

*Summary.* Segment revenue in 2012 compared to 2011 was impacted by the items discussed below as well as foreign currency exchange rate movements. Foreign currency exchange rate movements negatively impacted the total segment revenue growth rate in 2012 by 4 percentage points compared to 2011 and benefited the total segment revenue growth rate in 2011 by 4 percentage points compared to 2010.

*Transaction and processing service fee revenue.* Transaction and processing service fees revenue includes merchant related services and card services revenue. Merchant related services revenue encompasses merchant acquiring and processing revenue, debit transaction revenue, POS/ATM transaction revenue and fees from switching services. Card services revenue represents monthly managed service fees for issued cards. Merchant related services transaction and processing service fees revenue represented approximately 60% for the periods presented and card services revenue represented approximately 40% of total transaction and processing service fees revenue for the periods presented.

Transaction and processing service fees revenue decreased in 2012 compared to 2011 due to the impact of foreign currency exchange rate movements. In addition, declines in the card issuing businesses were partially offset by growth in the merchant acquiring businesses. Revenue in the card issuing businesses declined primarily due to lost business in Germany, Australia, the United Kingdom and China as well as lower revenue in Greece driven by the economic recession and a strategic decision to exit low-margin businesses. Partially offsetting these decreases were increased transaction volumes in the card issuing business primarily in Argentina and new business in Canada. Increases in the merchant acquiring businesses resulted from growth in the merchant acquiring alliances and direct sales channels primarily in the United Kingdom and Canada. Foreign currency exchange rate movements negatively impacted the transaction and processing service fees revenue growth rate in 2012 versus 2011 by 4 percentage points.

Transaction and processing service fees revenue increased in 2011 compared to 2010 due to growth in the merchant acquiring businesses resulting from growth from existing clients in the merchant acquiring alliances and the direct sales channel in the United Kingdom. The card

## Edgar Filing: FIRST DATA CORP - Form 10-K

issuing businesses grew due to new business primarily in the United Kingdom as well as transaction growth in Argentina and pricing in Australia. Partially offsetting these increases were lost business and lower revenue in Greece driven by the economic recession and a strategic decision to exit low-margin businesses. Foreign currency exchange rate movements benefited the transaction and processing service fees growth rate in 2011 versus 2010 by 5 percentage points.

Transaction and processing service fees revenue is driven by accounts on file and transactions. The spread between growth in these two indicators and revenue growth was impacted by foreign currency exchange rate movements, the mix of transaction types and price compression. International card accounts on file decreased in 2011 compared to the 2010 primarily due to lost business in China and the United Kingdom that deconverted in the fourth quarter of 2011.

*Product sales and other revenue.* Product sales and other revenue increased in 2012 compared to 2011 due to new software license fees and new sales, price increases and higher terminal installations in Argentina. Partially offsetting these increases are declines in terminal sales and lease originations in Germany, a decrease resulting from contract termination fees recognized in 2011 as well as a decrease resulting from the strategic decision to exit a line of business in Greece. Foreign currency exchange rate movements negatively impacted the growth rate for product sales and other revenue in 2012 compared to 2011 by 5 percentage points.

Product sales and other revenue increased in 2011 compared to 2010 due to growth in terminal sales and leasing revenue as a result of new clients and growth from existing clients in Argentina and the United Kingdom as well as new terminal requirements and lease renewals in the United Kingdom.

*Segment EBITDA.* Segment EBITDA increased in 2012 compared to 2011 due primarily to the revenue items noted above. In addition, International segment EBITDA benefited in 2012 from the 2011 correction of cumulative errors in the amortization of initial payments for new contracts related to purchase accounting associated with the KKR merger and the write-off of capitalized commissions related to terminal leases which adversely impacted 2011 results by \$14.3 million and benefited the growth rate for 2012 compared to 2011 by 3 percentage points. Segment EBITDA also benefited from decreased expenses, principally operations and technology costs, driven by cost savings initiatives. The segment EBITDA growth rate for 2012 compared to 2011 benefited from decreased operations and technology costs by 4 percentage points. The increases in segment EBITDA for 2012 compared to 2011 were partially offset by foreign currency exchange rate movements which adversely impacted the segment EBITDA growth rate by 4 percentage points.

Segment EBITDA increased in 2011 compared to 2010 due to the impact of the revenue items noted above, decreased operating expenses driven by cost reduction initiatives, a benefit resulting from the write-off of leasing receivables and terminal inventory in 2010 and the impact of foreign currency exchange rate movements. The 2010 write-off of leasing receivables and terminal inventory benefited the segment EBITDA growth rate in 2011 compared to 2010 by 6 percentage points. Segment EBITDA growth also benefited 5 percentage points in 2011 compared to 2010 from the impact of foreign currency exchange rate movements. Partially offsetting the increases described above was a decrease resulting from the correction of cumulative errors in the amortization of initial payments for new contracts related to purchase accounting associated with the KKR merger and the write-off of capitalized commissions related to terminal leases which, together, adversely impacted International segment EBITDA by \$14.3 million and the growth rate for 2011 compared to 2010 by 4 percentage points.

## **Capital Resources and Liquidity**

FDC's source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against its revolving credit facility. The Company believes its current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business. The following discussion highlights changes in the Company's debt structure as well as the Company's cash flow activities and the sources and uses of funding during the years ended December 31, 2012, 2011 and 2010.

During 2012, 2011 and 2010, the Company completed various amendments and modifications to certain of its debt agreements, several debt offerings and a debt exchange in an effort to extend its debt maturities. Additionally, in February 2013, FDC issued \$785 million aggregate principal amount of 11.25% senior unsecured notes due January 15, 2021. The proceeds from the offering were used to repurchase FDC's outstanding 10.55% senior unsecured notes and to pay related fees and expenses. Also in February 2013, FDC entered into a Joinder Agreement relating to its credit agreement, pursuant to which FDC incurred \$258 million in new term loans maturing on September 24, 2018. The net cash proceeds from the new term loans were used to repay all of its outstanding term loan borrowings maturing in 2014 and to pay related fees and expenses.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Details regarding the Company's debt structure are provided in Note 8 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K. The Company intends to extend additional debt maturity dates as opportunities allow.

**Cash and cash equivalents.** Investments (other than those included in settlement assets) with original maturities of three months or less (that are readily convertible to cash) are considered to be cash equivalents and are stated at cost, which approximates market value. At December 31, 2012 and 2011, the Company held \$608.3 million and \$485.7 million in cash and cash equivalents, respectively.

Included in cash and cash equivalents are amounts held by Integrated Payment Systems Inc. ( IPS ) and the BAMS alliance, that are not available to fund operations outside of those businesses. At December 31, 2012 and 2011, the cash and cash equivalents

Edgar Filing: FIRST DATA CORP - Form 10-K

held by IPS and the BAMS alliance totaled \$85.8 million and \$75.2 million, respectively. All other domestic cash balances, to the extent available, are used to fund the Company's short-term liquidity needs.

Cash and cash equivalents also includes amounts held outside of the U.S. at December 31, 2012 and 2011 totaling \$268.4 million and \$216.0 million, respectively. As of December 31, 2012, there was approximately \$70 million of cash and cash equivalents held outside of the U.S. that could be used for general corporate purposes. FDC plans to fund any cash needs in 2013 within the International segment with cash held by the segment, but if necessary, could fund such needs using cash from the U.S., subject to satisfying debt covenant restrictions.

**Cash flows from operating activities.**

Source/(use) (in millions)	Year ended December 31,		
	2012	2011	2010
Net loss	\$ (527.3)	\$ (336.1)	\$ (846.9)
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1,330.9	1,344.2	1,526.0
Charges (gains) related to other operating expenses and other income (expense)	122.5	(77.7)	97.4
Other non-cash and non-operating items, net	(40.2)	27.7	265.6
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:			
Accounts receivable, current and long-term	(49.8)	256.7	224.7
Other assets, current and long-term	260.0	239.3	298.3
Accounts payable and other liabilities, current and long-term	(34.6)	(1.2)	(386.1)
Income tax accounts	(294.1)	(337.3)	(424.3)
Net cash provided by operating activities	\$ 767.4	\$ 1,115.6	\$ 754.7

Cash flows provided by operating activities for the periods presented resulted from normal operating activities and reflect the timing of the Company's working capital requirements.

FDC's operating cash flow is significantly impacted by its level of debt. Approximately \$1,793.9 million, \$1,458.2 million and \$1,494.9 million in cash interest, including interest on lines of credit and capital leases, was paid during 2012, 2011 and 2010, respectively. The increase in cash interest in 2012 compared to 2011 is due primarily to the debt exchanges referred to above resulting in seven months of interest payments in 2011 compared to twelve months of interest payments in 2012 for the notes issued in the exchange as well as an increase in the interest coupon rate.

The timing of quarterly interest payments in 2013 will be impacted by when payment dates occur, shifting payments normally included in the first quarter to the second quarter. The Company estimates that its 2013 quarterly cash interest payments, excluding interest on lines of credit and capital leases, will be as follows:

Three months ended	Estimated cash interest payments on Long-term Debt (a) (Unaudited)

Edgar Filing: FIRST DATA CORP - Form 10-K

March 31, 2013	\$	440
June 30, 2013		465
September 30, 2013		665
December 31, 2013		225
	\$	1,795

---

(a) The Company has an option to pay certain portions of its interest obligations in kind as an increase in principal rather than in cash. These amounts represent the amount of cash projected to be paid if the Company opts to pay its entire interest obligation for 2013 in cash.

Using December 31, 2012 balances for variable rate debt and applicable interest rate swaps, a 10 percent increase in the applicable LIBOR index on an annualized basis would increase interest expense by approximately \$1.1 million.

The Company's operating cash flows are impacted by fluctuations in working capital. Cash flows from operating activities in 2012 decreased compared to 2011 primarily due to the increase in cash interest payments as well as an increase in prefunding settlement volumes and timing partially offset by increased operating income. Cash flows from operating activities increased in 2011 compared to 2010 due to the flow through of operating activity which included higher revenues and lower expenses. Additionally, the increase was partially due to sources of cash related to lower prefunding of settlement arrangements.

FDC anticipates funding operations throughout 2013 primarily with cash flows from operating activities and by closely managing discretionary capital and other spending; however, any shortfalls would be supplemented as necessary by borrowings against its revolving credit facility.

**Cash flows from investing activities.**

Source/(use) (in millions)	Year ended December 31,		
	2012	2011	2010
Current year acquisitions, net of cash acquired	\$ (32.9)	\$ (19.2)	\$ (1.8)
Contributions to equity method investments	(7.9)	(161.5)	(1.4)
Payments related to other businesses previously acquired	(4.4)	3.2	(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed		1.7	21.2
Proceeds from sale of property and equipment	8.0	17.1	5.5
Additions to property and equipment	(193.1)	(202.9)	(210.1)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(177.2)	(201.9)	(159.6)
Other investing activities	10.4	4.9	18.4
Net cash used in investing activities	\$ (397.1)	\$ (558.6)	\$ (329.2)

**Acquisitions and dispositions.** The Company may finance acquisitions through a combination of internally generated funds, reinvestment of proceeds from asset sales, short-term borrowings and equity of its parent company. The Company may also consider using long-term borrowings subject to restrictions in its debt agreements. All acquisitions during the periods presented were funded from cash flows from operating activities or from the reinvestment of cash proceeds from the sale of other assets. Purchases of noncontrolling interests are classified as financing activities as noted below. Although the Company considers potential acquisitions from time to time, the Company's plan for 2013 does not include funding of material acquisitions.

In December 2012, the Company acquired 100% of Clover Network, Inc., a provider of payment network services for total consideration of \$56.1 million. The transaction called for cash consideration of \$36.1 million as well as a series of contingent payments based on the achievement of specified sales targets. These contingent payments are classified as purchase consideration if made to outside investors and compensation if made to current and future employees. As part of the purchase price the Company recorded a \$20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company's estimate of the future payments.

In the fourth quarter of 2011, the Company funded \$160 million to one of its merchant alliance partners for referrals from bank branches contributed to the alliance as called for by the agreement that extended the term of the alliance in 2008.

During 2010, proceeds from dispositions related most significantly to the receipt of a contingent payment associated with the Company's sale of a merchant acquiring business in Canada in the fourth quarter of 2009.



## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company continues to manage its portfolio of businesses and evaluate the possible divestiture of businesses that do not match its long-term growth objectives. For a more detailed discussion on acquisitions and dispositions in 2012, 2011 and 2010 refer to Note 3 to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

**Capital expenditures.** Capital expenditures are estimated to be approximately \$425 to \$475 million in 2013 and are expected to be funded by cash flows from operations. If, however, cash flows from operating activities are insufficient, the Company will decrease its discretionary capital expenditures or utilize its revolving credit facility.

During the periods presented, net proceeds were received for the sale of certain assets, including buildings and equipment in 2011.

**Other investing activities.** The source of cash in 2010 related to a decrease in regulatory, restricted and escrow cash balances.

**Cash flows from financing activities.**

Source/(use) (in millions)	Year ended December 31,		
	2012	2011	2010
Short-term borrowings, net	\$ 99.1	\$ (107.3)	\$ 75.1
Accrued interest funded upon issuance of notes	6.5		
Debt modification proceeds (payments) and related financing costs	10.8	(39.7)	(61.2)
Principal payments on long-term debt	(83.3)	(104.5)	(220.4)
Proceeds from sale-leaseback transactions	13.8	14.2	
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(261.9)	(327.3)	(216.1)
Contributions from noncontrolling interests		0.8	
Purchase of noncontrolling interests	(25.1)		(213.3)
Redemption of Parent's redeemable common stock	(1.7)	(0.5)	(2.5)
Cash dividends	(6.7)	(0.2)	(14.9)
Net cash used in financing activities	\$ (248.5)	\$ (564.5)	\$ (653.3)

**Short-term borrowings, net.** The cash activity related to short-term borrowings in 2012 and 2011 resulted primarily from net borrowings and paydowns on FDC's international credit lines used principally to prefund settlement activity. In 2010, the cash activity related to short-term borrowings resulted primarily from net borrowings on FDC's senior secured revolving credit facility.

As of December 31, 2012, FDC's senior secured revolving credit facility had commitments from financial institutions to provide \$1,515.3 million of credit, \$499.1 million of which is due to expire on September 24, 2013 with the remainder due to expire between June 24, 2015 and September 24, 2016. Besides the letters of credit discussed below, FDC had no amount outstanding against this facility as of December 31, 2012 and 2011. Therefore, as of December 31, 2012, \$1,470.2 million remained available under this facility. Excluding the letters of credit, the maximum amount outstanding against this facility during 2012 was approximately \$295 million while the average amount outstanding during 2012 was approximately \$27 million.

FDC utilizes its revolving credit facility on a short-term basis to fund investing or operating activities when cash flows from operating activities are not sufficient. The Company believes the capacity under its senior secured revolving credit facility, both before and after the expiration of the commitments due to expire in 2013, will be sufficient to meet its short-term liquidity needs. FDC's senior secured revolving credit facility can be used for working capital and general corporate purposes.

There are multiple institutions that have commitments under this facility with none representing more than approximately 14% of the remaining capacity.

**Debt modification proceeds (payments) and related financing costs.** The Company's debt modifications and amendments noted above were accounted for as modifications resulting in only the net effect of the transactions being reflected as a source or use of cash excluding certain fees included in the Company's results of operations.

During 2012, FDC received net cash proceeds of \$10.8 million related to the 2012 debt modifications and offerings referred to above, a substantial portion of which were used to pay related expenses that were included in the Company's results of operations.

During the year ended December 31, 2011, FDC paid \$18.6 million in fees related to the December 2010 debt exchange and \$21.1 million in fees related to the April 2011 debt modification and amendments.

The Company paid a net amount of \$24.1 million in fees related to the August 2010 debt modification. The Company also paid a net amount of \$37.1 million for costs incurred during the fourth quarter of 2010 related to the December 2010 debt exchange.

***Principal payments on long-term debt.*** In conjunction with the debt modifications and amendments discussed above, proceeds from the issuance of new notes were used to prepay portions of the principal balances of FDC's senior secured term loans which satisfied the future quarterly principal payments until September 2018. Prior to the modifications, during 2010, the Company made principal payments of \$96.2 million related to its senior secured term loan facility.

During 2011 and 2010, the Company paid notes that came due totaling \$32.6 million and \$13.1 million, respectively. In addition, the Company paid \$34.1 million in debt restructuring fees in 2010.

Payments for capital leases totaled \$80.2 million, \$71.9 million and \$76.9 million for 2012, 2011 and 2010, respectively.

As of March 19, 2013, FDC's long-term corporate family rating from Moody's was B3 (stable). The long-term local issuer credit rating from Standard and Poor's was B (stable). The long-term issuer default rating from Fitch was B (stable). The Company's current level of debt may impair its ability to get additional funding beyond its revolving credit facility if needed.

**Proceeds from sale-leaseback transactions.** The Company may, from time to time, enter into sale-leaseback transactions as a means of financing previously or recently acquired fixed assets, primarily equipment.

**Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests.** Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests primarily represent distributions of earnings. The activity in all periods presented was primarily the result of distributions associated with the BAMS alliance including an incremental distribution in 2011 of approximately \$64 million related to both working capital initiatives and an extra quarterly distribution due to a change in the timing of such distributions.

**Purchase of noncontrolling interest.** In April 2012, the Company acquired the remaining approximately 30 percent noncontrolling interest in Omnipay, a provider of card and electronic payment processing services to merchant acquiring banks, for approximately 37.1 million euro, of which 19.0 million euro (\$25.1 million) was paid in April 2012 with the remainder to be paid in April 2013. The use of cash in 2010 relates to the redemption amount paid to the third-party investor to redeem its interest in the BAMS alliance.

**Cash dividends.** The Company paid cash dividends to First Data Holdings Inc. in the periods presented.

**Letters, lines of credit and other.**

(in millions)	Total Available (a) As of December 31,		Total Outstanding As of December 31,	
	2012	2011	2012	2011
Letters of credit (b)	\$ 500.0	\$ 500.0	\$ 45.1	\$ 45.0
Lines of credit and other (c)	\$ 346.0	\$ 341.2	\$ 177.2	\$ 76.4

(a) Total available without giving effect to amounts outstanding.

(b) Up to \$500 million of the Company's senior secured revolving credit facility is available for letters of credit. Outstanding letters of credit are held in connection with lease arrangements, bankcard association agreements and other security agreements. The maximum amount of letters of credit outstanding during 2012 was approximately \$52 million. All letters of credit expire prior to December 10, 2013 with a one-year renewal option. FDC expects to renew most of the letters of credit prior to expiration.

(c) As of December 31, 2012, represents \$216.0 million of committed lines of credit as well as certain uncommitted lines of credit and other agreements that are available in various currencies to fund settlement and other activity for the Company's international operations. FDC cannot use these lines of credit for general corporate purposes. Certain of these arrangements are uncommitted but, as of the dates presented, FDC had borrowings outstanding against them.

In the event one or more of the aforementioned lines of credit becomes unavailable, FDC will utilize its existing cash, cash flows from operating activities or its revolving credit facility to meet its liquidity needs.

**Significant non-cash transactions.** During 2011 and 2010, the principal amount of FDC's senior notes due 2015 increased by \$73.1 million and \$362.5 million, respectively, resulting from the payment of accrued interest expense. The decrease in the amount of interest expense accrued during 2011 is due to the December 2010 exchange of notes discussed below. The terms of FDC's senior unsecured notes due 2015 require interest to be paid in cash for all periods after October 1, 2011.

In December 2011, the Company exchanged substantially all of its aggregate principal amounts of \$3.0 billion of its 12.625% senior notes due 2021 for publicly tradable notes having substantially identical terms and guarantees, except that the exchange notes will be freely tradable.

In December 2010, the Company exchanged \$3.0 billion of its 9.875% senior notes due 2015 and \$3.0 billion of its 10.550% senior PIK notes due 2015 for \$2.0 billion of 8.25% senior second lien notes due 2021, \$1.0 billion of 8.75%/10.00% PIK toggle senior second lien notes due 2022 and \$3.0 billion of 12.625% senior notes due 2021.

## Edgar Filing: FIRST DATA CORP - Form 10-K

There were no expenditures, other than professional fees, or receipts of cash associated with the registration statement or exchange offer described above.

During 2012, 2011 and 2010, the Company entered into capital leases, net of trade-ins, totaling approximately \$55 million, \$106 million and \$65 million, respectively.

As discussed above, the Company acquired 100% of Clover Network, Inc. and recorded a \$20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company's estimate of the future payments.

Also discussed above, the Company acquired the remaining approximately 30 percent noncontrolling interest in Omnipay for approximately 37.1 million euro, of which 19.0 million euro (\$25.1 million) was paid in April 2012 with the remainder to be paid in April 2013.

In November 2011, the Company contributed the assets of its transportation business to an alliance in exchange for a 30% noncontrolling interest in the alliance. Refer to Note 18 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

**Guarantees and covenants.** All obligations under the senior secured revolving credit facility and senior secured term loan facility are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly owned, material domestic subsidiaries of the Company other than IPS. The senior secured facilities contain a number of covenants that, among other things, restrict the Company's ability to incur additional indebtedness; create liens; enter into sale-leaseback transactions; engage in mergers or consolidations; sell or transfer assets; pay dividends and distributions or repurchase the Company's or its parent company's capital stock; make investments, loans or advances; prepay certain indebtedness; make certain acquisitions; engage in certain transactions with affiliates; amend material agreements governing certain indebtedness; and change its lines of business. The senior secured facilities also require the Company to not exceed a maximum senior secured leverage ratio and contain certain customary affirmative covenants and events of default, including a change of control. The senior secured term loan facility also requires mandatory prepayments based on a percentage of excess cash flow generated by the Company.

All obligations under the senior secured notes, senior second lien notes, PIK toggle senior second lien notes, senior notes and senior subordinated notes are similarly guaranteed in accordance with their terms by each of the Company's domestic subsidiaries that guarantee obligations under the Company's senior secured term loan facility described above. These notes and facilities also contain a number of covenants similar to those described for the senior secured obligations noted above. The Company is in compliance with all applicable covenants as of December 31, 2012 and anticipates it will remain in compliance in future periods.

Although all of the above described indebtedness contain restrictions on the Company's ability to incur additional indebtedness, these restrictions are subject to numerous qualifications and exceptions, including the ability to incur indebtedness in connection with the Company's settlement operations. The Company believes that the indebtedness that can be incurred under these exceptions as well as additional credit under the existing senior secured revolving credit facility are sufficient to satisfy the Company's intermediate and long-term needs.

**Covenant compliance.** Under the senior secured revolving credit and term loan facilities, certain limitations, restrictions and defaults could occur if the Company is not able to satisfy and remain in compliance with specified financial ratios. The Company has agreed that it will not

## Edgar Filing: FIRST DATA CORP - Form 10-K

permit the Consolidated Senior Secured Debt to Consolidated EBITDA (both as defined in the agreement) Ratio for any 12 month period (last four fiscal quarters) ending during a period set forth below to be greater than the ratio set forth below opposite such period:

<b>Period</b>	<b>Ratio</b>
October 1, 2012 to September 30, 2013	6.25 to 1.00
Thereafter	6.00 to 1.00

The breach of this covenant could result in a default under the senior secured revolving credit facility and the senior secured term loan credit facility and the lenders could elect to declare all amounts borrowed due and payable. Any such acceleration could also result in a default under the indentures for the senior secured notes, senior second lien notes, PIK toggle senior second lien notes, senior notes and senior subordinated notes. As of December 31, 2012, the Company is in compliance with this covenant with Consolidated Senior Secured Debt of \$11,985.1 million, Consolidated EBITDA of \$2,913.8 million and a Ratio of 4.11 to 1.00.

## Edgar Filing: FIRST DATA CORP - Form 10-K

In determining Consolidated EBITDA, EBITDA is calculated by reference to net income (loss) from continuing operations plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Consolidated EBITDA as defined in the agreements (also referred to as debt covenant EBITDA) is calculated by adjusting EBITDA to exclude unusual items and other adjustments permitted in calculating covenant compliance under the indentures and the credit facilities. The Company believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Consolidated EBITDA are appropriate to provide additional information to investors to demonstrate the Company's ability to comply with its financing covenants.

The calculation of Consolidated EBITDA under FDC's senior secured term loan facility is as follows:

(in millions)	<b>Last twelve months ended December 31, 2012</b>	
Net loss attributable to First Data Corporation	\$	(700.9)
Interest expense, net (1)		1,889.0
Income tax benefit		(224.0)
Depreciation and amortization (2)		1,330.9
<b>EBITDA (15)</b>		<b>2,295.0</b>
Stock based compensation (3)		11.8
Restructuring, net (4)		37.7
Derivative financial instruments (gains) and losses (5)		91.3
Official check and money order EBITDA (6)		(6.4)
Cost of alliance conversions and other technology initiatives (7)		79.9
KKR related items (8)		21.3
Debt issuance costs (9)		13.7
Projected near-term cost savings and revenue enhancements (10)		151.0
Net income attributable to noncontrolling interests and redeemable noncontrolling interests (11)		173.6
Equity entities taxes, depreciation and amortization (12)		15.0
Impairments (13)		22.1
Other (14)		7.8
<b>Consolidated EBITDA (15)</b>	<b>\$</b>	<b>2,913.8</b>

- 
- (1) Includes interest expense and interest income.
  - (2) Includes amortization of initial payments for new contracts which is recorded as a contra-revenue within Transaction and processing service fees of \$44.5 million and amortization related to equity method investments, which is netted within the Equity earnings in affiliates line of \$94.8 million.
  - (3) Stock based compensation recognized as expense.
  - (4) Restructuring charges in connection with management's alignment of the business with strategic objectives and employee reduction and certain employee relocation efforts in Germany.
  - (5) Represents fair market value adjustments for cross currency swaps and interest rate swaps that are not designated as accounting hedges.
  - (6) Represents an adjustment to exclude the official check and money order businesses from EBITDA due to FDC's wind down of these businesses.
  - (7) Represents costs directly associated with the termination of the Chase Paymentech alliance, expenses related to First Data taking over operations of Banc of America N.A.'s legacy settlement platform in connection with the Banc of America Merchant Services alliance and conversion of certain BAMS merchants onto First Data platforms, all of which are considered business optimization projects, and other technology initiatives.
  - (8) Represents KKR annual sponsorship fees for management, consulting, financial and other advisory services.
  - (9) Debt issuance costs represent non-capitalized costs associated with issuing debt and modifying FDC's debt structure.
  - (10)



## Edgar Filing: FIRST DATA CORP - Form 10-K

Reflects cost savings and revenue enhancements projected to be realized as a result of specific actions as if they were achieved on the first day of the period. Includes cost savings initiatives associated with the business optimization projects and other technology initiatives described in Note 7, the BAMS alliance, operations and technology initiatives, headcount reductions and other addressable spend reductions.

- (11) Net income attributable to noncontrolling interests and redeemable noncontrolling interests in restricted subsidiaries.
- (12) Represents FDC's proportional share of income taxes, depreciation and amortization on equity method investments.

- (13) Represents impairment of certain equipment, land and a building.
- (14) Includes items such as litigation and regulatory settlements, investment gains and losses, non-operating foreign currency gains and losses and other as applicable to the period presented.
- (15) EBITDA is defined as net income (loss) attributable to First Data Corporation before net interest expense, income taxes, depreciation and amortization. EBITDA is not a recognized term under U.S. generally accepted accounting principles ( GAAP ) and does not purport to be an alternative to net income (loss) attributable to First Data Corporation as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management s discretionary use as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. The presentation of EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of FDC s results as reported under GAAP. Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone.

Consolidated EBITDA (or debt covenant EBITDA) is defined as EBITDA adjusted to exclude certain non-cash items, non-recurring items that FDC does not expect to continue at the same level in the future and certain items management believes will impact future operating results and adjusted to include near-term cost savings projected to be achieved within twelve months on an annualized basis (see Note 10 above). Consolidated EBITDA is further adjusted to add net income attributable to noncontrolling interests and redeemable noncontrolling interests of certain non-wholly-owned subsidiaries and exclude other miscellaneous adjustments that are used in calculating covenant compliance under the agreements governing FDC s senior unsecured debt and/or senior secured credit facilities. The Company believes that the inclusion of supplementary adjustments to EBITDA are appropriate to provide additional information to investors about items that will impact the calculation of EBITDA that is used to determine covenant compliance under the agreements governing FDC s senior unsecured debt and/or senior secured credit facilities. Since not all companies use identical calculations, this presentation of Consolidated EBITDA may not be comparable to other similarly titled measures of other companies.

#### Off-balance sheet arrangements

During 2012, 2011 and 2010, the Company did not engage in any off-balance sheet financing activities other than those included in the Contractual obligations discussion below and those reflected in Note 11 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

#### Contractual obligations

The Company s contractual obligations as of December 31, 2012 are as follows:

(in millions)	Total	Payments Due by Period			
		Less than 1 year	1-3 years	4-5 years	After 5 years
Borrowings (a)	\$ 34,012.8	\$ 1,982.5	\$ 5,362.9	\$ 7,878.2	\$ 18,789.2
Capital lease obligations (b)	145.2	71.7	65.9	7.6	
Operating leases	293.3	57.3	84.9	61.2	89.9
Pension plan contributions (c)	147.3	42.4	64.6	40.3	
Purchase obligations (d):					
Technology and telecommunications (e)	1,496.2	768.1	411.8	116.8	199.5
All other (f)	521.5	119.2	128.7	119.2	154.4

Edgar Filing: FIRST DATA CORP - Form 10-K

Other long-term liabilities	131.4	10.8	42.1	75.6	2.9
	\$ 36,747.7	\$ 3,052.0	\$ 6,160.9	\$ 8,298.9	\$ 19,235.9

- 
- (a) Includes future principal and cash interest payments on long-term borrowings through scheduled maturity dates. Includes \$992.7 million of PIK toggle notes for which it is assumed the Company will pay interest in cash. Also includes \$4.1 billion of variable rate debt (including the impact of interest rate swaps). Borrowings and interest rate swaps are discussed in Note 8 and Note 6, respectively, to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K. Interest payments for the

- variable rate debt and the associated interest rate swaps were calculated using interest rates as of December 31, 2012.
- (b) Represents future payments on existing capital leases, including interest expense, through scheduled expiration dates.
  - (c) Includes future pension plan contributions for all plans in 2013 and future contractual commitments for the United Kingdom ( U.K. ) plan through 2017 which are subject to change. The amount of pension plan contributions depends upon various factors that cannot be accurately estimated beyond a one-year time frame other than the U.K. plan.
  - (d) Many of the Company's contracts contain clauses that allow the Company to terminate the contract with notice, and with or without a termination penalty. Termination penalties are generally an amount less than the original obligation. Certain contracts also have an automatic renewal clause if the Company does not provide written notification of its intent to terminate the contract. Obligations under certain contracts are usage-based and are, therefore, estimated in the above amounts. Historically, the Company has not had any significant defaults of its contractual obligations or incurred significant penalties for termination of its contractual obligations.
  - (e) Technology and telecommunications represents obligations related to hardware purchases, including purchases of ATMs and terminals, as well as software licenses, hardware and software maintenance and support, technical consulting services and telecommunications services.
  - (f) Other includes obligations related to materials, data, non-technical contract services, facility security, investor management fees, maintenance and marketing promotions.

As of December 31, 2012, the Company had approximately \$317 million of tax contingencies comprised of approximately \$279 million reported in long-term income taxes payable in the Other long-term liabilities line of the Consolidated Balance Sheets, including approximately \$4 million of income tax liabilities for which Western Union is required to indemnify the Company, and approximately \$38 million recorded as an increase of the Company's deferred tax liability. Timing of tax payments is dependent upon various factors which cannot be reasonably estimated at this time.

In February 2013, as discussed in Note 8 to the Company's Consolidated Financial Statements included in Item 8 of this Form 10-K, FDC issued \$785 million aggregate principal amount of 11.25% senior unsecured notes due January 15, 2021. The proceeds from the offering were used to repurchase FDC's outstanding 10.55% senior unsecured notes and pay related fees and expenses. Additionally, in February 2013, FDC entered into a Joinder Agreement relating to its credit agreement, pursuant to which FDC incurred \$258 million in new term loans maturing on September 24, 2018. The net cash proceeds from the new term loans were used to repay all of its outstanding term loan borrowings maturing in 2014 and to pay related fees and expenses.

The combined effect of these events did not materially impact the total amount of the Company's outstanding obligations but increased future interest payments and extended the maturity of \$0.3 billion of obligations from 2014 to 2018 and \$0.8 billion of obligations from 2015 to 2021.

### Critical Accounting Policies

**Stock-based compensation.** The Company has a stock incentive plan for certain management employees of FDC and its affiliates ( stock plan ). This stock plan is at the Holdings level which owns 100% of FDC's equity interests. The stock plan provides the opportunity for certain management employees to purchase shares in Holdings and then receive a number of stock options or restricted stock based on a multiple of their investment in such shares. The plan also allows for the Company to award shares and options to certain management employees. The expense associated with this plan is recorded by FDC. FDC uses the Black-Scholes option pricing model to measure the fair value of stock option awards. The Company chose the Black-Scholes model based on the Company's experience with the model and the determination that the model could be used to provide a reasonable estimate of the fair value of awards with terms such as those issued by Holdings. Option-pricing models require estimates of a number of key valuation inputs including expected volatility, expected dividend yield, expected term and risk-free interest rate. Certain of these inputs are more subjective due to Holdings being privately held and thus not having objective historical or public information. The most subjective inputs are the expected term, expected volatility and determination of share value. The expected term is determined using probability weighted expectations and expected volatility is determined using a selected group of guideline companies as surrogates for Holdings.

On a quarterly basis, the Company estimates the fair value of Holdings common stock. Periodically, a third-party valuation firm provides assistance with certain key assumptions and performs calculations using the valuation methods discussed below. All key assumptions and valuations were determined by and are the responsibility of management. The Company relies on the results of a discounted cash flow analysis but also considers the results of a market approach. The discounted cash flow analysis is dependent on a number of significant management assumptions regarding the expected future financial results of the Company and Holdings as well as upon estimates of an appropriate cost of capital. A sensitivity analysis is performed in order to establish a narrow range of estimated fair values for the shares of Holdings common stock. The market approach consists of identifying a set of guideline public companies.

Multiples of historical and projected EBITDA determined based on the guideline companies is applied to Holdings' EBITDA in order to establish a range of estimated fair value for the shares of Holdings common stock. The Company considers the results of both of these approaches, placing primary reliance on the discounted cash flow analysis. The concluded range of fair values is also compared to the value determined by the Board of Directors for use in transactions, including stock sales and repurchases. After considering all of these estimates of fair value, the Company then determines a single estimated fair value of the stock to be used in accounting for stock-based compensation.

During the years ended December 31, 2012, 2011 and 2010, time-based options were granted under the stock plan and during the years ended December 31, 2011 and 2010, performance-based options were granted under the stock plan. The time options and performance options have a contractual term of 10 years. Time options vest equally over a three to five year period from the date of issuance and performance options vest based upon the Company achieving certain EBITDA targets. The options also have certain accelerated vesting provisions upon a change in control, a qualified public offering, or certain termination events.

The assumptions used in estimating the fair value of share-based payment awards represent management's best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be different in the future.

Refer to Note 13 to the Consolidated Financial Statements included in Item 8 of this Form 10-K for details regarding the Company's stock-based compensation plan.

**Reserve for merchant credit losses and check guarantees.** With respect to the merchant acquiring business, the Company's merchant customers (or those of its unconsolidated alliances) have the liability for any charges properly reversed by the cardholder. In the event, however, that the Company is not able to collect such amounts from the merchants due to merchant fraud, insolvency, bankruptcy or another reason, the Company may be liable for any such reversed charges. The Company's risk in this area primarily relates to situations where the cardholder has purchased goods or services to be delivered in the future such as airline tickets.

The Company's obligation to stand ready to perform is minimal in relation to the total dollar volume processed. The Company requires cash deposits, guarantees, letters of credit or other types of collateral from certain merchants to minimize this obligation. Collateral held by the Company is classified within Settlement assets and the obligation to repay the collateral if it is not needed is classified within Settlement obligations on the Company's Consolidated Balance Sheets. The amounts of collateral held by the Company and its unconsolidated alliances are as follows:

(in millions)	As of December 31,			
		2012		2011
Cash and cash equivalents collateral	\$	470.0	\$	473.2
Collateral in the form of letters of credit		120.9		112.5
Total collateral	\$	590.9	\$	585.7

The Company also utilizes a number of systems and procedures to manage merchant risk. Despite these efforts, the Company historically has experienced some level of losses due to merchant defaults.

## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company's contingent obligation relates to imprecision in its estimates of required collateral. A provision for this obligation is recorded based primarily on historical experience of credit losses and other relevant factors such as economic downturns or increases in merchant fraud. Merchant credit losses are included in "Cost of services" in the Company's Consolidated Statements of Operations. The following table presents the aggregate merchant credit losses incurred compared to total dollar volumes processed:

	Year ended December 31,		
	2012	2011	2010
FDC and consolidated and unconsolidated alliances credit losses (in millions)	\$ 50.0	\$ 63.6	\$ 78.2
FDC and consolidated alliances credit losses (in millions)	\$ 43.3	\$ 54.3	\$ 71.3
Total dollar volume acquired (in billions)	\$ 1,725.4	\$ 1,643.2	\$ 1,520.4

The reserve recorded on the Company's Consolidated Balance Sheets only relates to the business conducted by its consolidated subsidiaries. The reserve for unconsolidated alliances is recorded only in the alliances' respective financial statements. The Company has not recorded any reserve for estimated losses in excess of reserves recorded by the unconsolidated alliances nor has the Company identified needs to do so. The following table presents the aggregate merchant credit loss reserves:

Edgar Filing: FIRST DATA CORP - Form 10-K

(in millions)	As of December 31,			
	2012		2011	
FDC and consolidated and unconsolidated alliances merchant credit loss reserves	\$	26.1	\$	35.5
FDC and consolidated alliances merchant credit loss reserves	\$	23.4	\$	31.6

The credit loss reserves, both for the unconsolidated alliances and the Company, are comprised of amounts for known losses and a provision for losses incurred but not reported ( IBNR ). These reserves primarily are determined by performing a historical analysis of chargeback loss experience. Other factors are considered that could affect that experience in the future. Such items include the general economy and economic challenges in a specific industry or those affecting certain types of clients. Once these factors are considered, the Company or the unconsolidated alliance establishes a rate (percentage) that is calculated by dividing the expected chargeback (credit) losses by dollar volume processed. This rate is then applied against the dollar volume processed each month and charged against earnings. The resulting reserve balance is then compared to requirements for known losses and estimates for IBNR items. Historically, this estimation process has proven to be materially accurate and the Company believes the recorded reserve approximates the fair value of the contingent obligation.

The majority of the TeleCheck Services, Inc. ( TeleCheck ) business involves the guarantee of checks received by merchants. If the check is returned, TeleCheck is required to purchase the check from the merchant at its face value and pursue collection from the check writer. A provision for estimated check returns, net of anticipated recoveries, is recorded at the transaction inception based on recent history. The following table presents the accrued warranty and recovery balances:

(in millions)	As of December 31,			
	2012		2011	
Accrued warranty balances	\$	10.9	\$	11.4
Accrued recovery balances	\$	24.8	\$	26.8

Accrued warranties are included in Other current liabilities and accrued recoveries are included in Accounts receivable in the Consolidated Balance Sheets.

The Company establishes an incremental liability (and deferred revenue) for the fair value of the check guarantee. The liability is relieved and revenue is recognized when the check clears, is presented to TeleCheck, or the guarantee period expires. The majority of the guarantees are settled within 30 days. The incremental liability was approximately \$1.1 million and \$1.3 million as of December 31, 2012 and 2011, respectively. The following table details the check guarantees of TeleCheck.

	Year ended December 31,				
	2012		2011		2010
Aggregate face value of guaranteed checks (in billions)	\$	42.9	\$	45.6	\$ 47.6
Aggregate amount of checks presented for warranty (in millions)	\$	318.8	\$	351.8	\$ 405.3
Warranty losses net of recoveries (in millions)	\$	75.9	\$	85.1	\$ 110.8

The maximum potential future payments under the guarantees were estimated by the Company to be approximately \$1.3 billion as of December 31, 2012 which represented an estimate of the total uncleared checks at that time.



**Income taxes.** The determination of the Company's provision for income taxes requires management's judgment in the use of estimates and the interpretation and application of complex tax laws. Judgment is also required in assessing the timing and amounts of deductible and taxable items. The Company establishes contingency reserves for material, known tax exposures relating to deductions, transactions and other matters involving some uncertainty as to the proper tax treatment of the item. The Company's reserves reflect its judgment as to the resolution of the issues involved if subject to judicial review. Several years may elapse before a particular matter, for which the Company has established a reserve, is audited and finally resolved or clarified. While the Company believes that its reserves are adequate to cover reasonably expected tax risks, issues raised by a tax authority may be finally resolved at an amount different than the related reserve. Such differences could materially increase or decrease the Company's income tax provision in the current and/or future periods. When facts and circumstances change (including a resolution of an issue or statute of limitations expiration), these reserves are adjusted through the provision for income taxes in the period of change. As the result of interest and amortization expenses that the Company incurs, the Company is currently in a tax net operating loss position. Judgment is required to determine whether some portion or all of the deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, then these assets will be adjusted through the Company's provision for

income taxes in the period in which this determination is made. Refer to Note 17 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company's income tax provision.

**Estimating fair value.** The Company has investment securities and derivative financial instruments that are carried at fair value.

Fair value is defined by accounting guidance as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company's approach to estimating the fair value of its financial instruments varies depending upon the nature of the instrument. In estimating fair values for investment securities and derivative financial instruments, the Company believes that third-party market prices are the best evidence of exit price and where available, bases its estimates on such prices. If such prices are unavailable for the instruments held by the Company, fair values are estimated using market prices of similar instruments, third-party broker quotes or a probability weighted discounted cash flow analysis. Where observable market data is unavailable or impracticable to obtain, the valuation involves substantial judgment by the Company. All key assumptions and valuations are the responsibility of management. Refer to Note 7 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company's Fair Value Measurements.

**Investment securities.** Due to the lack of observable market activity for the SLARS held by the Company, the valuation of the SLARS is highly judgmental. The Company, with the assistance of a third-party valuation firm upon which the Company in part relied, made certain assumptions, primarily relating to estimating probabilities of certain outcomes for the securities held by the Company and assessing the risk factors inherent in each. All key assumptions and valuations were determined by and are the responsibility of management. The securities were valued using an income approach based on a probability weighted discounted cash flow analysis. The Company considered each security's key terms including date of issuance, date of maturity, auction intervals, scheduled auction dates, maximum auction rates, as well as underlying collateral, ratings, and guarantees or insurance. Substantially all SLARS held by the Company have collateral backed by the Federal Family Education Loan Program (FFELP). The probabilities of auction failure, a successful auction or repurchase at par, or default by the issuer for each future period were forecasted. Default recovery rates were forecasted. The Company assumed that the issuers will continue to pay maximum interest rates on the securities until the event of either a successful auction or repurchase by the issuer, at par. To determine the fair value of each security, the weighted average cash flows for each period were discounted back to present value at the determined discount rate for each security. The discount rates used in the valuation were a combination of the liquidity risk premium assigned to the security (which ranged from 3.5% to 4.5%) plus the treasury strip yield (zero coupon treasury bond) for the individual period for which a cash flow was being discounted. The liquidity risk premiums on the SLARS have decreased by 50 basis points from December 31, 2011 due to decreasing spreads on asset backed and municipal securities and successful auction rate security transactions. A 50 basis point change in liquidity risk premium, as well as slight changes in other unobservable inputs including default probability and default recovery rate assumptions and the probability of an issuer call prior to maturity, would impact the value of the SLARS by approximately \$1 million.

As of December 31, 2012 and 2011, the Company also held investments in short-term debt securities. Many of these securities are considered cash equivalents. Prices for these securities are not quoted on active exchanges but are priced through an independent third-party pricing service based on quotations from market-makers in the specific instruments or, where appropriate, other market inputs including interest rates, benchmark yields, reported trades, issuer spreads, two sided markets, benchmark securities, bids, offers, and reference data. In certain instances, amortized cost is considered an appropriate approximation of market value. Other investments are valued based upon either quoted prices from active exchanges or available third-party broker quotes.

Changes in fair value of investment securities are recorded through the Other comprehensive income (OCI) component of equity with the exception of investment partnerships which are recorded through Investment income in the Consolidated Statements of Operations. Regardless of investment type, declines in the fair value of the investments are reviewed to determine whether they are other than temporary in nature. Absent any other indications of a decline in value being temporary in nature, the Company's policy is to treat a decline in an equity investment's quoted market price that has lasted for more than six months as an other-than-temporary decline in value. For equity securities, declines in value that are judged to be other than temporary in nature are recognized in the Consolidated Statements of Operations. For debt securities, when the

## Edgar Filing: FIRST DATA CORP - Form 10-K

Company intends to sell an impaired debt security or it is more likely than not it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary-impairment ( OTTI ) has occurred. The impairment is recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value. When the Company does not intend to sell an impaired debt security and it is not more likely than not it will be required to sell prior to recovery of its amortized cost basis, the Company assesses whether it will recover its amortized cost basis. If the entire amortized cost will not be recovered, a credit loss exists resulting in the credit loss portion of the OTTI being recognized in earnings and the amount related to all other factors recognized in OCI. Refer to Note 7 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company's Fair Value Measurements.

**Derivative financial instruments.** The Company uses derivative financial instruments to enhance its ability to manage its exposure to certain financial and market risks, primarily those related to changes in interest rates and foreign currency exchange rates. Interest rate swaps are entered into to manage interest rate risk associated with the Company's variable-rate borrowings. Cross-currency swaps for various foreign currencies are entered into to manage foreign currency exchange risk associated with the Company's initial investments in certain foreign subsidiaries or certain intercompany loans to foreign subsidiaries. Forward contracts on various foreign currencies are entered into to manage foreign currency exchange risk associated with the Company's forecasted foreign currency denominated sales or purchases. The Company's policy is to minimize its cash flow and net investment exposures related to adverse changes in interest rates and foreign currency exchange rates. The Company's objective is to engage in risk management strategies that provide adequate downside protection.

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

The Company designated interest rate swaps as cash flow hedges of forecasted interest rate payments related to its variable rate borrowings and certain of the cross-currency swaps as foreign currency hedges of its net investment in a foreign subsidiary. During 2012, 2011 and 2010, certain of the Company's interest rate swaps previously designated as hedges for accounting purposes ceased to be highly effective and the Company discontinued hedge accounting for the affected derivatives. Additionally, certain other interest rate swaps, cross-currency swaps and forward contracts on various foreign currencies did not qualify or were not designated as accounting hedges and did not receive hedge accounting treatment.

Derivative financial instruments are recognized in the Company's Consolidated Balance Sheets at their fair value. The Company's derivatives are not exchange listed and therefore the estimated fair value of derivative financial instruments is modeled in Bloomberg using the Bloomberg reported market data and the actual terms of the derivative contracts. These models reflect the contractual terms of the derivatives, such as notional value and expiration date, as well as market-based observable inputs including interest and foreign currency exchange rates, yield curves and the credit quality of the counterparties along with the Company's creditworthiness in order to appropriately reflect non-performance risk. The Company's counterparties also provide it with the indicative fair values of its derivative instruments which it compares to the results obtained using Bloomberg software. Considering Bloomberg software is a widely accepted financial modeling tool and there is limited visibility to the preparation of the third-party quotes, the Company chooses to rely on the Bloomberg software in estimating the fair value of its derivative financial instruments. Inputs to the derivative pricing models are generally observable and do not contain a high level of subjectivity. While the Company believes its estimates result in a reasonable reflection of the fair value of these instruments, the estimated values may not be representative of actual values that could have been realized as of December 31, 2012 or that will be realized in the future. All key assumptions and valuations are the responsibility of management.

With respect to derivative financial instruments that are afforded hedge accounting, the effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recorded in OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The effective portion of changes in the fair value of a net investment hedge is recorded as part of the cumulative translation adjustment in OCI. Any ineffectiveness associated with the aforementioned derivative financial instruments as well as the periodic change in the mark-to-market of the derivative financial instruments not designated as accounting hedges are recorded immediately in Other income (expense) in the Consolidated Statements of Operations. Refer to Note 6 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company's derivatives.

**Intangible assets.** FDC capitalizes initial payments for new contracts, contract renewals and conversion costs associated with customer contracts and system development costs. Capitalization of such costs is subject to strict accounting policy criteria and requires management judgment as to the appropriate time to initiate capitalization. Capitalization of initial payments for contracts and conversion costs only occurs

## Edgar Filing: FIRST DATA CORP - Form 10-K

when management is satisfied that such costs are recoverable through future operations, contractual minimums and/or penalties in case of early termination.

The Company's accounting policy is to limit the amount of capitalized costs for a given contract to the lesser of the estimated ongoing future cash flows from the contract or the termination fees the Company would receive in the event of early termination of the contract by the customer. The Company's entitlement to termination fees may, however, be subject to challenge if a customer were to allege that the Company was in breach of contract. This entitlement is also subject to the customer's ability to pay.

The Company develops software that is used in providing processing services to customers. To a lesser extent, the Company also develops software to be sold or licensed to customers. Capitalization of internally developed software, primarily associated with operating platforms, occurs only upon management's estimation that the likelihood of successful development and implementation reaches a probable level. Currently unforeseen circumstances in software development could require the Company to implement alternative plans with respect to a particular effort, which could result in the impairment of previously capitalized software development costs.

In addition to the internally generated intangible assets discussed above, the Company also acquires intangible assets through business combinations and asset acquisitions. In these transactions, the Company typically acquires and recognizes intangible assets such as customer relationships, software, and trade names. Acquired customer relationships consist of customer contracts that are within their initial terms as well as those in renewal status. The amounts recorded for these relationships include both the value of remaining contractual terms and the value of potential future renewals. These relationships are with customers such as merchants and financial institutions.

In a business combination, each intangible asset is recorded at its fair value. In an asset acquisition, the cost of the acquisition is allocated among the acquired assets, generally by their relative fair values. The Company generally estimates the fair value of acquired intangible assets using the excess earnings method, royalty savings method, or cost savings method, all of which are a form of a discounted cash flow analysis. These estimates require various assumptions about the future cash flows associated with the assets, appropriate costs of capital and other inputs such as an appropriate royalty rate. Changes to these estimates would materially impact the value assigned to the assets as well as the amounts subsequently recorded as amortization expense.

The Company tests contract and conversion costs greater than \$1 million for recoverability on an annual basis by comparing the remaining expected undiscounted cash flows under the contract to the net book value. Any assets that are determined to be unrecoverable are written down to fair value. This analysis requires significant assumptions regarding the future profitability of the customer contract during its remaining term. Additionally, contracts, conversion costs and all other long lived assets (including customer relationships) are tested for impairment upon an indicator of potential impairment. Such indicators include, but are not limited to: a current period operating or cash flow loss associated with the use of an asset or asset group, combined with a history of such losses and/or a forecast anticipating continued losses; a significant adverse change in the business, legal climate, market price of an asset or manner in which an asset is being used; an accumulation of costs for a project significantly in excess of the amount originally expected; or an expectation that an asset will be sold or otherwise disposed of at a loss.

**Goodwill.** Goodwill represents the excess of cost over the fair value of net assets acquired, including identifiable intangible assets, and has been allocated to reporting units. The Company's reporting units are businesses at the operating segment level or one level below the operating segment level for which discrete financial information is prepared and regularly reviewed by management.

The Company tests goodwill annually for impairment, as well as upon an indicator of impairment, using a fair value approach at the reporting unit level. In 2011, the Company adopted new accounting guidance that provides the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined that the fair value is more likely than not greater than the carrying amount then the two-step impairment test is unnecessary. After performing a qualitative assessment, the Company proceeded to step one of its 2011 and 2012 impairment tests. In step one of the impairment test, the Company estimates the fair value of each reporting unit using a discounted cash flow analysis. The Company believes that this methodology provides the Company with a reasonable estimate of each reporting unit's fair value. The estimate of fair value requires various assumptions about a reporting unit's future financial results and cost of capital. The Company determines the cost of capital for each reporting unit giving consideration to a number of factors including the discount rates estimated by a third-party valuation firm. All key assumptions and valuations are determined by and are the responsibility of management. If it is determined that the fair value of the reporting unit is less than its carrying value, the Company proceeds to step two of the impairment test which requires the Company to estimate the fair value of all of the reporting unit's assets and liabilities and calculate an implied fair value of goodwill, which is the difference between the reporting unit's fair value and the fair value of all its other assets and liabilities. If the implied fair value of goodwill is less than its carrying value, the shortfall is recognized as an impairment. The methodology for estimating fair value in step two varies by asset; however, the most significant assets are

## Edgar Filing: FIRST DATA CORP - Form 10-K

intangible assets. The Company estimates the fair value of the intangible assets using the excess earnings method, royalty savings method, or cost savings method, all of which are a form of a discounted cash flow analysis. An impairment charge of a reporting unit's goodwill could have a material adverse effect on the Company's financial results. Changes in the underlying business and economic conditions could affect these estimates used in the analysis discussed above, which in turn could affect the fair value of the reporting unit. Thus, it is possible for reporting units that record impairments to record additional impairments in the future.

The Company did not record any goodwill impairment charges in 2011 or 2010. As of October 1, 2012, the most recent impairment analysis date, the fair value of each reporting unit substantially exceeded its carrying value. As of December 31, 2012, these balances had not materially changed.

Discussion of impairments that were recorded is included in Note 7 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K.

**Transactions with related parties.** A substantial portion of the Company's business within the Retail and Alliance Services and International segments is conducted through merchant alliances. Merchant alliances are alliances between the Company and financial institutions. If the Company has majority ownership and management control over an alliance, then the alliance's financial statements are consolidated with those of the Company and the related processing fees are treated as an intercompany transaction and eliminated upon consolidation. If the Company does not have a controlling ownership interest in an alliance, it uses the equity method of accounting to account for its investment in the alliance. As a result, the Company's consolidated revenues include processing fees charged to alliances accounted for under the equity method. No directors or officers of the Company have ownership interests in any of the alliances. The formation of each of these alliances generally involves the Company and the bank contributing contractual merchant relationships to the alliance and a cash payment from one owner to the other to achieve the desired ownership percentage for each. The Company and the bank contract a long-term processing service agreement as part of the negotiation process. This agreement governs the Company's provision of transaction processing services to the alliance.

The Company negotiated all agreements with the alliance banks. Therefore, all transactions between the Company and its alliances were conducted at arm's length; nevertheless, accounting guidance defines a transaction between the Company and an equity method investee as a related party transaction requiring separate disclosure in the financial statements of the Company. Accordingly, the revenue associated with these related party transactions are presented on the face of the Consolidated Statements of Operations.

All members of the Company's Board of Directors are affiliated with KKR. In addition, First Data has a management agreement with affiliates of KKR pursuant to which such entities or their affiliates provide management services to the Company. Pursuant to such agreement, the Company pays an aggregate annual base management fee and reimburses out-of-pocket expenses incurred in connection with the provision of services pursuant to the agreement. The agreement provides that the Company will pay fees in connection with certain subsequent financing, acquisition, disposition and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the management agreement, in the event of an initial public offering or under certain other circumstances. The agreement also includes customary exculpation and indemnification provisions in favor of KKR and its affiliates. The Company also paid fees to an affiliate of KKR for services in extending maturities under its senior secured lending facility and issuing new secured notes.

Refer to Note 10 to the Company's Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding transactions with related parties.

#### **New Accounting Guidance**

In July 2012, the Financial Accounting Standards Board issued guidance related to testing indefinite-lived intangibles for impairment. Under the amended guidance, an entity has the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If it is determined that the fair value is more likely than not greater than the carrying amount, then quantitative impairment testing is unnecessary. The Company adopted the



amendments for its 2012 annual impairment test. After performing a qualitative assessment, the Company proceeded to a quantitative impairment test.

### **Forward-Looking Statements**

Certain matters the Company discusses in this Annual Report on Form 10-K 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, plans, estimates, or anticipates or similar expressions which concern the Company's strategy, plans, projections or intentions. Examples of forward-looking statements include, but are not limited to, all statements the Company makes relating to revenue, EBITDA, earnings, margins, growth rates and other financial results for future periods. Forward-looking statements are based on the Company's current expectations and assumptions regarding its business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company's actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of

## Edgar Filing: FIRST DATA CORP - Form 10-K

future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include:

- (a) no adverse impact on the Company's business as a result of its high degree of leverage;
- (b) no adverse impacts from any increase or spread of the European crisis involving sovereign debt and the Euro;
- (c) no adverse impacts from currency exchange rates or currency controls imposed by any government or otherwise;
- (d) successful conversions under service contracts with major clients;
- (e) successfully adjusting to the new U.S. financial regulatory reform legislation and regulations;
- (f) successful implementation and improvement of processing systems to provide new products, improved functionality and increased efficiencies;
- (g) anticipation of and response to technological changes, particularly with respect to e-commerce and mobile commerce;
- (h) no further consolidation among client financial institutions or other client groups which has a significant impact on Company client relationships and no material loss of business from significant customers of the Company;
- (i) achieving planned revenue growth throughout the Company, including in the merchant alliance program which involves several alliances not under the sole control of the Company and each of which acts independently of the others, and successful management of pricing pressures through cost efficiencies and other cost-management initiatives;
- (j) successfully managing the credit and fraud risks in the Company's business units and the merchant alliances, particularly in e-commerce and mobile markets;
- (k) no material breach of security of any of the Company's systems;

## Edgar Filing: FIRST DATA CORP - Form 10-K

(l) continuing development and maintenance of appropriate business continuity plans for the Company's processing systems based on the needs and risks relative to each such system;

(m) no unanticipated changes in laws, regulations, credit card association rules or other industry standards affecting the Company's businesses which require significant product redevelopment efforts, reduce the market for or value of its products or render products obsolete;

(n) continuation of the existing interest rate environment so as to avoid unanticipated increases in interest on the Company's borrowings;

(o) no significant adverse movement in foreign currency exchange rates;

(p) no unanticipated developments relating to lawsuits, investigations or similar matters;

(q) no catastrophic events that could impact the Company's or its major customer's operating facilities, communication systems and technology or that has a material negative impact on current economic conditions or levels of consumer spending; and

(r) successfully managing the potential both for patent protection and patent liability.

Variations from these assumptions or failure to achieve these objectives could cause actual results to differ from those projected in the forward-looking statements. Factors or events that could cause the Company's actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. Any forward-looking statement made by the Company speaks only as of the date on which it was made. The Company assumes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes to projections over time, except as may be required by law. Due to the uncertainties inherent in forward-looking statements, readers are urged not to place undue reliance on these statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

**Interest Rate Risk**

The Company is exposed to market risk from changes in interest rates. The Company's assets include both fixed and floating rate interest-bearing securities. These investments arise primarily from settlement funds held by the Company associated with the official check business and merchant acquiring business. The Company invests these funds pending settlement. The Company has classified these investments as available-for-sale. Accordingly, they are carried on the Company's Consolidated Balance Sheets at fair market value. The continued wind-down of the official check business resulted in a decrease in its investment portfolio balance during the year ended December 31, 2012.

The Company's interest rate-sensitive liabilities are its debt instruments. The Company's senior secured term loan facility is subject to variable interest rates. The Company has interest rate swaps on \$5.0 billion of the variable rate debt that convert it to fixed rates that expire in September 2016. In addition, the Company has a fixed to floating interest rate swap with a notional value of \$750 million expiring in June 2019, to maintain its ratio of fixed to floating rate debt. Therefore, as of December 31, 2012, the Company had approximately \$4.1 billion of variable rate debt that is not subject to a fixed rate swap and includes the fixed to floating interest rate swap.

Using the December 31, 2012 balances, a 10% proportionate increase in short-term interest rates on an annualized basis compared to the interest rates as of December 31, 2012, which for the three month LIBOR was 0.3060%, and a corresponding and parallel shift in the remainder of the yield curve, would result in a decrease to pretax income of \$0.5 million. The \$0.5 million decrease to pretax income (due to a 10% increase in variable rates as of December 31, 2012) is a combination of the following: a) \$1.1 million increase in interest expense related to the Company's balance of variable interest rate debt, net of interest rate swaps, and b) \$0.6 million increase in interest income associated with operating cash balances, settlement related cash balances, and investment positions. Conversely, a corresponding decrease in interest rates would result in a comparable increase to pretax income. Actual interest rates could change significantly more than 10%. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that interest rate movements are linear and instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, which may positively or negatively affect income.

**Foreign Currency Risk**

The Company is exposed to changes in currency rates as a result of its investments in foreign operations, revenues generated in currencies other than the U.S. dollar and foreign currency denominated loans. Revenue and profit generated by international operations will increase or decrease compared to prior periods as a result of changes in foreign currency exchange rates.

A hypothetical uniform 10% weakening in the value of the U.S. dollar relative to all the currencies in which the Company's revenues and profits are denominated would result in a decrease to pretax income of approximately \$0.2 million. The decrease results from an \$80.1 million decrease related to a euro-denominated term loan held by the Company as well as a \$12.2 million decrease related to three euro-denominated cross-currency swaps held by the Company, assuming consistent operating results as the twelve months preceding December 31, 2012. This decrease is partially offset by a \$77.3 million increase related to foreign exchange on intercompany loans and a \$14.8 million increase related to foreign exchange on foreign currency earnings. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that foreign exchange rate movements are linear and instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, which may positively or negatively affect income.

**Regulatory**

Through its merchant alliances, the Retail and Alliance Services segment holds an ownership interest in several competing merchant acquiring businesses while serving as the electronic processor for those businesses. In order to satisfy state and federal antitrust requirements, the Company actively maintains an antitrust compliance program.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**FIRST DATA CORPORATION**

**INDEX TO FINANCIAL STATEMENTS**

**COVERED BY REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

(Item 15(a))

First Data Corporation and Subsidiaries:

Consolidated Financial Statements:

Report of Ernst & Young LLP, Independent Registered Public Accounting Firm

57

Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010

58

Consolidated Statements of Comprehensive Income (Loss) for the years ended December 31, 2012, 2011 and 2010

59

Consolidated Balance Sheets as of December 31, 2012 and 2011

60

Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010

61

Consolidated Statements of Equity for the years ended December 31, 2012, 2011 and 2010

62

Notes to the Consolidated Financial Statements

63

Schedules:

Schedule II Valuation and Qualifying Accounts

127

All other schedules for First Data Corporation and subsidiaries have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the respective financial statements or notes thereto.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder of First Data Corporation

We have audited the accompanying consolidated balance sheets of First Data Corporation as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), cash flows and equity for each of the three years in the period ended December 31, 2012. Our audits also include the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Data Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Data Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 19, 2013 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 19, 2013

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

(in millions)	Year ended December 31,		
	2012	2011	2010
<b>Revenues:</b>			
Transaction and processing service fees:			
Merchant related services (a)	\$ 3,896.3	\$ 3,692.8	\$ 3,521.3
Check services	313.9	338.2	378.8
Card services	1,737.7	1,750.6	1,735.8
Other services	504.2	548.4	545.6
Product sales and other (a)	866.7	852.1	809.3
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6
	10,680.3	10,713.6	10,380.4
<b>Expenses:</b>			
Cost of services (exclusive of items shown below)	2,863.5	2,888.4	3,023.3
Cost of products sold	336.3	369.6	375.2
Selling, general and administrative	1,825.4	1,693.7	1,579.7
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6
Depreciation and amortization	1,191.6	1,245.0	1,414.4
<b>Other operating expenses:</b>			
Restructuring, net	23.1	46.4	72.0
Impairments	5.1		11.5
Litigation and regulatory settlements		(2.5)	(2.0)
	9,606.5	9,772.1	9,863.7
Operating profit	1,073.8	941.5	516.7
Interest income	8.8	7.9	7.8
Interest expense	(1,897.8)	(1,833.1)	(1,796.6)
Other income (expense)	(94.3)	124.1	(15.9)
	(1,983.3)	(1,701.1)	(1,804.7)
Loss before income taxes and equity earnings in affiliates	(909.5)	(759.6)	(1,288.0)
Income tax benefit	(224.0)	(270.1)	(323.8)
Equity earnings in affiliates	158.2	153.4	117.3
Net loss	(527.3)	(336.1)	(846.9)
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	173.6	180.0	174.9
Net loss attributable to First Data Corporation	\$ (700.9)	\$ (516.1)	\$ (1,021.8)

(a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of \$159.8 million, \$146.0 million and \$134.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

See Notes to Consolidated Financial Statements.



## FIRST DATA CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(in millions)	Year ended December 31,		
	2012	2011	2010
Net loss	\$ (527.3)	\$ (336.1)	\$ (846.9)
Other comprehensive income (loss), net of tax:			
Unrealized gains on securities	0.2	0.8	27.5
Unrealized gains on hedging activities	72.2	99.6	70.3
Pension liability adjustments	(38.6)	(23.9)	28.5
Foreign currency translation adjustment	15.7	(44.9)	(84.6)
Total other comprehensive income, net of tax	49.5	31.6	41.7
Comprehensive loss	(477.8)	(304.5)	(805.2)
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interests	176.9	173.1	171.8
Comprehensive loss attributable to First Data Corporation	\$ (654.7)	\$ (477.6)	\$ (977.0)

See Notes to Consolidated Financial Statements.

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

(in millions, except common stock share amounts)	As of December 31,	
	2012	2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 608.3	\$ 485.7
Accounts receivable, net of allowance for doubtful accounts of \$33.3 (2012) and \$18.1 (2011)	1,847.7	1,848.6
Settlement assets	9,173.8	10,658.3
Other current assets	253.6	322.9
<b>Total current assets</b>	<b>11,883.4</b>	<b>13,315.5</b>
Property and equipment, net of accumulated depreciation of \$1,024.3 (2012) and \$842.9 (2011)	855.8	935.9
Goodwill	17,282.5	17,204.6
Customer relationships, net of accumulated amortization of \$3,839.0 (2012) and \$3,212.7 (2011)	3,756.3	4,425.4
Other intangibles, net of accumulated amortization of \$1,544.0 (2012) and \$1,282.2 (2011)	1,828.6	1,879.2
Investment in affiliates	1,413.1	1,490.6
Long-term settlement assets	54.3	181.0
Other long-term assets	825.0	844.1
<b>Total assets</b>	<b>\$ 37,899.0</b>	<b>\$ 40,276.3</b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 260.9	\$ 205.9
Short-term and current portion of long-term borrowings	257.1	133.4
Settlement obligations	9,226.3	10,837.8
Other current liabilities	1,600.6	1,643.1
<b>Total current liabilities</b>	<b>11,344.9</b>	<b>12,820.2</b>
Long-term borrowings	22,528.9	22,521.7
Long-term deferred tax liabilities	509.5	695.4
Other long-term liabilities	821.9	763.6
<b>Total liabilities</b>	<b>35,205.2</b>	<b>36,800.9</b>
Commitments and contingencies (See Note 11)		
Redeemable noncontrolling interest	67.4	67.4
First Data Corporation stockholder's (deficit) equity:		
Common stock, \$.01 par value; authorized and issued 1,000 shares (2012 and 2011)		
Additional paid-in capital	7,341.5	7,375.2
Paid-in capital	7,341.5	7,375.2
Accumulated loss	(7,387.8)	(6,680.2)
Accumulated other comprehensive loss	(552.2)	(598.4)
<b>Total First Data Corporation stockholder's (deficit) equity</b>	<b>(598.5)</b>	<b>96.6</b>
Noncontrolling interests	3,224.9	3,311.4
<b>Total equity</b>	<b>2,626.4</b>	<b>3,408.0</b>
<b>Total liabilities and equity</b>	<b>\$ 37,899.0</b>	<b>\$ 40,276.3</b>

See Notes to Consolidated Financial Statements.



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

(in millions)	Year ended December 31,		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net loss	\$ (527.3)	\$ (336.1)	\$ (846.9)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1,330.9	1,344.2	1,526.0
Charges (gains) related to other operating expenses and other income (expense)	122.5	(77.7)	97.4
Other non-cash and non-operating items, net	(40.2)	27.7	265.6
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:			
Accounts receivable, current and long-term	(49.8)	256.7	224.7
Other assets, current and long-term	260.0	239.3	298.3
Accounts payable and other liabilities, current and long-term	(34.6)	(1.2)	(386.1)
Income tax accounts	(294.1)	(337.3)	(424.3)
Net cash provided by operating activities	767.4	1,115.6	754.7
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Current year acquisitions, net of cash acquired	(32.9)	(19.2)	(1.8)
Contributions to equity method investments	(7.9)	(161.5)	(1.4)
Payments related to other businesses previously acquired	(4.4)	3.2	(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed		1.7	21.2
Proceeds from sale of property and equipment	8.0	17.1	5.5
Additions to property and equipment	(193.1)	(202.9)	(210.1)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(177.2)	(201.9)	(159.6)
Other investing activities	10.4	4.9	18.4
Net cash used in investing activities	(397.1)	(558.6)	(329.2)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short-term borrowings, net	99.1	(107.3)	75.1
Accrued interest funded upon issuance of notes	6.5		
Debt modification proceeds (payments) and related financing costs	10.8	(39.7)	(61.2)
Principal payments on long-term debt	(83.3)	(104.5)	(220.4)
Proceeds from sale-leaseback transactions	13.8	14.2	
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(261.9)	(327.3)	(216.1)
Contributions from noncontrolling interests		0.8	
Purchase of noncontrolling interests	(25.1)		(213.3)
Redemption of Parent's redeemable common stock	(1.7)	(0.5)	(2.5)
Cash dividends	(6.7)	(0.2)	(14.9)
Net cash used in financing activities	(248.5)	(564.5)	(653.3)
Effect of exchange rate changes on cash and cash equivalents	0.8	(16.3)	0.3
Change in cash and cash equivalents	122.6	(23.8)	(227.5)
Cash and cash equivalents at beginning of period	485.7	509.5	737.0
Cash and cash equivalents at end of period	\$ 608.3	\$ 485.7	\$ 509.5

See Notes to Consolidated Financial Statements.



**FIRST DATA CORPORATION**  
**CONSOLIDATED STATEMENTS OF EQUITY**

(in millions)	First Data Corporation Shareholder Accumulated					
	Total	Accumulated Loss	Other Comprehensive Income (Loss)	Common Shares	Paid-In Capital	Noncontrolling Interests
Balance, December 31, 2009	\$ 5,100.1	\$ (5,127.3)	\$ (681.7)		\$ 7,394.3	\$ 3,514.8
Distributions and dividends paid to noncontrolling interests	(188.5)					(188.5)
Purchase of noncontrolling interest	(5.0)				(7.5)	2.5
Net (loss) income (a)	(881.9)	(1,021.8)				139.9
Other comprehensive income (loss)	41.7		44.8			(3.1)
Adjustment to redemption value of redeemable noncontrolling interests	(7.0)				(7.0)	
Stock compensation expense and other	15.4	0.1			15.3	
Cash dividends paid by First Data Corporation to Parent	(14.9)	(14.9)				
Balance, December 31, 2010	4,059.9	(6,163.9)	(636.9)		7,395.1	3,465.6
Distributions and dividends paid to noncontrolling interests	(296.1)					(296.1)
Contributions from noncontrolling interests	0.8					0.8
Net (loss) income (a)	(368.1)	(516.1)				148.0
Other comprehensive income (loss)	31.6		38.5			(6.9)
Adjustments to redemption value of redeemable noncontrolling interest	(38.6)				(38.6)	
Stock compensation expense and other	18.7				18.7	
Cash dividends paid by First Data Corporation to Parent	(0.2)	(0.2)				
Balance, December 31, 2011	3,408.0	(6,680.2)	(598.4)		7,375.2	3,311.4
Distributions and dividends paid to noncontrolling interests	(225.9)					(225.9)
Net (loss) income (a)	(563.3)	(700.9)				137.6
Other comprehensive income	49.5		46.2			3.3
Stock compensation expense and other	12.4				12.4	
Cash dividends paid by First Data Corporation to Parent	(6.7)	(6.7)				
Purchase of noncontrolling interest	(47.6)				(46.1)	(1.5)
Balance, December 31, 2012	\$ 2,626.4	\$ (7,387.8)	\$ (552.2)		\$ 7,341.5	\$ 3,224.9

(a) The total net loss presented in the Consolidated Statements of Equity for the twelve months ended December 31, 2012, 2011 and 2010 is \$36.0 million, \$32.0 million and \$35.0 million, respectively, greater than the amount presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interests not included in equity.

See Notes to Consolidated Financial Statements.



**FIRST DATA CORPORATION**

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1: Summary of Significant Accounting Policies**

**Business Description**

First Data Corporation ( FDC or the Company ) operates electronic commerce businesses providing a variety of services to financial institutions, commercial establishments and consumers. Such services include merchant transaction processing and acquiring; credit, retail and debit card issuing and processing; prepaid services and check verification, settlement and guarantee services.

**Consolidation**

The accompanying Consolidated Financial Statements of FDC include the accounts of FDC and its controlled subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in unconsolidated affiliated companies are accounted for under the equity method and are included in Investment in affiliates in the accompanying Consolidated Balance Sheets. The Company generally utilizes the equity method of accounting when it has an ownership interest of between 20% and 50% in an entity, provided the Company is able to exercise significant influence over the investee's operations.

The Company consolidates an entity's financial statements when the Company either will absorb a majority of the entity's expected losses or residual returns, in the case of a variable interest entity, or has the ability to exert control over a subsidiary. Control is normally established when ownership interests exceed 50% in an entity; however, when the Company does not exercise control over a majority-owned entity as a result of other investors having rights over the management and operations of the entity, the Company accounts for the entity under the equity method. As of December 31, 2012 and 2011, there were no greater-than-50%-owned affiliates whose financial statements were not consolidated.

**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 those estimates.

**Presentation**



## Edgar Filing: FIRST DATA CORP - Form 10-K

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)	Year ended December 31,		
	2012	2011	2010
Amortization of initial payments for new contracts	\$ 44.5	\$ 42.5	\$ 38.6
Amortization related to equity method investments	\$ 94.8	\$ 56.7	\$ 73.0

In 2011, the Company recorded a net \$58.5 million pretax (\$35.2 million after tax) benefit in the Consolidated Statement of Operations to correct cumulative depreciation and amortization errors related to purchase accounting associated with the Company's 2007 merger with an affiliate of Kohlberg Kravis Roberts & Co. The corrections impacted Costs of services (\$10.2 million expense), Depreciation and amortization (\$57.7 million benefit) and amortization of equity method investments within Equity earnings in affiliates (\$11.0 million benefit). The errors and the cumulative correction, which totaled \$58.5 million in aggregate and occurred over a four year period, were deemed immaterial to prior years and the current year, respectively.

### Revenue Recognition

The majority of the Company's revenues are comprised of transaction-based fees, which typically constitute a percentage of dollar volume processed, or a fee per transaction processed, or account on file or some combination thereof. In limited circumstances, revenue is allocated to the separate units of accounting in a multiple element transaction based on relative selling prices, provided each element has stand alone value to the customer, and delivery of any undelivered items is probable and substantially within the Company's control.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In the case of merchant contracts that the Company owns and manages, revenue is primarily comprised of fees charged to the merchant, net of interchange and assessments charged by the credit card associations, and is recognized at the time of sale. The fees charged to the merchant are a percentage of the credit card and signature based debit card transaction's dollar value, a fixed amount or a combination of the two. Personal identification number based debit ( PIN-debit ) network fees are recognized in Reimbursable debit network fees, postage and other revenues and expenses in the Consolidated Statements of Operations. STAR network access fees charged to merchants are assessed on a per transaction basis.

Interchange fees and assessments charged by credit card associations to the Company's consolidated subsidiaries and network fees related to PIN-debit transactions charged by debit networks are as follows:

(in millions)	Year ended December 31,		
	2012	2011	2010
Interchange fees and assessments	\$ 18,373.0	\$ 18,826.1	\$ 17,834.8
Debit network fees	2,786.3	2,959.1	2,798.3

The Company charges processing fees to its merchant alliances. In situations where an alliance is accounted for under the equity method, the Company's consolidated revenues include the processing fees charged to the alliance, as presented on the face of the Consolidated Statements of Operations.

Revenue from check verification, settlement and guarantee services is recognized at the time of sale less the fair value of the guarantee. The fair value of the guarantee is deferred until the later of the Company being called upon to honor the guarantee or the expiration of the guarantee. Check verification fees generally are a fixed amount per transaction while check guarantee fees generally are a percentage of the check amount.

The purchase and sale of merchant contracts is an ordinary element of the Company's Retail and Alliance Services and International businesses, and therefore, the gains from selling these revenue-generating assets are included within the Product sales and other component of revenues.

Fees based on cardholder accounts on file, both active and inactive, are recognized after the requisite services or period has occurred. Fees for PIN-debit transactions where the Company is the debit card processor for the financial institution are recognized on a per transaction basis. Revenues for output services are derived primarily on a per piece basis and consist of fees for the production, materials and postage related to mailing finished products.

Software licensing revenue, which is reported in the Product sales and other line item of the Consolidated Statements of Operations, is not recognized until each of the following four criteria are met: evidence of an agreement exists, delivery and acceptance has occurred or services have been rendered, the selling price is fixed or determinable, and collection of the selling price is reasonably assured.

## Edgar Filing: FIRST DATA CORP - Form 10-K

The sale and leasing of point-of-sale ( POS ) devices ( terminals ) are also reported in Product sales and other . Revenue for terminals sold or sold under a sales-type lease transaction is recognized when the following four criteria are met: evidence of an agreement exists, delivery has occurred, the selling price or minimum lease payments are fixed or determinable, and collection of the selling price or minimum lease payments is reasonably assured. Revenue for operating leases is recognized on a straight-line basis over the lease term.

The official check and money order services and merchant acquiring business generate revenue through the ability to invest funds pending settlement. Gains and losses associated with the above noted investments are recognized in revenue.

Services not specifically described above are generally transaction based fees that are recognized at the time the transactions are processed or programming services that are recorded as work is performed.

### **Stock-Based Compensation**

Stock-based compensation to employees is measured at the grant date fair values of the respective stock options and restricted stock awards and expensed over the requisite service periods. An estimate of forfeitures is applied when calculating compensation expense. The Company recognizes compensation cost on awards with graded vesting on a straight-line basis over the requisite service period for the entire award. During 2010, the Company modified the terms of its plan and, due to the nature of call rights and vesting conditions associated with the options and awards, the Company will recognize expense associated with the modifications and grants subsequent to the modifications only upon the occurrence of certain liquidity or employment termination events. Refer to Note 13 of these Consolidated Financial Statements for details regarding the Company s stock-based compensation plan.

**FIRST DATA CORPORATION**

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

**Foreign Currency Translation**

The U.S. dollar is the functional currency for most of the Company's U.S. based businesses and certain foreign based businesses. Significant operations with a local currency as their functional currency include operations in the United Kingdom, Australia, Germany, Ireland, Greece and Argentina. Foreign currency denominated assets and liabilities for these units and other less significant operations are translated into U.S. dollars based on exchange rates prevailing at the end of the period, and revenues and expenses are translated at average exchange rates during each monthly period. The effects of foreign exchange gains and losses arising from the translation of assets and liabilities of those entities where the functional currency is not the U.S. dollar are included as a component of Other Comprehensive Income (OCI). Intercompany loans are generally not considered invested on a long-term basis and such foreign currency gains and losses are recorded in income. Transaction gains and losses related to operating assets and liabilities are included in the Cost of services and Selling, general and administrative lines of the Consolidated Statements of Operations and were immaterial. Non-operating transaction gains and losses derived from non-operating assets and liabilities are included in the Other income (expense) line of the Consolidated Statements of Operations and are separately disclosed in Note 9 of these Consolidated Financial Statements.

**Derivative Financial Instruments**

The Company utilizes derivative instruments to enhance its ability to manage interest rate risk and foreign exchange risk. The Company recognizes all derivative financial instruments in the Consolidated Balance Sheets as assets or liabilities at fair value. Such amounts are recorded in either the Other current assets, Other long-term assets, Other current liabilities or Other long-term liabilities captions in the Consolidated Balance Sheets. The Company's policy is to present all derivative balances on a gross basis, without regard to counterparty master netting agreements or similar arrangements. Changes in fair value of derivative instruments are recognized immediately in earnings unless the derivative is designated and qualifies as a hedge of future cash flows or a hedge of a net investment in a foreign operation. For derivatives that qualify as hedges of future cash flows, the effective portion of changes in fair value is recorded temporarily in equity as a component of OCI and then recognized in earnings in the same period or periods during which the hedged item affects earnings. For derivatives that qualify as a hedge of a net investment in a foreign operation, the gain or loss is reported in OCI as part of the cumulative translation adjustment to the extent the hedge is effective. Any ineffective portions of cash flow hedges and net investment hedges are recognized in the Other income (expense) line in the Consolidated Statements of Operations during the period of change. Additional discussion of derivative instruments is provided in Note 6 of these Consolidated Financial Statements.

**Noncontrolling and Redeemable Noncontrolling Interests**

Noncontrolling interests represent the minority shareholders' share of the net income or loss and equity in consolidated subsidiaries. Substantially all of the Company's noncontrolling interests are presented pretax in the Consolidated Statements of Operations as Net income attributable to noncontrolling interests since the majority of the Company's non-wholly owned consolidated subsidiaries are flow through entities for tax purposes. Noncontrolling interests are presented as a component of equity in the Consolidated Balance Sheets and reflect the original investments by these noncontrolling shareholders in the consolidated subsidiaries, along with their proportionate share of the earnings or losses of the subsidiaries, net of dividends or distributions. Noncontrolling interests that are redeemable at the option of the holder are presented outside of equity and are carried at their estimated redemption value. A noncontrolling interest is recorded on the date of acquisition based on the total fair value of the acquired entity and the noncontrolling interest's share of that value.

**Reserve for Merchant Credit Losses and Check Guarantees**

With respect to the merchant acquiring business, the Company's merchant customers (or those of its unconsolidated alliances) have the liability for any charges properly reversed by the cardholder. In the event, however, that the Company is not able to collect such amounts from the merchants due to merchant fraud, insolvency, bankruptcy or another reason, the Company may be liable for any such reversed charges. The Company's risk in this area primarily relates to situations where the cardholder has purchased goods or services to be delivered in the future such as airline tickets.

The Company's obligation to stand ready to perform is minimal in relation to the total dollar volume processed. The Company requires cash deposits, guarantees, letters of credit or other types of collateral from certain merchants to minimize this obligation. Collateral held by the Company is classified within Settlement assets and the obligation to repay the collateral if it is not needed is classified within Settlement obligations on the Company's Consolidated Balance Sheets. The Company also utilizes a number of systems and procedures to manage merchant risk. Despite these efforts, the Company historically has experienced some level of losses due to merchant defaults.

The Company's contingent obligation relates to imprecision in its estimates of required collateral. A provision for this obligation is recorded based primarily on historical experience of credit losses and other relevant factors such as economic downturns or increases in merchant fraud. Merchant credit losses are included in Cost of services in the Company's Consolidated Statements of

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Operations. The amount of the reserves attributable to entities consolidated by the Company was \$23.4 million and \$31.6 million as of December 31, 2012 and 2011, respectively.

The majority of the TeleCheck Services, Inc. ( TeleCheck ) business involves the guarantee of checks received by merchants. If the check is returned, TeleCheck is required to purchase the check from the merchant at its face value and pursue collection from the check writer. A provision for estimated check returns, net of anticipated recoveries, is recorded at the transaction inception based on recent history. The following table presents the accrued warranty and recovery balances:

(in millions)	As of December 31,			
		2012		2011
Accrued warranty balances	\$	10.9	\$	11.4
Accrued recovery balances	\$	24.8	\$	26.8

Accrued warranties are included in Other current liabilities and accrued recoveries are included in Accounts receivable in the Consolidated Balance Sheets. The maximum potential future payments under the guarantees were estimated by the Company to be approximately \$1.3 billion as of December 31, 2012 which represented an estimate of the total uncleared checks at that time.

### Income Taxes

The Company and its domestic subsidiaries file a consolidated U.S. income tax return with their parent, First Data Holdings, Inc. ( Holdings ). The Company's foreign operations file income tax returns in their local jurisdictions. Income taxes are computed in accordance with current accounting guidance and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. The Company has deferred tax assets and liabilities and maintains valuation allowances where it is more likely than not that all or a portion of deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, then these deferred tax assets will be adjusted through the Company's provision for income taxes in the period in which this determination is made.

The Company recognizes the tax benefits from uncertain tax positions only when it is more likely than not, based on the technical merits of the position, that the tax position will be sustained upon examination, including the resolution of any related appeals or litigation. The tax benefits recognized in the consolidated financial statements from such a position are measured as the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution.

### Cash and Cash Equivalents

Investments (other than those included in settlement assets) with original maturities of three months or less (that are readily convertible to cash) are considered to be cash equivalents and are stated at cost, which approximates market value. Cash and cash equivalents that were restricted from use due to regulatory requirements are included in Other long-term assets in the Consolidated Balance Sheets and were immaterial as of December 31, 2012 and 2011.

#### **Accounts Receivable and Leasing Receivables**

Accounts receivable balances are stated net of allowance for doubtful accounts. Historically, the Company has not incurred significant write-offs. The Company records allowances for doubtful accounts when it is probable that the accounts receivable balance will not be collected. Long-term accounts receivable balances are included in Other long-term assets in the Consolidated Balance Sheets.

The Company has receivables associated with its point-of-sale ( POS ) terminal leasing businesses. Leasing receivables are included in Accounts receivable and Other long-term assets in the Consolidated Balance Sheets. The Company recognizes interest income on its leasing receivables using the effective interest method. Interest income from leasing receivables is included in Product Sales and Other in the Consolidated Statements of Operations. For direct financing leases, the interest rate used incorporates initial direct costs included in the net investment in the lease. For sales type leases, initial direct costs are expensed as incurred.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the lesser of the estimated useful life of the related assets (generally three to 10 years for equipment, furniture and leasehold improvements, and 30 years for buildings) or the lease term. Maintenance and repairs which do not extend the useful life of the respective assets are charged to expense as incurred. The following table presents the amounts charged to expense for the depreciation and amortization of property and equipment, including equipment under capital lease:

Year ended December 31, (in millions)	Amount
2012	\$ 284.5
2011	292.1
2010	320.4

**Goodwill and Other Intangibles**

Goodwill represents the excess of purchase price over tangible and intangible assets acquired less liabilities assumed arising from business combinations. Goodwill is generally allocated to reporting units based upon relative fair value (taking into consideration other factors such as synergies) when an acquired business is integrated into multiple reporting units. The Company's reporting units are at the operating segment level or businesses one level below the operating segment level for which discrete financial information is prepared and regularly reviewed by management. When a business within a reporting unit is disposed of, goodwill is allocated to the disposed business using the relative fair value method. Relative fair value is estimated using a discounted cash flow analysis.

The Company tests goodwill annually for impairment, as well as upon an indicator of impairment, using a fair value approach at the reporting unit level. The Company estimates the fair value of each reporting unit using a discounted cash flow analysis. The Company performed its annual goodwill impairment test in the fourth quarters of 2012, 2011 and 2010. As of October 1, 2012, the most recent impairment analysis date, the fair value of each reporting unit substantially exceeded its carrying value. The Company did not record any goodwill impairment charges in 2011 or 2010. Discussion of impairments that were recorded in 2012 is included in Note 7 of these Consolidated Financial Statements.

Customer relationships represent the estimated value of the Company's relationships with customers, primarily merchants and financial institutions, to which it provides services. Customer relationships are amortized based on the pattern of undiscounted cash flows for the period as a percentage of total projected undiscounted cash flows. The Company selected this amortization method for these customer relationships based on a conclusion that the projected undiscounted cash flows could be reliably determined.



## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company capitalizes initial payments for new contracts, contract renewals and conversion costs associated with customer processing relationships to the extent recoverable through future operations, contractual minimums and/or penalties in the case of early termination. The Company's accounting policy is to limit the amount of capitalized costs for a given contract to the lesser of the estimated ongoing future cash flows from the contract or the termination fees the Company would receive in the event of early termination of the contract by the customer. The initial payments for new contracts and contract renewals are amortized over the term of the contract as a reduction of the associated revenue (transaction and processing service fees). Conversion costs are also amortized over the term of the contract but are recorded as an expense in Depreciation and amortization in the Consolidated Statements of Operations.

The Company develops software that is used in providing processing services to customers. To a lesser extent, the Company also develops software to be sold or licensed to customers. Software development costs are capitalized once technological feasibility of the software has been established. Costs incurred prior to establishing technological feasibility are expensed as incurred. Technological feasibility is established when the Company has completed all planning, designing, coding and testing activities that are necessary to determine that a product can be produced to meet its design specifications, including functions, features and technical performance requirements. Capitalization of costs ceases when the product is available for general use. Software development costs are amortized using the straight-line method over the estimated useful life of the software, which is generally five years. Software acquired in connection with business combinations is amortized using the straight-line method over the estimated useful life of the software which generally ranges from three to 10 years.

In addition to capitalized contract and software development costs, other intangibles include copyrights, patents, purchased software, trademarks and non-compete agreements acquired in business combinations. Other intangibles, except for the First Data trade name discussed below, are amortized on a straight-line basis over the length of the contract or benefit period, which generally

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

ranges from three to 25 years. The intangible amortization expense associated with customer relationships and other intangibles, including amortization associated with investments in affiliates, was as follows:

Year ended December 31, (in millions)	Amount
2012	\$ 1,046.4
2011	1,052.1
2010	1,205.6

The value of the First Data trade name is \$603.5 million as of December 31, 2012 and 2011. Upon consideration of many factors, including the determination that there are no legal, regulatory or contractual provisions that limit the useful life of the First Data trade name, the Company determined that the First Data trade name had an indefinite useful life. The Company also considered the effects of obsolescence, demand, competition, other economic factors and ability to maintain and protect the trade name without significant expenditures. The First Data trade name is expected to contribute directly or indirectly to the future cash flows of the Company for an indefinite period. As an indefinite lived asset, the First Data trade name is not amortized but is reviewed annually for impairment until such time as it is determined to have a finite life. The First Data trade name was not impaired as of December 31, 2012 or 2011.

The following table provides the components of other intangibles:

(in millions)	2012		As of December 31, 2012		2011		2011	
	Cost	Accumulated Amortization	Net of Accumulated Amortization	Cost	Accumulated Amortization	Net of Accumulated Amortization	Cost	Accumulated Amortization
Customer relationships	\$ 7,595.3	\$ (3,839.0)	\$ 3,756.3	\$ 7,638.1	\$ (3,212.7)	\$ 4,425.4		
Other intangibles:								
Conversion costs	\$ 154.3	\$ (56.7)	\$ 97.6	\$ 120.9	\$ (38.9)	\$ 82.0		
Contract costs	222.2	(119.6)	102.6	189.9	(88.3)	101.6		
Software	1,544.7	(1,098.0)	446.7	1,402.4	(933.0)	469.4		
Other, including trade names	1,451.4	(269.7)	1,181.7	1,448.2	(222.0)	1,226.2		
Total other intangibles	\$ 3,372.6	\$ (1,544.0)	\$ 1,828.6	\$ 3,161.4	\$ (1,282.2)	\$ 1,879.2		

The estimated future aggregate amortization expense for the next five years is as follows:

Year ended December 31, (in millions)	Amount
2013	\$ 833.7

## Edgar Filing: FIRST DATA CORP - Form 10-K

2014	748.0
2015	662.7
2016	507.5
2017	427.9

The Company tests contract and conversion costs greater than \$1 million for recoverability on an annual basis by comparing the remaining expected undiscounted cash flows under the contract to the net book value. Any assets that are determined to be unrecoverable are written down to their fair value. In addition to this annual test, these assets and all other long lived assets are tested for impairment upon an indicator of potential impairment. The Company recorded impairment charges relating to other intangibles in 2012 and 2010 as described in Note 7 of these Consolidated Financial Statements.

### **Inventory**

Inventories are stated at lower of cost or market and consist primarily of POS terminals, forms and envelopes. The cost of inventory is determined using average cost for POS terminals and first-in first-out ( FIFO ) for forms.

### **Investment Securities**

The Company maintains investments in marketable and non-marketable securities, the majority of which are carried at fair value. These are included in the Settlement assets , Other current assets , Long-term settlement assets and Other long-term assets line items of the Consolidated Balance Sheets.

**FIRST DATA CORPORATION**

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

The specific identification method is used to determine the cost basis of securities sold. As of December 31, 2012 and 2011, all of the debt and equity securities were classified as available-for-sale. Unrealized gains and losses on these investments are included as a separate component of OCI, net of any related tax effect. The Company assesses marketable securities for impairment quarterly. Cost method 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. If no such events or changes in circumstances have occurred, the fair value is estimated only if practicable to do so.

For equity securities, declines in value that are judged to be other than temporary in nature are recognized in the Consolidated Statements of Operations. For public company equity securities, the Company's policy is to treat a decline in the investment's quoted market value that has lasted for more than six months as an other than temporary decline in value.

For debt securities, when the Company intends to sell an impaired debt security or it is more likely than not it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary-impairment ( OTTI ) has occurred. The impairment is recognized in earnings equal to the entire difference between the debt security's amortized cost basis and its fair value. When the Company does not intend to sell an impaired debt security and it is not more likely than not it will be required to sell prior to recovery of its amortized cost basis, the Company assesses whether it will recover its amortized cost basis. If the entire amortized cost will not be recovered, a credit loss exists resulting in the credit loss portion of the OTTI being recognized in earnings and the amount related to all other factors recognized in OCI. Refer to Note 7 of these Consolidated Financial Statements for a detailed discussion regarding the fair value of the Company's investments.

**New Accounting Guidance**

In July 2012, the Financial Accounting Standards Board issued guidance related to testing indefinite-lived intangibles for impairment. Under the amended guidance, an entity has the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If it is determined that the fair value is more likely than not greater than the carrying amount, then quantitative impairment testing is unnecessary. The Company adopted the amendments for its 2012 annual impairment test. After performing a qualitative assessment, the Company proceeded to a quantitative impairment test.

**Note 2: Restructuring**

The Company recorded restructuring charges during the three years ended December 31, 2012. Restructuring accruals are reviewed each period and balances in excess of anticipated requirements are reversed through the same Consolidated Statements of Operations caption in which they were originally recorded. Such reversals resulted from the favorable resolution of contingencies and changes in facts and circumstances.

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

(in millions)	Pretax Benefit (Charge)				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
<b><u>Year ended December 31, 2012</u></b>					
Restructuring charges	\$ (7.5)	\$	\$ (18.5)	\$ (2.2)	\$ (28.2)
Restructuring accrual reversals	1.0		2.8	1.3	5.1
Total pretax charge, net of reversals	\$ (6.5)	\$	\$ (15.7)	\$ (0.9)	\$ (23.1)
<b><u>Year ended December 31, 2011</u></b>					
Restructuring charges	\$ (2.8)	\$ (10.5)	\$ (34.2)	\$ (3.8)	\$ (51.3)
Restructuring accrual reversals	1.1		2.5	1.3	4.9
Total pretax charge, net of reversals	\$ (1.7)	\$ (10.5)	\$ (31.7)	\$ (2.5)	\$ (46.4)
<b><u>Year ended December 31, 2010</u></b>					
Restructuring charges	\$ (20.3)	\$ (11.3)	\$ (28.2)	\$ (27.7)	\$ (87.5)
Restructuring accrual reversals	0.7	0.8	10.9	3.1	15.5
Total pretax charge, net of reversals	\$ (19.6)	\$ (10.5)	\$ (17.3)	\$ (24.6)	\$ (72.0)

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**2012.** The Company recorded restructuring charges during 2012 primarily related to employee reduction and certain employee relocation efforts in Germany. The Company expects to record approximately \$2 million of additional restructuring charges in 2013 in connection with the restructuring event 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. Approximately 650 employees were impacted by the 2012 restructurings. The Company expects to record additional restructuring charges in 2013 associated with similar events and the departure of executive officers.

**2011.** The 2011 restructurings resulted from the elimination of management and other positions, approximately 750 employees, as part of the Company aligning the business with strategic objectives. Partially offsetting the charges were reversals of excess 2009 and 2010 restructuring accruals as well as reversals resulting from the refinement of 2011 estimates.

**2010.** The 2010 restructurings resulted from the elimination of management and other positions, approximately 1,200 employees, as part of the Company aligning the business with strategic objectives as well as domestic site consolidations and the reorganization of executive officers. Partially offsetting the charges were reversals of excess 2008 and 2009 restructuring accruals as well as reversals resulting from the refinement of 2010 estimates.

The following table summarizes the Company's utilization of restructuring accruals for the years ended December 31, 2011 and 2012:

(in millions)	Employee Severance	Facility Closure
Remaining accrual as of January 1, 2011	\$ 38.7	\$ 0.2
Expense provision	45.0	6.3
Cash payments and other	(62.2)	(5.5)
Changes in estimates	(4.8)	(0.1)
Remaining accrual as of December 31, 2011	16.7	0.9
Expense provision	28.2	
Cash payments and other	(26.8)	(0.8)
Changes in estimates	(5.0)	(0.1)
Remaining accrual as of December 31, 2012	\$ 13.1	\$

**Note 3: Business Combinations, Asset Acquisitions and Dispositions**

Businesses and Assets Acquired (a)	Month	Initial Consideration (b)		Cash
		Total		
<b>2012:</b>				
Purchase of noncontrolling interest in Omnipay	April	\$ 49.0	\$	25.1
Clover Network, Inc.	December	56.1		36.1
Merchant portfolio acquisitions		1.9		1.9

Edgar Filing: FIRST DATA CORP - Form 10-K

	\$	107.0	\$	63.1
2011:				
Merchant portfolio acquisitions	\$	19.2	\$	19.2
2010:				
Redemption of Rockmount Investments, LLC ( Rockmount ) put in BAMS (c)	\$	213.3	\$	213.3
Merchant portfolio acquisitions		1.8		1.8
	\$	215.1	\$	215.1

---

(a) Includes businesses and assets consolidated by the Company upon acquisition. For information related to equity method investments refer to Note 18 of these Consolidated Financial Statements.

(b) Includes cash acquired and debt assumed.

(c) Banc of America Merchant Services, LLC ( BAMS )

**FIRST DATA CORPORATION**

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

**2012 Acquisitions**

In April 2012, the Company acquired the remaining approximately 30 percent noncontrolling interest in Omnipay for approximately 37.1 million euro, of which 19.0 million euro (\$25.1 million) was paid in April 2012 with the remainder to be paid in April 2013.

In December 2012, the Company acquired 100% of Clover Network, Inc., a provider of payment network services for total consideration of \$54.1 million, net of cash acquired. The transaction consisted of net cash consideration of \$34.1 million as well as a series of contingent payments based on the achievement of specified sales targets. These contingent payments are classified as purchase consideration if made to outside investors and compensation if made to current and future employees. As part of the purchase price, the Company recorded a \$20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company's estimate of the future payments. The acquisition will be reported as part of the Retail and Alliance Services segment.

**2012 Disposition**

During the year ended December 31, 2012, contingent consideration was recorded related to a small divestiture. The transaction called for a series of contingent payments based on revenue over three years. As part of the sale price, the Company recorded a \$14 million asset for the contingent consideration due based upon the net present value of the Company's estimate of future receipts from the buyer.

**2011 Disposition**

In November 2011, the Company contributed the assets of its transportation business to an alliance in exchange for a 30% noncontrolling interest in that alliance, as discussed in further detail in Note 18 of these Consolidated Financial Statements, and accordingly, the transportation business was deconsolidated.

**2010 Redemption**

On June 26, 2009, Bank of America N.A. ( BofA ) and the Company, together with Rockmount, an investment vehicle controlled by a third-party investor, formed a new company, BAMS. BAMS provides clients with a comprehensive suite of acquiring and processing payment products for credit and debit cards as well as merchant loyalty, prepaid, check and e-commerce solutions.



## Edgar Filing: FIRST DATA CORP - Form 10-K

At the time of the formation, the Company owned a 48.45% direct voting interest in BAMS and Bank of America N.A. ( BofA ) owned a 46.55% direct voting interest. The remaining stake in BAMS was a 5% non-voting interest held by Rockmount. The Company owned a 40% noncontrolling interest in Rockmount. In May 2010, the third party owning a controlling interest in Rockmount exercised a put right on Rockmount's beneficial interest in BAMS requiring net cash payments from FDC of \$213 million. The redemption amount was based on Rockmount's capital account balance in BAMS immediately prior to the redemption with an additional adjustment paid by the Company and Bank of America N.A. based on the level of BAMS revenues for the trailing 12 month period ended March 31, 2010. After redemption by Rockmount, the Company owns 51% of BAMS and Bank of America N.A. owns 49%.

### 2010 Disposition

During 2010, the Company received a contingent payment in connection with the November 2009 sale of a merchant acquiring business.

### Other Information

The following table outlines the net assets acquired and net cash paid for acquisitions (at date of acquisition) for businesses and assets other than equity method investments:

(in millions)	Year ended December 31,		
	2012	2011	2010
Fair value of net assets acquired	\$ 107.0	\$ 19.2	\$ 215.1
Less non-cash consideration	(43.9)		
Less cash acquired	(2.0)		
Net cash paid for acquisitions	\$ 61.1	\$ 19.2	\$ 215.1

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents changes to goodwill for the years ended December 31, 2011 and 2012:

(in millions)	Retail and Alliance Services	Financial Services	International	All Other and Corporate	Divested Operations	Totals
Balance as of January 1, 2011						
Goodwill	\$ 14,065.7	\$ 3,451.4	\$ 2,657.1	\$ 177.0	\$ 181.3	\$ 20,532.5
Accumulated impairment losses	(1,106.5)	(1,395.2)	(375.6)	(177.0)	(181.3)	(3,235.6)
	12,959.2	2,056.2	2,281.5			17,296.9
Deconsolidation (a)	(42.8)					(42.8)
Purchase price adjustments			(4.5)			(4.5)
Other adjustments (primarily foreign currency)			(45.0)			(45.0)
Balance as of December 31, 2011						
Goodwill	14,022.9	3,451.4	2,607.6	177.0	181.3	20,440.2
Accumulated impairment losses	(1,106.5)	(1,395.2)	(375.6)	(177.0)	(181.3)	(3,235.6)
	12,916.4	2,056.2	2,232.0			17,204.6
Acquisitions	48.9					48.9
Impairments		(4.5)				(4.5)
Other adjustments (primarily foreign currency)			33.5			33.5
Balance as of December 31, 2012						
Goodwill	14,071.8	3,451.4	2,641.1	177.0	181.3	20,522.6
Accumulated impairment losses	(1,106.5)	(1,399.7)	(375.6)	(177.0)	(181.3)	(3,240.1)
	\$ 12,965.3	\$ 2,051.7	\$ 2,265.5	\$	\$	\$ 17,282.5

(a) Relates to the deconsolidation of the Company's transportation business. Refer to Note 18 of these Consolidated Financial Statements for additional information.

#### Note 4: Settlement Assets and Obligations

Settlement assets and obligations result from FDC's processing services and associated settlement activities, including settlement of payment transactions. Settlement assets are generated principally from merchant services transactions. Certain merchant settlement assets that relate to settlement obligations accrued by the Company are held by partner banks to which the Company does not have legal ownership but has the right to use to satisfy the related settlement obligation. FDC records corresponding settlement obligations for amounts payable to merchants and for payment instruments not yet presented for settlement. The difference in the aggregate amount of such assets and liabilities is primarily due to unrealized net investment gains and losses, which are reported as OCI in equity. The principal components of FDC's settlement assets and obligations are as follows:

Edgar Filing: FIRST DATA CORP - Form 10-K

(in millions)	As of December 31,	
	2012	2011
<b>Settlement assets:</b>		
<b>Current settlement assets:</b>		
Cash and cash equivalents	\$ 3,790.4	\$ 1,650.3
Investment securities	125.6	105.7
Due from card associations and bank partners	4,523.4	8,353.3
Due from merchants	734.4	549.0
	9,173.8	10,658.3
<b>Long-term settlement assets:</b>		
Investment securities	54.3	181.0
	\$ 9,228.1	\$ 10,839.3
<b>Settlement obligations:</b>		
<b>Current settlement obligations:</b>		
Payment instruments outstanding	\$ 289.9	\$ 459.6
Card settlements due to merchants	8,936.4	10,378.2
	\$ 9,226.3	\$ 10,837.8

Refer to Note 5 of these Consolidated Financial Statements for information concerning the Company's investment securities.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 5: 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 December 31, 2012 and of municipal obligations and corporate bonds as of December 31, 2011. The Company's long-term settlement assets were primarily comprised of student loan auction rate securities (SLARS) as of December 31, 2012 and of SLARS and U.S. Government guaranteed securities as of December 31, 2011. Realized gains and losses and 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 9 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)
<b>As of December 31, 2012</b>					
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
Other	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
<b>As of December 31, 2011</b>					
Student loan auction rate securities	\$ 169.3	\$ 1.2	\$	\$	\$ 170.5
Corporate bonds	10.3		(0.1)		10.2
State and municipal obligations	96.0				96.0
U.S. Government guaranteed securities	10.0				10.0
Other	0.1	0.4			0.5
Total available-for-sale securities	285.7	1.6	(0.1)		287.2
Cost method investments	23.7				23.7
Totals	\$ 309.4	\$ 1.6	\$ (0.1)	\$	\$ 310.9

(a) Represents amortized cost for debt securities.

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

Edgar Filing: FIRST DATA CORP - Form 10-K

- (c) For debt securities, represents the fair value adjustment excluding that attributable to credit losses.
- (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		
<b><u>As of December 31, 2012</u></b>						
State and municipal obligations						
(a)	\$ 45.3	\$	\$ 0.1	\$	\$ 45.4	\$ (0.1)
<b><u>As of December 31, 2011</u></b>						
Corporate bonds	\$ 10.2	\$ (0.1)	\$	\$	\$ 10.2	\$ (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

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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)	Year ended December 31,		
	2012	2011	2010
Proceeds from sales (a)	\$ 156.6	\$ 283.2	\$ 138.1
Gross realized gains included in earnings as a result of sales (a)	4.4	3.6	6.2
Gross realized (losses) included in earnings as a result of sales (a)		(2.9)	(3.3)
Gross losses included in earnings as a result of impairment (b)		(5.2)	(28.2)
Net unrealized gains or (losses) included in OCI, net of tax	2.9	(2.0)	7.7
Net gains or (losses) reclassified out of OCI into earnings, net of tax	2.7	(2.8)	(19.8)

(a) Includes activity resulting from sales, redemptions, liquidations and related matters.

(b) In the fourth quarter of 2010, due to new and existing state laws and regulations as well as the Company's changing views of its use of capital, the Company determined it could no longer assert that it will not more likely than not be required to sell the SLARS prior to the recovery of their fair value to amortized cost.

In January 2013, the company sold approximately \$21 million of its holdings in SLARS resulting in a realized gain of \$1.0 million.

The following table presents maturity information for the Company's investments in debt securities as of December 31, 2012:

(in millions)	Fair Value
Due within one year	\$ 125.6
Due after one year through five years	15.3
Due after five years through 10 years	
Due after 10 years	38.9
Total debt securities	\$ 179.8

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. During the third quarter of 2012, the Company recognized an impairment of \$8.7 million related to a cost method investment due to uncertainty regarding the investee's viability as a going concern. 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 December 31, 2012, it was deemed impracticable to estimate the fair value on \$8.0 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 6: 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.

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.

**FIRST DATA CORPORATION**

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

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**

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:



Edgar Filing: FIRST DATA CORP - Form 10-K

Notional value (in millions)	As of December 31,		As of December 31,	
		2012		2011
Interest rate contracts	USD	5,750	USD	5,750
Foreign exchange contracts	EUR	91.1	EUR	91.1
Foreign exchange contracts	AUD	115	AUD	115
Forward-starting interest rate contracts	USD		USD	3,000

In January of 2013, the Company's cross-currency swap with an aggregate notional value of 69.6 million euro expired. In January and February 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.

**Derivatives Not Qualifying For Hedge Accounting.** During the twelve months ended December 31, 2012 and 2011, 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 with a combined notional value of \$5.0 billion expired in September 2012. During the third quarter of 2011 and the first quarter of 2012, the Company entered into forward-starting interest rate swaps with a combined notional value of \$3.0 billion and \$2.0 billion, respectively, all of which became effective upon expiration of the existing instruments. The interest rate swaps are intended to mitigate exposure to fluctuations in interest rates and will expire in September 2016. The Company did not designate the swaps as hedges for accounting purposes.

**FIRST DATA CORPORATION**

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

During 2011, the Company entered into a fixed to floating interest rate swap in order to preserve the ratio of fixed and floating debt. The swap has a notional value of \$750.0 million and expires on June 15, 2019, but is subject to a mandatory put that will result in cash settlement on June 15, 2015.

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

During the third quarter of 2010, five interest rate swaps with a total notional balance of \$2.5 billion and one basis rate swap with a notional balance of \$1.0 billion expired.

As of December 31, 2012 and 2011, the Company held cross-currency swaps not qualifying for hedge accounting with a total notional value of 91.1 million euro (approximately \$120.5 million at December 31, 2012). In January of 2013, the Company's cross-currency swap with an aggregate notional value of 69.6 million euro expired.

During 2012, 2011, and 2010, certain interest rate swaps previously designated as hedges for accounting purposes ceased to qualify for hedge accounting treatment. The Company therefore de-designated the hedges and ceased to apply hedge accounting from the beginning of the quarter during which the respective de-designations occurred. The amount carried in OCI as of the date of de-designation was subsequently reclassified into earnings in the same periods during which the forecasted transactions affect earnings. As of December 31, 2012, 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.**

*Hedge of a net investment in a foreign operation.* As of December 31, 2012 and 2011, the Company held a cross-currency swap with an aggregate notional value of 115.0 million Australian dollars (approximately \$119.3 million at December 31, 2012) that was designated as a hedge of a net investment in a foreign operation.

In January and February of 2013, the Company entered into cross-currency swaps that were designated as hedges of net investments in foreign operations, as discussed above.

*Cash flow hedges.* As of December 31, 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. As of December 31, 2011, the Company held interest rate swaps which were designated as cash flow hedges of the variability in the interest payments on \$500 million of variable rate senior secured term loans which expired in September 2012. Since December 31, 2011, these designated cash flow hedges ceased to be highly effective in offsetting the variability in the interest payments, due in part to their approaching maturity dates, and were de-designated. Until the de-designation date of these cash flow hedges, the Company followed the hypothetical derivative method to measure hedge ineffectiveness which resulted mostly from the hedges being off-market at the time of designation, and any ineffectiveness was recognized immediately in the Consolidated Statements of Operations.

During the third quarter of 2010, two basis rate swaps with a total notional balance of \$3.0 billion expired.

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.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Fair Value of Derivative Instruments

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

(in millions)	As of December 31, 2012	
	Assets (a)(c)	Liabilities (b)(c)
<b>Derivatives designated as hedging instruments</b>		
Foreign exchange contract	\$	\$ (32.8)
<b>Derivatives not designated as hedging instruments</b>		
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)

(in millions)	As of December 31, 2011	
	Assets (a)(c)	Liabilities (b)(c)
<b>Derivatives designated as hedging instruments</b>		
Interest rate contract	\$	\$ (12.8)
Foreign exchange contract		(27.1)
Total derivatives designated as hedging instruments		(39.9)
<b>Derivatives not designated as hedging instruments</b>		
Interest rate contracts	\$ 65.4	\$ (143.9)
Foreign exchange contracts	10.9	(0.7)
Forward-starting interest rate contracts		(11.9)
Total derivatives not designated as hedging instruments	76.3	(156.5)
Total derivatives	\$ 76.3	\$ (196.4)

(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.

## The Effect of Derivative Instruments on the Consolidated Statements of Operations

Year ended December 31,

Edgar Filing: FIRST DATA CORP - Form 10-K

(in millions, pretax)	2012		2011		2010	
	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
<b>Derivatives in cash flow hedging relationships:</b>						
Amount of gain or (loss) recognized in OCI (effective portion)	\$		\$	61.3	\$	(26.2)
Amount of gain or (loss) reclassified from accumulated OCI into income (a)		(114.9)		(93.0)		(145.7)
Amount of gain or (loss) recognized in income (ineffective portion) (b)				(2.3)		(6.3)
<b>Derivatives in net investment hedging relationships:</b>						
Amount of gain or (loss) recognized in OCI (effective portion)	\$	(9.2)	\$	(9.4)	\$	(14.8)
Amount of gain or (loss) recognized in income (ineffective portion) (b)						0.5
<b>Derivatives not designated as hedging instruments</b>						
Amount of gain or (loss) recognized in income (b)	\$	(89.9)	\$	58.0	\$	(61.6)
		(1.5)		2.5		9.1

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

**Accumulated Derivative Gains and Losses**

The following table summarizes activity in other comprehensive income for the years ended December 31, 2012 and 2011 related to derivative instruments classified as cash flow hedges and a net investment hedge held by the Company:

(in millions, after tax)	Year ended December 31,	
	2012	2011
Accumulated loss included in other comprehensive income (loss) at beginning of the period	\$ (87.6)	\$ (181.3)
Less: Reclassifications into earnings from other comprehensive income (loss)	72.2	60.2
	(15.4)	(121.1)
Increase in fair value of derivatives that qualify for hedge accounting (a)	(5.7)	33.5
Accumulated loss included in other comprehensive income (loss) at end of the period	\$ (21.1)	\$ (87.6)

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

**Note 7: 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 December 31, 2012		As of December 31, 2011	
	Carrying Value	Fair Value (a)	Carrying Value	Fair Value (a)
<b>Financial instruments:</b>				
<b>Settlement assets:</b>				

Edgar Filing: FIRST DATA CORP - Form 10-K

Short-term investment securities	\$	125.6	\$	125.6	\$	105.7	\$	105.7
Long-term investment securities	\$	54.3	\$	54.3	\$	181.0	\$	181.0
<b>Other current assets:</b>								
Derivative financial instruments	\$	11.1	\$	11.1	\$		\$	
<b>Other long-term assets:</b>								
Long-term investment securities	\$	0.5	\$	0.5	\$	0.5	\$	0.5
Cost method investments	\$	13.4	\$	13.4	\$	23.7	\$	23.7
Derivative financial instruments	\$	89.8	\$	89.8	\$	76.3	\$	76.3
<b>Other current liabilities:</b>								
Derivative financial instruments	\$	0.3	\$	0.3	\$	156.7	\$	156.7
<b>Long-term borrowings:</b>								
Long-term borrowings	\$	22,528.9	\$	22,732.6	\$	22,521.7	\$	20,189.8
<b>Other long-term liabilities:</b>								
Derivative financial instruments	\$	171.8	\$	171.8	\$	39.7	\$	39.7

(a) Represents cost for cost method investments. Refer to Note 5 of these Consolidated Financial Statements for a more detailed discussion of cost method investments.

The estimated fair values of investment securities and derivative financial instruments are described below. Refer to Notes 5 and 6 of these Consolidated Financial Statements for additional information regarding the Company's investment securities and derivative financial instruments, respectively.

The estimated fair market value of FDC's long-term borrowings was primarily based on market trading prices and is considered to be a level 2 measurement. For additional information regarding the Company's borrowings, refer to Note 8 of these Consolidated Financial Statements.

**FIRST DATA CORPORATION**

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

**Concentration of credit risk**

The Company's investment securities are diversified across multiple issuers within its investment portfolio (investment securities plus cash and cash equivalents). In addition to investment securities, the Company maintains other financial instruments with various financial institutions. The Company's largest single issuer represents less than 15% of the total carrying value of the investment portfolio and the Company limits its derivative financial instruments credit risk by maintaining contracts with counterparties having a credit rating of A or higher. The Company periodically reviews the credit standings of these institutions.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

Fair value is defined by accounting guidance as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the hierarchy prescribed in the accounting guidance for fair value measurements, based upon the available inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- **Level 1 Inputs** Quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- **Level 2 Inputs** Inputs other than quoted prices within Level 1 that are observable either directly or indirectly, including but not limited to quoted prices in markets that are not active, quoted prices in active markets for similar assets or liabilities and observable inputs other than quoted prices such as interest rates or yield curves.
- **Level 3 Inputs** Unobservable inputs reflecting the Company's own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

The Company maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs.

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



Edgar Filing: FIRST DATA CORP - Form 10-K

(in millions)	As of December 31, 2012			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Assets:</b>				
<b>Settlement assets:</b>				
Student loan auction rate securities	\$	\$	\$ 38.8	\$ 38.8
Corporate bonds		6.6		6.6
State and municipal obligations		133.9		133.9
Preferred stock	0.6			0.6
Total settlement assets	0.6	140.5	38.8	179.9
<b>Other current assets:</b>				
Interest rate swap contracts		1.0		1.0
Foreign currency derivative contracts		10.1		10.1
<b>Other long-term assets:</b>				
Available-for-sale securities		0.5		0.5
Interest rate swap contracts		89.8		89.8
Total assets at fair value	\$ 0.6	\$ 241.9	\$ 38.8	\$ 281.3
<b>Liabilities:</b>				
<b>Other current liabilities:</b>				
Interest rate swap contracts	\$	\$ 0.3	\$	\$ 0.3
<b>Other long-term liabilities:</b>				
Foreign currency derivative contracts		34.4		34.4
Interest rate swap contracts		137.4		137.4
Contingent consideration			20.0	20.0
Total liabilities at fair value	\$	\$ 172.1	\$ 20.0	\$ 192.1

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	As of December 31, 2011			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Fair Value Measurement Using Significant unobservable inputs (Level 3)	
<b>Assets:</b>				
<b>Settlement assets:</b>				
Student loan auction rate securities	\$	\$	\$ 170.5	\$ 170.5
Corporate bonds		10.2		10.2
State and municipal obligations		95.5		95.5
U.S. Government guaranteed agency securities		10.0		10.0
Preferred stock	0.5			0.5
Total settlement assets	0.5	115.7	170.5	286.7
<b>Other long-term assets:</b>				
Available-for-sale securities		0.5		0.5
Interest rate swap contracts		65.4		65.4
Foreign currency derivative contracts		10.9		10.9
Total other long-term assets		76.8		76.8
Total assets at fair value	\$ 0.5	\$ 192.5	\$ 170.5	\$ 363.5
<b>Liabilities:</b>				
<b>Other current liabilities:</b>				
Interest rate swap contracts	\$	\$ 156.7	\$	\$ 156.7
<b>Other long-term liabilities:</b>				
Foreign currency derivative contracts		27.8		27.8
Forward-starting interest rate contracts		11.9		11.9
Total liabilities at fair value	\$	\$ 196.4	\$	\$ 196.4

**Settlement assets - student loan auction rate securities.** Due to the lack of observable market activity for the SLARS held by the Company as of December 31, 2012, the Company, with the assistance of a third-party valuation firm upon which the Company in part relied, made certain assumptions, primarily relating to estimating both the weighted-average life for the securities held by the Company and the impact on the fair value of the current inability to redeem the securities at par value. All key assumptions and valuations were determined by and are the responsibility of management. The securities were valued using an income approach based on a probability-weighted discounted cash flow analysis. The Company considered each security's key terms including date of issuance, date of maturity, auction intervals, scheduled auction dates, maximum auction rates, as well as underlying collateral, ratings, and guarantees or insurance. The impact of the Company's judgment in the valuation was significant and, accordingly, the resulting fair value was classified as Level 3 within the fair value hierarchy. A 50 basis point change in liquidity risk premium, as well as slight changes in other unobservable inputs including default probability and default recovery rate assumptions and the probability of an issuer call prior to maturity, would impact the value of the SLARS by approximately \$1 million. For additional information regarding sales, settlements and impairments of the SLARS, refer to Note 5 of these Consolidated Financial Statements.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Student loan auction rate securities
Beginning balance as of January 1, 2011	\$ 341.1
Total gains or losses (realized or unrealized):	
Included in other comprehensive income	1.2
Included in product sales and other (a)	(4.5)
Sales	(158.4)
Settlements	(8.9)
Transfers in (out) of Level 3	
Ending balance as of December 31, 2011	170.5
Total realized gains included in product sales and other	4.4
Sales	(135.6)
Settlements	(0.5)
Transfers in (out) of Level 3	
Ending balance as of December 31, 2012	\$ 38.8

(a) Includes impairments of \$5.2 million for the year ended December 31, 2011.

**Settlement assets - other available-for-sale securities.** Prices for the municipal, corporate, and U.S. Government securities are not quoted on active exchanges but are priced through an independent third-party pricing service based on quotations from market-makers in the specific instruments or, where appropriate, from other market inputs. Bonds were valued under a market approach using observable inputs including reported trades, benchmark yields, broker/dealer quotes, issuer spreads and other standard inputs. Municipal paper was valued under a market approach using observable inputs including maturity date, issue date, credit rating, current commercial paper rates and settlement date.

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

**Derivative financial instruments.** The Company uses derivative instruments to mitigate certain risks. The Company's derivatives are not exchange listed and therefore the fair value is estimated under an income approach using Bloomberg analytics models that are based on readily observable market inputs. These models reflect the contractual terms of the derivatives, such as notional value and expiration date, as well as market-based observables including interest and foreign currency exchange rates, yield curves and the credit quality of the counterparties. The models also incorporate the Company's creditworthiness in order to appropriately reflect non-performance risk. Inputs to the derivative pricing models are generally observable and do not contain a high level of subjectivity and, accordingly, the Company's derivatives were classified within Level 2 of the fair value hierarchy. While the Company believes its estimates result in a reasonable reflection of the fair value of these instruments, the estimated values may not be representative of actual values that could have been realized or that will be realized in the near future. Refer to Note 6 of these Consolidated Financial Statements for additional information regarding the Company's derivative financial instruments.

**Contingent liabilities.** As discussed in Note 3 of these Consolidated Financial Statements, during the year ended December 31, 2012, contingent consideration was recorded related to the acquisition of Clover Network, Inc. The transaction called for cash consideration as well as a series of contingent payments based on the achievement of specified sales targets. These contingent payments are classified as purchase consideration if made to outside investors and compensation if made to current and future employees. As part of the purchase price, the Company recorded a \$20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company's estimate of the future payments. This fair value measurement represents a Level 3 measurement as it is based on significant inputs not observable in the market. Significant judgment is employed in determining the appropriateness of these assumptions as of the acquisition date. The primary assumption is the estimated number of merchant locations that will be using the software in the next four years.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3) Contingent consideration	
Beginning balance as of January 1, 2012	\$	
Initial estimate of contingent consideration		20.0
Contingent consideration payments		
Change in fair value of contingent consideration		
Ending balance as of December 31, 2012	\$	20.0

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

During the year ended December 31, 2012, the Company recorded impairments totaling approximately \$22 million on assets with a total carrying value of approximately \$42 million due to the sale, expected sale or discontinued use of certain assets. Approximately \$5 million of the total impairments related to one business in the Financial Services segment and was recorded in the Impairments line in the Consolidated Statement of Operations, while the remaining amounts were individually insignificant and were recorded in the Cost of services line. The impairments related to property and equipment, customer relationships, software, and goodwill. In addition, the Company impaired a strategic investment with a total carrying value of \$8.7 million within the Retail and Alliance Segment as discussed in Note 5. The impairment was recorded in the Other income (expense) line in the Consolidated Statement of Operations.

During the year ended December 31, 2011, the Company did not record any adjustments to the carrying value of existing assets based on non-recurring fair value measurements.

During the year ended December 31, 2010, the Company recorded impairments in the Retail and Alliance and International segments totaling \$11.5 million on assets with a total carrying value of \$11.7 million, as a result of changes in management's expectations with respect to projected cash flows, ongoing negative cash flows for certain assets or asset groups or due to the discontinued use of certain assets. The impairments related to property and equipment, customer relationships, software, other intangibles, and other long-term assets and were recorded in the Impairments line in the Consolidated Statement of Operations.

The fair values of the impaired assets were estimated primarily using a discounted cash flow analysis for 2012 and an income approach for 2010, both based on management's current cash flow projections and using assumptions that management believed were consistent with market participant assumptions. The inputs to the valuations were largely unobservable, and the measurements were accordingly classified as Level 3. The majority of these assets were deemed fully impaired. All key assumptions and valuations were determined by and are the responsibility of management. This fair value measurement represents a Level 3 measurement as it is based on significant inputs not observable in the market. The fair value will be measured on a non-recurring basis. Significant judgment is employed in determining the appropriateness of these assumptions.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Also during the year ended December 31, 2012, contingent consideration was recorded related to a small divestiture. The transaction called for a series of contingent payments based on revenue over three years. As part of the sale price, the Company recorded a \$14 million asset for the contingent consideration due based upon the net present value of the Company's estimate of future receipts from the buyer.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 8: Borrowings

(in millions)	As of December 31,	
	2012	2011
<b>Short-term borrowings</b>		
Senior secured revolving credit facility	\$	\$
Foreign lines of credit and other arrangements	177.2	76.4
Total short-term borrowings	177.2	76.4
<b>Current portion of long-term borrowings (a):</b>		
4.70% Unsecured notes due 2013, net of unamortized discount of \$0.4	14.7	
Capital lease obligations	65.2	57.0
Total current portion of long-term borrowings	79.9	57.0
<b>Long-term borrowings (a):</b>		
Senior secured term loan facility due 2014, net of unamortized discount of \$1.3 and \$9.8	253.9	6,554.9
Senior secured term loan facility due 2017, net of unamortized discount of \$12.7	2,658.6	
Senior secured term loan facility due March 2018, net of unamortized discount of \$27.3 and \$27.2	4,633.3	4,626.2
Senior secured term loan facility due September 2018, net of unamortized discount of \$21.4	728.6	
7.375% Senior secured first lien notes due 2019, net of unamortized discount of \$27.0 and \$15.0	1,568.0	735.0
8.875% Senior secured first lien notes due 2020, net of unamortized discount of \$13.6 and \$15.4	496.4	494.6
6.75% Senior secured first lien notes due 2020, net of unamortized discount of \$29.4	2,120.6	
8.25% Senior secured second lien notes due 2021, net of unamortized discount of \$14.3 and \$16.1	1,985.4	1,983.6
8.75%/10.00% PIK toggle senior secured second lien notes due 2022 (b), net of unamortized discount of \$7.3 and \$8.1	992.7	991.9
12.625% Senior unsecured notes due 2021, net of unamortized discount of \$21.5 and \$24.2	2,978.5	2,975.8
9.875% Senior unsecured notes due 2015	783.5	783.5
10.55% Senior unsecured notes due 2015 (previously senior PIK notes (b))	748.4	748.4
11.25% Senior unsecured subordinated notes due 2016	2,500.0	2,500.0
4.70% Unsecured notes due 2013, net of unamortized discount of \$1.1		14.0
4.85% Unsecured notes due 2014, net of unamortized discount of \$0.3 and \$0.5	3.5	3.3
4.95% Unsecured notes due 2015, net of unamortized discount of \$1.0 and \$1.5	8.8	8.3
Capital lease obligations	68.7	102.2
Total long-term borrowings	22,528.9	22,521.7
Total borrowings	\$ 22,786.0	\$ 22,655.1

(a) Unamortized discount amounts are as of December 31, 2012 and 2011, respectively.

(b) Payment In-Kind ( PIK )

### Short-Term Borrowings

FDC had approximately \$346 million and \$341 million available under short-term lines of credit and other arrangements with foreign banks and alliance partners primarily to fund settlement activity, as of December 31, 2012 and 2011, respectively. These arrangements are primarily associated with international operations and are in various functional currencies, the most significant of which are the Australian dollar, the euro and the Polish zloty. The total amounts outstanding against short-term lines of credit and other arrangements were \$177.2 million and \$76.4 million as of December 31, 2012 and 2011, respectively. Certain of these arrangements are uncommitted but FDC had \$130.0 million and \$74.0 million of borrowings outstanding against them as of December 31, 2012 and 2011, respectively. The weighted average interest rates associated with these arrangements were 3.9% and 5.0% for the years ended December 31, 2012 and 2011, respectively. Commitment fees for the committed lines of credit range from 0.156% to 0.8%.

### Senior Secured Credit Facilities

**Senior Secured Revolving Credit Facility.** As of December 31, 2012, FDC's senior secured revolving credit facility had commitments from financial institutions to provide \$1,515.3 million of credit. A portion of the revolving credit facility, \$499.1 million, matures on September 24, 2013 while the remaining \$1,016.2 million matures between June 24, 2015 and September 24, 2016 subject to certain conditions.



## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Up to \$500 million of the senior secured revolving credit facility is available for letters of credit (of which \$45.1 million and \$45.0 million of letters of credit were issued under the facility as of December 31, 2012 and 2011, respectively). As of December 31, 2012, \$1,470.2 million remained available.

Interest is payable at a rate equal to, at FDC's option, either (a) LIBOR for deposits in the applicable currency plus an applicable margin or (b) the higher of (1) the prime rate of Credit Suisse and (2) the federal funds effective rate plus 0.50%, plus an applicable margin. The weighted-average interest rates were 5.25% and 5.8% for the years ended December 31, 2012 and 2011, respectively. The commitment fee rate for the unused portion of this facility ranges from 0.50% to 0.75% per year.

**Senior Secured Term Loan Facility.** The Company has amounts outstanding under its senior secured term loan facility under separate tranches as shown in the table below. A portion of each tranche is denominated in euro with the exception of the September 2018 term loan. Interest is payable based upon LIBOR or euro LIBOR plus an applicable margin as shown in the table below.

(in millions)	U.S. dollar-denominated term loan			Euro-denominated term loan (U.S. dollar equivalent)			Totals	
	As of December 31,		Rate	As of December 31,		Rate	As of December 31,	
	2012	2011		2012	2011		2012	2011
Due September 24, 2014	\$ 130.7	\$ 6,154.2	LIBOR + 275 bps	\$ 123.2	\$ 400.7	euro LIBOR + 275 bps	\$ 253.9	\$ 6,554.9
Due March 24, 2017	\$ 2,424.2		LIBOR + 500 bps	\$ 234.4		euro LIBOR + 500 bps	\$ 2,658.6	
Due March 24, 2018	\$ 4,225.1	\$ 4,225.3	LIBOR + 400 bps	\$ 408.2	\$ 400.9	euro LIBOR + 400 bps	\$ 4,633.3	\$ 4,626.2
Due September 24, 2018	\$ 728.6		LIBOR + 500 bps				\$ 728.6	

As of December 31, 2012, FDC held interest rate swaps to mitigate exposure to variability in interest payments on the outstanding variable rate senior secured term loan. Refer to Note 6 of these Consolidated Financial Statements for a discussion of the Company's derivatives.

The original terms of FDC's senior secured term loan facility required the Company to pay equal quarterly installments in aggregate annual amounts equal to 1% of the original principal amount. However, in conjunction with debt modifications and amendments over the last several years, proceeds from the issuance of the notes were used to prepay portions of the principal balances of FDC's senior secured term loans which satisfied the future quarterly principal payments until September 2018. Therefore, the Company made no principal payments during 2011 or 2012. During 2010, the Company paid \$96.2 million of principal payments on the senior secured term loan facility in accordance with the original provisions, of which \$89.2 million related to the U.S. dollar-denominated loan and \$7.0 million related to the euro-denominated loan.

The senior secured term loan facility also requires mandatory prepayments based on a percentage of excess cash flow generated by FDC. All obligations under the senior secured loan facility are fully and unconditionally guaranteed by substantially all domestic, wholly-owned subsidiaries of FDC, subject to certain exceptions.

**2012 Modifications and Amendments to the Senior Secured Credit Facilities.** On March 13, 2012, FDC amended its credit agreement to, among other things:

(i) convert approximately \$3.2 billion of the existing term loans maturing in 2014 (the 2014 Term Loans ) under FDC's senior secured term credit facilities into a new dollar-denominated term loan tranche and a new euro-denominated term loan tranche, which will each mature on March 24, 2017 (collectively, the 2017 Term Loans );

(ii) permit FDC to provide a loan extension request upon such shorter notice period as may be agreed by the administrative agent;

(iii) permit the deduction of fees and expenses related to any loan extensions from the net cash proceeds of any substantially concurrent debt offering related thereto that are being used to repay term loans under its senior secured credit facilities;

(iv) increase the Maximum Incremental Facilities Amount (as defined in the Amended Credit Agreement) by the amount of outstanding 2014 Term Loans, provided such increased amount may only be used for the incurrence of indebtedness the net cash proceeds of which are substantially concurrently used to prepay 2014 Term Loans;

**FIRST DATA CORPORATION**

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

(v) increase the Maximum Incremental Facilities Amount by the amount of any permanent reduction and/or termination of the revolving credit commitments after the effectiveness date of the Amendment Agreement;

(vi) permit voluntary prepayments of term loans to be directed to a class of Extended Term Loans (as defined in the Amended Credit Agreement) without requiring a prepayment of existing term loans from which such Extended Term Loans were converted; and

(vii) provide for an increase in the interest applicable to the 2017 Term Loans to a rate equal to, at FDC's option, either (i) LIBOR for deposits in the applicable currency plus 500 basis points or (ii) with regard to dollar-denominated borrowings, a base rate plus 400 basis points.

The amendment became effective on March 23, 2012 when FDC issued \$845 million aggregate principal amount of additional 7.375% senior secured notes due June 15, 2019 (refer to the 7.375% Senior Secured First Lien Notes section below) and, using the net proceeds therefrom, effected a prepayment of the outstanding 2017 Term Loans under the Amended Credit Agreement of approximately \$807 million.

In connection with the debt modification and amendments and the debt offering discussed above, FDC incurred costs of \$31.5 million, \$27.0 million of which was recorded as discounts on the debt and are being amortized to interest expense over the remaining terms of the loans.

On August 16, 2012, FDC amended its credit agreement to, among other things:

(i) convert approximately \$295 million of the existing term loans maturing in 2014 under FDC's senior secured term credit facilities into a new dollar-denominated term loan tranche and a new euro-denominated term loan tranche, each of which will mature on March 24, 2017; and

(ii) provide for an increase in the interest applicable to these 2017 Term Loans to a rate equal to, at FDC's option, either (a) LIBOR for deposits in the applicable currency plus 500 basis points or (b) with regard to dollar-denominated borrowings, a base rate plus 400 basis points.

In addition on August 16, 2012, the Company issued \$1,300 million of 6.75% senior secured notes due November 1, 2020 described below. In accordance with the terms of FDC's Amended Credit Agreement, FDC used the net proceeds from the issue and sale of approximately \$1,266 million to repay a portion of its outstanding senior secured term loans.

FDC incurred costs of \$23.2 million related to the August 2012 amendment and debt offering, \$17.8 million of which was recorded as discounts on the debt and are being amortized to interest expense over the remaining terms of the loans.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Additionally, on September 27, 2012, FDC entered into an Incremental Joinder Agreement relating to its credit agreement, pursuant to which FDC incurred \$750 million in new term loans maturing on September 24, 2018 ( September 2018 Term Loans ). The term loans were issued at 98.250% of the par amount for a discount totaling \$13.1 million. The interest rate applicable to the 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.

Also on September 27, 2012, FDC issued and sold \$850 million aggregate principal amount of 6.75% senior secured notes due November 1, 2020 described below.

In connection with the September 2012 Joinder Agreement and debt offering, FDC used the net cash proceeds to repay approximately \$1,573 million of its outstanding dollar-denominated term loan borrowings maturing in 2014 and to pay related fees and expenses. FDC incurred costs of \$21.0 million, \$16.3 million of which was recorded as discounts on the debt and are being amortized to interest expense over the remaining terms of the loans.

### **7.375% Senior Secured First Lien Notes**

On March 23, 2012, FDC issued and sold \$845 million aggregate principal amount of additional 7.375% senior secured notes due June 15, 2019 in connection with the March 2012 amendment to its Senior Secured Credit Facilities discussed above. The additional notes were issued at 99.5% of the par amount for a discount totaling \$4.2 million. The additional notes are treated as a single series with and have the same terms as the previously existing 7.375% notes. The additional notes and the previously existing

**FIRST DATA CORPORATION**

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

7.375% notes vote as one class under the related indenture. Interest on the notes is payable semi-annually on June 15 and December 15 of each year.

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

**8.875% Senior Secured First Lien Notes**

FDC's 8.875% senior secured notes due August 15, 2020 require the payment of interest semi-annually on February 15 and August 15 of each year. The notes were issued at 98.387% of the par amount for a discount totaling \$8.2 million.

FDC may redeem the notes, in whole or in part, at any time prior to August 15, 2015 at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date and an additional premium as defined. Thereafter, FDC may redeem the notes, in whole or in part, at established redemption prices, plus accrued and unpaid interest to the redemption date. In addition, on or prior to August 15, 2013, FDC may redeem up to 35% of the notes with the net cash proceeds from certain equity offerings at established redemption prices plus accrued and unpaid interest to the redemption date.

**6.75% Senior Secured First Lien Notes**

On August 16, 2012, FDC issued and sold \$1,300 million aggregate principal amount of 6.75% senior secured notes due November 1, 2020. The notes were issued at 99.193% of the par amount for a discount totaling \$10.5 million. Interest on the notes will be payable semi-annually on May 1 and November 1 of each year, commencing on May 1, 2013.

On September 27, 2012, FDC issued and sold \$850 million aggregate principal amount of additional 6.75% senior secured notes pursuant to the indenture governing the 6.75% senior secured notes that were issued on August 16, 2012. The additional notes were treated as a single series with the existing 6.75% notes and have the same terms as those notes. The notes were issued at 100.75% of the par amount for a premium totaling \$6.4 million.

FDC may redeem the notes, in whole or in part, at any time prior to November 1, 2015, at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, FDC may redeem the notes, in

## Edgar Filing: FIRST DATA CORP - Form 10-K

whole or in part, at established redemption prices. In addition, on or prior to November 1, 2015, FDC may redeem up to 35% of the aggregate principal amount of notes with the net cash proceeds from certain equity offerings at established redemption prices.

### Senior Secured Second Lien Notes

Interest on the 8.25% cash-pay notes is payable in cash, accrues interest at the rate of 8.25% per annum and is payable semi-annually in arrears on January 15 and July 15. The 8.25% cash-pay notes mature on January 15, 2021.

Cash interest on the PIK toggle notes accrues at a rate of 8.75% per annum and PIK interest accrues at a rate of 10.00% per annum. The initial interest payment on the PIK toggle notes was payable in cash. For any interest period thereafter through and including the interest period ending January 15, 2014, FDC may elect to pay interest on the PIK toggle notes (i) entirely in cash, (ii) entirely by increasing the aggregate principal amount of the outstanding PIK toggle notes or by issuing PIK notes ( PIK Interest ), or (iii) on 50% of the outstanding aggregate principal amount of the PIK toggle notes in cash and on 50% of the outstanding aggregate principal amount of the outstanding PIK toggle notes by increasing the aggregate principal amount of the outstanding PIK toggle notes or by issuing PIK notes ( Partial PIK Interest ). After January 15, 2014, all interest on the PIK toggle notes will be payable in cash. If FDC elects to pay PIK Interest or Partial PIK Interest, FDC will increase the principal amount of the PIK toggle notes or issue PIK toggle notes in an amount equal to the amount of PIK Interest or the portion of Partial PIK Interest payable in PIK toggle notes for the applicable interest payment period to holders of the PIK toggle notes on the relevant record date. As of December 31, 2012 and 2011, FDC elected to pay interest on the notes entirely in cash. The PIK toggle notes mature on January 15, 2022.

FDC may redeem the second lien 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 plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, FDC may redeem the second lien notes, in whole or in part, at established redemption prices. In addition, on or prior to January 15,

**FIRST DATA CORPORATION**

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

2014, FDC may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds from certain equity offerings at established redemption prices.

**12.625% Senior Unsecured Notes**

Interest on the 12.625% senior notes is payable in cash, accrues at the rate of 12.625% per annum, and is payable semi-annually in arrears on January 15 and July 15. The 12.625% senior notes mature on January 15, 2021.

Effective December 2011, FDC exchanged substantially all of its 12.625% senior notes due 2021 for publicly tradable notes having substantially identical terms and guarantees, except that the exchange notes are freely tradable. FDC may redeem the senior 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 plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, FDC may redeem the senior notes, in whole or in part, at established redemption prices. In addition, on or prior to January 15, 2014, FDC may redeem up to 35% of the aggregate principal amount of the notes with the net cash proceeds from certain equity offerings at established redemption prices.

**9.875% Senior Unsecured Notes and 10.55% Senior Unsecured Notes**

FDC's 9.875% senior notes due September 24, 2015 are publicly tradable and require the payment of interest semi-annually on March 31 and September 30.

FDC's 10.55% senior notes due September 24, 2015 are publicly tradable and require the payment of interest semi-annually on March 31 and September 30. The terms require that interest on these notes up to and including September 30, 2011 be paid entirely by increasing the principal amount of the outstanding notes or by issuing senior PIK notes. Beginning October 1, 2011, interest was payable in cash and the first such payment was in April 2012. During 2011, FDC increased the principal amount of these notes by \$73.1 million in accordance with this provision.

**11.25% Senior Unsecured Subordinated Notes**

FDC's publicly tradable 11.25% senior subordinated notes due March 31, 2016 require the payment of interest semi-annually on March 31 and September 30.

### **Deferred Financing Costs**

Deferred financing costs were capitalized in conjunction with certain of FDC's debt issuances and totaled \$218.2 million and \$269.8 million, as of December 31, 2012 and 2011, respectively. Deferred financing costs are reported in the "Other long-term assets" line of the Consolidated Balance Sheets and are being amortized on a straight-line basis, which approximates the interest method, over the remaining term of the respective debt, with a weighted-average period of 6 years. In addition, lender fees associated with debt modifications and amendments were capitalized as discounts on the debt and are similarly being amortized on a straight-line basis over the remaining term of the respective debt.

### **Guarantees and Covenants**

All obligations under the senior secured revolving credit facility and senior secured term loan facility are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned, material domestic subsidiaries of FDC other than Integrated Payment Systems Inc. The senior secured facilities contain a number of covenants that, among other things, restrict FDC's ability to incur additional indebtedness; create liens; enter into sale and leaseback transactions; engage in mergers or consolidations; sell or transfer assets; pay dividends and distributions or repurchase FDC's or its parent company's capital stock; make investments, loans or advances; prepay certain indebtedness; make certain acquisitions; engage in certain transactions with affiliates; amend material agreements governing certain indebtedness and change its lines of business. The senior secured facilities also require FDC to not exceed a maximum senior secured leverage ratio and contain certain customary affirmative covenants and events of default, including a change of control. FDC is in compliance with all applicable covenants.

All senior secured notes are guaranteed on a senior secured basis by each of FDC's existing and future direct and indirect wholly owned domestic subsidiaries that guarantees FDC's senior secured credit facilities. Each of the guarantees of the notes is a general senior obligation of each guarantor and rank senior in right of payment to all existing and future subordinated indebtedness of the guarantor subsidiary, including FDC's existing senior subordinated notes. The notes rank equal in right of payment with all existing and future senior indebtedness of the guarantor subsidiary but are effectively senior to the guarantees of FDC's existing senior



**FIRST DATA CORPORATION**

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

unsecured notes and FDC's existing senior secured second lien notes to the extent of the guarantor subsidiary's value of the collateral securing the notes. The 7.375% Senior Secured First Lien Notes, 8.875% Senior Secured First Lien Notes, and 6.75% Senior Secured First Lien Notes are effectively equal in right of payment with each other and the guarantees of FDC's senior secured credit facilities. Each series of notes are effectively subordinated to any obligations secured by liens permitted under the indenture for the particular series of notes and structurally subordinated to any existing and future indebtedness and other liabilities of any subsidiary of a guarantor that is not also a guarantor of the notes.

All senior unsecured notes (i) rank senior in right of payment to all of FDC's existing and future subordinated indebtedness, (ii) rank equally in right of payment to all of the existing and future senior indebtedness, (iii) are effectively subordinated in right of payment to all existing and future secured debt to the extent of the value of the assets securing such debt, and (iv) are structurally subordinated to all obligations of each subsidiary that is not a guarantor of the senior notes.

The senior subordinated notes are unsecured and (i) rank equally in right of payment with all of the existing and future senior subordinated debt, (ii) rank senior in right of payment to all future debt and other obligations that are, by their terms, expressly subordinated in right of payment to the senior subordinated notes, (iii) are effectively subordinated in right of payment to all existing and future secured debt to the extent of the value of the assets securing such debt, and (iv) are structurally subordinated to all obligations of each subsidiary that is not a guarantor of the senior subordinated notes.

All obligations under the senior secured notes, senior secured second lien notes, PIK toggle senior second lien notes, senior unsecured notes, and senior unsecured subordinated notes also contain a number of covenants similar to those described for the senior secured obligations noted above. FDC is in compliance with all applicable covenants.

**Debt transactions effected subsequent to December 31, 2012**

**Debt Offering and Debt Repurchase.** 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.

On February 13, 2013, the Company 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.

## Edgar Filing: FIRST DATA CORP - Form 10-K

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 the Company 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 above. The notes also contain a number of covenants similar to those described for the senior secured obligations noted above.

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

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

**Joinder Agreement to the Senior Secured Credit Facilities.** 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.

**Related Financing Costs.** In connection with the debt offering and amendment to the senior secured credit facilities discussed above, the Company incurred lender fees and other expenses of approximately \$14 million, excluding premiums paid of approximately \$21 million related to the tender offer and debt repurchase.

**Other**

In November 2011, FDC paid off its 5.625% notes due 2011 for \$32.6 million.

In June 2010, FDC paid off its 4.50% notes due 2010 for \$13.1 million.

**Maturities**

The following table presents the future aggregate annual maturities of long-term debt:

Year ended December 31, (in millions)	Par Amount
2013	\$ 80.3
2014	294.0
2015	1,568.0
2016	2,506.6
2017	2,672.0

Thereafter

15,665.4

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 9: Supplemental Financial Information

## Supplemental Statements of Operations Information

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

(in millions)	Year ended December 31,		
	2012	2011	2010
Investment (losses) and gains	\$ (7.7)	\$	\$ 2.5
Derivative financial instruments (losses) and gains	(91.4)	58.2	(58.3)
Divestitures, net		57.4	18.7
Non-operating foreign currency gains	4.8	5.3	21.2
Other		3.2	
Other income (expense)	\$ (94.3)	\$ 124.1	\$ (15.9)

## Supplemental Balance Sheet Information

(in millions)	As of December 31,	
	2012	2011
Current assets:		
Accounts receivable:		
Customers	\$ 1,713.8	\$ 1,682.8
Due from unconsolidated merchant alliances	37.0	36.8
Leasing receivables	99.8	93.1
Interest and other receivables	30.4	54.0
	1,881.0	1,866.7
Less allowance for doubtful accounts-other receivables	(29.9)	(14.2)
Less allowance for doubtful accounts-leasing receivables	(3.4)	(3.9)
	\$ 1,847.7	\$ 1,848.6
Other current assets:		
Prepaid expenses	\$ 92.0	\$ 113.5
Inventory	72.2	89.3
Deferred and other income tax assets	78.3	120.1
Derivative financial instruments	11.1	
	\$ 253.6	\$ 322.9

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	As of December 31,	
	2012	2011
<b>Property and equipment:</b>		
Land	\$ 88.6	\$ 95.8
Buildings	319.4	322.2
Leasehold improvements	51.9	56.1
Equipment and furniture	1,103.4	1,026.2
Equipment under capital lease	316.8	278.5
	1,880.1	1,778.8
Less accumulated depreciation	(1,024.3)	(842.9)
	\$ 855.8	\$ 935.9
<b>Other long-term assets:</b>		
Accounts receivable, net of allowance for doubtful accounts of \$2.1(2012)	\$ 180.7	\$ 160.3
Leasing Receivables, net of allowance for doubtful accounts of \$10.6 (2012) and \$10.3 (2011)	277.7	257.6
Investments	13.9	24.2
Regulatory and escrowed cash	5.1	13.9
Derivative financial instruments	89.8	76.3
Deferred financing costs, net of amortization	218.2	269.8
Deferred income tax assets	10.4	10.5
Pension assets		13.7
Other	29.2	17.8
	\$ 825.0	\$ 844.1
<b>Other current liabilities:</b>		
Accrued interest expense	\$ 496.0	\$ 439.5
Other accrued expenses	554.8	537.5
Compensation and benefit liabilities	307.2	284.6
Derivative financial instruments	0.3	156.7
Due to unconsolidated merchant alliances	8.7	6.9
Other	233.6	217.9
	\$ 1,600.6	\$ 1,643.1
<b>Other long-term liabilities:</b>		
Pension obligations	\$ 103.3	\$ 91.1
Derivative financial instruments	171.8	39.7
Income taxes payable	353.0	475.6
Other	193.8	157.2
	\$ 821.9	\$ 763.6

**Supplemental Cash Flow Information**

Supplemental cash flow information is summarized as follows:

Year ended December 31,

Edgar Filing: FIRST DATA CORP - Form 10-K

(in millions)	2012		2011		2010	
Income tax payments, net of refunds received	\$	70.1	\$	67.2	\$	100.5
Interest paid	\$	1,793.9	\$	1,458.2	\$	1,494.9
Distributions received from equity method investments	\$	244.5	\$	194.8	\$	194.1

**Significant non-cash transactions.** During 2011 and 2010, the principal amount of FDC's senior notes due 2015 increased by \$73.1 million and \$362.5 million, respectively, resulting from the payment of accrued interest expense. The decrease in the amount of interest expense accrued during 2011 is due to the December 2010 exchange of notes discussed below. The terms of FDC's senior unsecured notes due 2015 require interest to be paid in cash for all periods after October 1, 2011.

**FIRST DATA CORPORATION**

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

In December 2011, the Company exchanged substantially all of its aggregate principal amounts of \$3.0 billion of its 12.625% senior notes due 2021 for publicly tradable notes having substantially identical terms and guarantees, except that the exchange notes will be freely tradable.

In December 2010, the Company exchanged \$3.0 billion of its 9.875% senior notes due 2015 and \$3.0 billion of its 10.550% senior PIK notes due 2015 for \$2.0 billion of 8.25% senior second lien notes due 2021, \$1.0 billion of 8.75%/10.00% PIK toggle senior second lien notes due 2022 and \$3.0 billion of 12.625% senior notes due 2021.

There were no expenditures, other than professional fees, or receipts of cash associated with the registration statement or exchange offer described above.

During 2012, 2011 and 2010, the Company entered into capital leases, net of trade-ins, totaling approximately \$55 million, \$106 million and \$65 million, respectively.

As discussed in Note 3 of these Consolidated Financial Statements, the Company acquired 100% of Clover Network, Inc. and recorded a \$20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company's estimate of the future payments.

Also discussed in Note 3 of these Consolidated Financial Statements, the Company acquired the remaining approximately 30 percent noncontrolling interest in Omnipay for approximately 37.1 million euro, of which 19.0 million euro (\$25.1 million) was paid in April 2012 with the remainder to be paid in April 2013.

In November 2011, the Company contributed the assets of its transportation business to an alliance in exchange for a 30% interest in the alliance. Refer to Note 18 of these Consolidated Financial Statements for additional information.

Refer to Note 13 of these Consolidated Financial Statements for information concerning the Company's stock-based compensation plans.

**Note 10: Related Party Transactions**

**Merchant Alliances**



A substantial portion of the Company's business within the Retail and Alliance Services and International segments is conducted through merchant alliances. Merchant alliances are alliances between the Company and financial institutions. If the Company has majority ownership and management control over an alliance, then the alliance's financial statements are consolidated with those of the Company and the related processing fees are treated as an intercompany transaction and eliminated upon consolidation. If the Company does not have a controlling ownership interest in an alliance, it uses the equity method of accounting to account for its investment in the alliance. As a result, the Company's consolidated revenues include processing fees charged to alliances accounted for under the equity method. No directors or officers of the Company have ownership interests in any of the alliances. The formation of each of these alliances generally involves the Company and the bank contributing contractual merchant relationships to the alliance and a cash payment from one owner to the other to achieve the desired ownership percentage for each. The Company and the bank contract a long-term processing service agreement as part of the negotiation process. This agreement governs the Company's provision of transaction processing services to the alliance.

The Company negotiated all agreements with the alliance banks. Therefore, all transactions between the Company and its alliances were conducted at arm's length; nevertheless, accounting guidance defines a transaction between the Company and an equity method investee as a related party transaction requiring separate disclosure in the financial statements of the Company. Accordingly, the revenue associated with these related party transactions are presented on the face of the Consolidated Statements of Operations.

#### **Management Agreement**

First Data has a management agreement with affiliates of KKR (the Management Agreement) pursuant to which KKR provides management, consulting, financial and other advisory services to the Company. Pursuant to the Management Agreement, KKR receives an aggregate annual management fee and reimbursement of out-of-pocket expenses incurred in connection with the provision of services. The Management Agreement has an initial term expiring on December 31, 2019, provided that the term will be

**FIRST DATA CORPORATION**

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

extended annually thereafter unless the Company provides prior written notice of its desire not to automatically extend the term. The Management Agreement provides that KKR also is entitled to receive a fee equal to a percentage of the gross transaction value in connection with certain subsequent financing, acquisition, disposition and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the Management Agreement in the event of an initial public offering or under certain other circumstances. The Management Agreement terminates automatically upon the consummation of an initial public offering and may be terminated at any time by mutual consent of the Company and KKR. The Management Agreement also contains customary exculpation and indemnification provisions in favor of KKR and its affiliates. During 2012, 2011 and 2010, the Company incurred \$20.1 million, \$20.0 million and \$20.5 million, respectively, of management fees.

All members of the Company's Board of Directors are affiliated with KKR.

**Transactions and Balances Involving Company Affiliates**

In August 2010, the Company paid KKR Capital Markets LLC ( KCM ), an affiliate of KKR, \$5 million for services rendered in arranging for the amendment of the Company's credit agreement.

On November 17, 2010, the Company entered into a dealer manager agreement and fee letter (collectively the Dealer Manager Agreement ) with, among others, KCM, pursuant to which KCM agreed to act as a dealer manager for the exchange of certain of the Company's existing notes for new securities (the Exchange ). Under the terms of the Dealer Manager Agreement, upon completion of the Exchange in December 2010, the Company paid \$26.1 million to KCM.

On April 12, 2011, the Company entered into an Amended and Restated Engagement Letter with KCM and others, pursuant to which KCM agreed to assist in arranging and coordinating the Company's request for an extension of the maturity of certain commitment and loans under its senior secured lending facility. The Company paid KCM \$1.25 million in April 2011 for such services.

On April 13, 2011, the Company entered into a Purchase Agreement with, among others, KCM, in which KCM agreed to serve as one of the initial purchasers for an offering of secured notes and receive a portion of the underwriting commission for the offering. Under the terms of the agreement, the Company paid underwriting commissions of \$0.5 million to KCM.

On February 28, 2012, the Company entered into an Amended and Restated Engagement Letter with KCM and others, pursuant to which KCM agreed to assist in arranging and coordinating the Company's request for an extension of the maturity of certain commitments and loans under its senior secured lending facility. The Company paid KCM \$0.6 million for such services.

## Edgar Filing: FIRST DATA CORP - Form 10-K

In 2012 and January 2013, KCM assisted the Company in arranging and coordinating the Company's request for an extension of the maturity of certain commitments and loans under its senior secured lending facility. The Company paid KCM \$2.4 million for such services. Also during 2012 and January 2013, the Company entered into purchase agreements in which KCM agreed to serve as one of the initial purchasers for offerings of secured notes and receive a portion of the underwriting commissions for the offerings. Under the terms of the agreements, the Company paid underwriting commissions to KCM of \$8.6 million.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During 2012, 2011 and 2010, the Company paid \$12.3 million, \$12.0 million and \$7.3 million, respectively, of expenses to Capstone Consulting LLC, a consulting company that works exclusively with KKR's portfolio companies, for consulting, financial and other advisory services provided to the Company.

**Note 11: Commitments and Contingencies****Operating Leases**

The Company leases certain of its facilities and equipment under operating lease agreements, substantially all of which contain renewal options and escalation provisions. The following table presents the amounts associated with total rent expense for operating leases:

Year ended December 31, (in millions)	Amount
2012	\$ 72.4
2011	81.3
2010	83.7

Future minimum aggregate rental commitments as of December 31, 2012 under all noncancelable operating leases, net of sublease income, were \$293.3 million and are due in the following years:

Year ended December 31, (in millions)	Amount
2013	\$ 57.3
2014	47.1
2015	37.8
2016	34.4
2017	26.8
Thereafter	89.9

Sublease income is earned from leased space which FDC concurrently subleases to third parties with comparable time periods. As of December 31, 2012, there were no sublease amounts in FDC obligations. In addition, the Company has certain guarantees imbedded in leases and other agreements wherein the Company is required to relieve the counterparty in the event of changes in the tax code or rates. The Company believes the fair value of such guarantees is insignificant due to the likelihood and extent of the potential changes.

**Letters of Credit**

The Company has \$45.1 million in outstanding letters of credit as of December 31, 2012, all of which were issued under the Company's senior secured revolving credit facility and expire prior to December 10, 2013 with a one-year renewal option. The letters of credit are held in connection with lease arrangements, bankcard association agreements and other security agreements. The Company expects to renew most of the letters of credit prior to expiration.

### **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.

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 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

**FIRST DATA CORPORATION**

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

California's dismissal of all the claims against the defendants. On July 26, 2012, the plaintiffs petitioned the Ninth Circuit for rehearing en banc. 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 customer matters often associated with alleged processing errors or disclosure issues and claims that one of the subsidiaries of the Company has violated a federal or state requirement regarding credit reporting or collection in connection with its check verification guarantee, and collection activities; and (3) other matters which may include issues such as employment. The Company's estimates of the possible ranges of losses in excess of any amounts accrued are \$0 to \$6 million for patent infringement, \$0 to \$75 million for merchant customer matters and \$0 to \$4 million for other matters, resulting in a total estimated range of possible losses of \$0 to \$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.

As discussed in Note 3 of these Consolidated Financial Statements, during the year ended December 31, 2012, contingent consideration was recorded related to the acquisition of Clover Network, Inc. The transaction called for cash consideration as well as a series of contingent payments based on the achievement of specified sales targets. These contingent payments are classified as purchase consideration if made to outside investors and compensation if made to current and future employees. As part of the purchase price, the Company recorded a \$20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company's estimate of the future payments.

Also during the year ended December 31, 2012, contingent consideration was recorded related to a small divestiture. The transaction called for a series of contingent payments based on revenue over three years. As part of the sale price, the Company recorded a \$14 million asset for the contingent consideration due based upon the net present value of the Company's estimate of future receipts from the buyer.

**Note 12: First Data Corporation Stockholder's Equity and Redeemable Noncontrolling Interests**

**Dividends**

The Company's senior secured revolving credit facility, senior secured term loan facility, senior secured notes, senior second lien notes, PIK toggle senior second lien notes, senior notes and senior subordinated notes contain restrictions on the Company's ability to pay dividends. The restrictions are subject to numerous qualifications and exceptions, including an exception that allows the Company to pay a dividend to repurchase, under certain circumstances, the equity of Parent held by employees, officers and directors that were obtained in connection with the stock compensation plan. The Company paid cash dividends to its parent totaling \$6.7 million during 2012, \$0.2 million during 2011, and \$14.9 million during 2010.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Other Comprehensive Income

The income tax effects allocated to and the cumulative balance of each component of OCI are as follows:

(in millions)	Beginning Balance	Pretax Gain (Loss) Amount	Tax (Benefit) Expense	Net-of- Tax Amount	Ending Balance
<b>As of December 31, 2012</b>					
Unrealized gains (losses) on securities	\$ 0.9	\$ 0.3	\$ 0.1	\$ 0.2	\$ 1.1
Unrealized gains (losses) on hedging activities	(72.2)	114.9	42.7	72.2	
Foreign currency translation adjustment	(438.3)	28.4	16.0	12.4	(425.9)
Pension liability adjustments	(88.8)	(61.8)	(23.2)	(38.6)	(127.4)
	\$ (598.4)	\$ 81.8	\$ 35.6	\$ 46.2	\$ (552.2)
<b>As of December 31, 2011</b>					
Unrealized gains (losses) on securities	\$ 0.1	\$ 1.3	\$ 0.5	\$ 0.8	\$ 0.9
Unrealized gains (losses) on hedging activities	(171.8)	158.6	59.0	99.6	(72.2)
Foreign currency translation adjustment	(400.3)	(79.0)	(41.0)	(38.0)	(438.3)
Pension liability adjustments	(64.9)	(38.8)	(14.9)	(23.9)	(88.8)
	\$ (636.9)	\$ 42.1	\$ 3.6	\$ 38.5	\$ (598.4)
<b>As of December 31, 2010</b>					
Unrealized gains (losses) on securities	\$ (27.4)	\$ 44.0	\$ 16.5	\$ 27.5	\$ 0.1
Unrealized gains (losses) on hedging activities	(242.1)	115.2	44.9	70.3	(171.8)
Foreign currency translation adjustment	(318.8)	(65.5)	16.0	(81.5)	(400.3)
Pension liability adjustments	(93.4)	44.9	16.4	28.5	(64.9)
	\$ (681.7)	\$ 138.6	\$ 93.8	\$ 44.8	\$ (636.9)

The net-of-tax Foreign currency translation adjustment presented above for the year ended December 31, 2012, 2011 and 2010 is different than the amount presented on the Consolidated Statements of Comprehensive Income (Loss) by \$3.3 million, \$6.9 million and \$3.1 million, respectively, due to the foreign currency translation adjustment related to noncontrolling interests not included above.

## Other First Data Corporation Stockholder s Equity Transactions

The following table presents the effects of changes in FDC s ownership interest in Omnipay and its BAMS alliance on FDC s equity:



Edgar Filing: FIRST DATA CORP - Form 10-K

(in millions)	Year ended December 31,		
	2012	2011	2010
Net loss attributable to FDC	\$ (700.9)	\$ (516.1)	\$ (1,021.8)
Transfers from noncontrolling interests:			
Decrease in FDC's paid-in capital for loss recognized from purchase of noncontrolling interest, including tax effect	(46.1)		(7.5)
Change in net loss attributable to FDC and transfers from noncontrolling interests	\$ (747.0)	\$ (516.1)	\$ (1,029.3)

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Redeemable Noncontrolling Interest**

The following table presents a summary of the redeemable noncontrolling interest activity in 2012 and 2011:

(in millions)	Redeemable Noncontrolling Interest
Balance as of January 1, 2011	\$ 28.1
Distributions	(31.2)
Share of income	32.0
Adjustment to redemption value of redeemable noncontrolling interest	38.6
Other	(0.1)
Balance as of December 31, 2011	67.4
Distributions	(36.0)
Share of income	36.0
Balance as of December 31, 2012	\$ 67.4

**Note 13: Stock Compensation Plans**

The Company's parent, Holdings, has a stock incentive plan for certain management employees of FDC and its affiliates ( "stock plan" ). The stock plan provides the opportunity for certain management employees to purchase shares in Holdings and then receive a number of options or restricted stock based on a multiple of their investment in such shares. The plan also allows for the Company to award shares and options to management employees. The participants of the stock plan enter into a management stockholders' agreement. Principal terms of the management stockholders' agreement include restrictions on transfers, lock ups, right of first refusal, registration rights, and a confidentiality, non-solicitation and non-compete covenant. The expense associated with this plan is recorded by FDC. The number of shares authorized under the stock plan is 119.5 million, 83 million of which are authorized for options.

The participants of the stock plan have the right to require Holdings to repurchase the shares and options upon the employee's termination due to death or disability. The put rights expire one year after the termination event or upon a change in control. The repurchase price for the shares is their fair market value at the time of repurchase. The repurchase price for the options is their intrinsic value at the time of repurchase.

Total stock-based compensation expense recognized in the "Selling, general and administrative" line item of the Consolidated Statements of Operations resulting from stock options, non-vested restricted stock awards and non-vested restricted stock units was as follows:

Year ended December 31,  
(in millions)

Amount

## Edgar Filing: FIRST DATA CORP - Form 10-K

2012	\$	12.4
2011		17.6
2010		17.1

The Company has a deferred compensation plan for non-employee directors that allows each of these directors to defer their annual compensation. The plan is unfunded. For purposes of determining the investment return on the deferred compensation, each director's account is treated as if credited with a number of shares of Holdings stock determined by dividing the deferred compensation amount by the first Board approved fair value of the stock during the year. The account balance will be paid in cash upon termination of Board service, certain liquidity events or other certain events at the fair value of the stock at the time of settlement. Due to the cash settlement provisions, the account balances are recorded as a liability and are adjusted to fair value quarterly. As of December 31, 2012, the balance of this liability was \$0.8 million.

### Stock Options

During the years ended December 31, 2012, 2011 and 2010, time-based options were granted under the stock plan and during the years ended December 31, 2011 and 2010, performance-based options were granted under the stock plan. The time-based options and performance-based options have a contractual term of 10 years. Time-based options vest equally over a three to five year period from the date of issuance and performance-based options vest based upon the Company achieving certain EBITDA targets. The

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

options also have certain accelerated vesting provisions that become effective upon a change in control, a qualified public offering, or certain termination events.

In May 2010, the Company modified the terms of time-based options and substantially all performance-based options outstanding under the stock plan. The modifications only affected active employees as of the modification date. The exercise price on previously granted time-based options was reduced from \$5 to \$3. The Company is continuing to recognize expense on these options based on the original grant date fair value amortized over the remaining original vesting schedule. Subsequent to the modification, due to the nature of the call rights associated with the time-based options, which expire 180 days after certain employment termination events or the latter of September 24, 2012 or a qualified public offering, the incremental stock option fair value from the change in exercise price and the total fair value of time-based options issued since the modification date will only be recognized upon the occurrence of such events. Prior to the modifications, the call rights expired 180 days after certain employment termination events or the earlier of September 24, 2012 or a change in control. In addition, substantially all outstanding performance-based options were cancelled and reissued. The reissued performance-based options have an exercise price of \$3 and a tiered vesting schedule that provides for vesting of 25%, 75% or 100% of the options if the Company achieves certain EBITDA targets in any fiscal year between January 1, 2010 and December 31, 2013. The performance-based options have the same call rights as the time-based options described above. Due to the call rights, the Company will only recognize expense on the performance-based options upon certain employment termination events or the latter of September 24, 2012 or a qualified public offering. In conjunction with the above noted modifications, stock plan participants also received a cash bonus payment in the second quarter of 2010 totaling \$7.8 million.

As of December 31, 2012 there was approximately \$99 million of total unrecognized compensation expense related to non-vested stock options. Approximately \$5 million will be recognized over a period of approximately two years while approximately \$94 million will only be recognized upon a qualified public offering or certain liquidity or employment termination events.

During 2012, 2011, and 2010, Holdings paid \$3.1 million, \$2.9 million, and \$21.9 million, respectively, to repurchase shares from employees that terminated employment with the Company.

The fair value of Holdings stock options granted for the years ended December 31, 2012, 2011 and 2010 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions (excluding the effect of stock plan modifications):

	Year ended December 31,		
	2012	2011	2010
Risk-free interest rate	1.45%	2.86%	3.03%
Dividend yield			
Volatility	51.77%	54.65%	51.40%
Expected term (in years)	7	7	7
Fair value of stock (a)	\$ 3.00	\$ 3.00	\$ 3.00
Fair value of options	\$ 1.60	\$ 1.73	\$ 1.66

(a) The fair value of the stock increased from \$3.00 to \$3.50 effective March 31, 2012.

## Edgar Filing: FIRST DATA CORP - Form 10-K

*Risk-free interest rate* The risk-free rate for stock options granted during the period was determined by using a zero-coupon U.S. Treasury rate for the periods that coincided with the expected terms listed above.

*Expected dividend yield* No routine dividends are currently being paid by Holdings, or are expected to be paid in future periods.

*Expected volatility* As Holdings is a non-publicly traded company, the expected volatility is based on the historical volatilities of a group of guideline companies.

*Expected term* The Company estimated the expected term by considering the historical exercise and termination behavior of employees that participated in the Company's previous equity plans, the vesting conditions of options granted under the stock plan, as well as the impact of limited liquidity for common stock of a non-publicly traded company.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Fair value of stock* The Company relied in part upon a third-party valuation firm in determining the fair value of Holdings stock. All key assumptions and valuations were determined by and are the responsibility of management.

A summary of Holdings stock option activity for the year ended December 31, 2012 is as follows:

(options in millions)	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term
Outstanding as of January 1, 2012	73.0	\$ 3.00	
Granted	8.0	\$ 3.00	
Exercised	(0.4)	\$ 3.50	
Cancelled / Forfeited	(3.0)	\$ 3.00	
Outstanding as of December 31, 2012	77.6	\$ 3.00	7 years
Options exercisable as of December 31, 2012	27.5	\$ 3.00	6 years

The total intrinsic value and amount paid related to stock options exercised during the twelve months ended December 31, 2012 was \$0.2 million and no shares were exercised during 2011 or 2010.

**Restricted Stock Awards and Restricted Stock Units**

Restricted stock awards were granted under the stock plan during 2012, 2011 and 2010. Grants were made as incentive awards. The restrictions on the awards granted subsequent to the modifications described above will lapse upon a qualified public offering, a change in control or certain employment termination or liquidity events. As such, the Company is not recognizing expense on awards granted subsequent to the modifications described above. The Company is continuing to recognize expense on the restricted stock awards granted prior to the modifications described above based on the original grant date fair value amortized over the remaining original vesting schedule. As of December 31, 2012 there was approximately \$41 million of total unrecognized compensation expense related to restricted stock. Approximately \$0.1 million will be recognized over a period of approximately two years with the remainder recognized upon the occurrence of certain liquidity or employment termination events.

During 2012, 2011, and 2010, the Company paid \$1.5 million, \$0.5 million, and \$2.5 million, respectively, to repurchase stock awards from employees that terminated employment with the Company.

A summary of Holdings restricted stock award and restricted stock unit activity for the year ended December 31, 2012 is as follows:

(awards/units in millions)	Awards/Units	Weighted-Average Grant-Date Fair Value
Non-vested as of January 1, 2012	10.9	\$ 3.14
Granted	4.0	\$ 3.00
Vested	(0.7)	\$ 4.74
Cancelled / Forfeited	(0.6)	\$ 3.16
Non-vested as of December 31, 2012	13.6	\$ 3.00

The total fair value of shares vested (measured as of the date of vesting) during the twelve months ended December 31, 2012, 2011 and 2010 was \$2.5 million, \$0.5 million, and \$2.4 million, respectively.

**Note 14: Employee Benefit Plans**

**Defined Contribution Plans**

FDC maintains defined contribution savings plans covering virtually all of the Company's U.S. employees and defined contribution pension plans for international employees primarily in the United Kingdom and Australia. The plans provide tax-deferred amounts for each participant, consisting of employee elective contributions, Company matching and discretionary Company contributions.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the aggregate amounts charged to expense in connection with these plans:

Year ended December 31, (in millions)	Amount
2012	\$ 45.2
2011	42.7
2010	41.1

**Defined Benefit Plans**

The Company has a defined benefit pension plan which is frozen and covers certain full-time employees in the U.S. The Company also has separate plans covering certain employees located primarily in the United Kingdom, Germany, Greece and Austria.

In December 2011, the Company received judicial confirmation that a change in U.K. law restricted the Company's ability to eliminate the effects of future compensation increases on the plan's benefits associated with a curtailment recorded in 2009. As a result, benefits related to future compensation increases were reinstated but the plan remained frozen to benefit accruals related to length of service and all other factors. The Company recorded a loss of approximately \$7 million, net of income taxes, in other comprehensive income in 2011. In December 2012, the Company initiated actions to freeze the plan benefits related to future salary increases subject to participant approval. The Company expects to record a curtailment gain in other comprehensive income in 2013.

The Company uses December 31 as the measurement date for its plans.

The following table provides a reconciliation of the changes in the plans' projected benefit obligations and fair value of assets for the years ended December 31, 2012 and 2011, as well as a statement of the funded status as of the respective period ends.

(in millions)	As of December 31,	
	2012	2011
Change in benefit obligation		
Benefit obligation at beginning of period	\$ 798.5	\$ 725.9
Service costs	5.0	6.1
Interest costs	37.7	39.8
U.K. plan benefit reinstatement		10.9
Actuarial (gain)/loss	79.0	35.7
Termination benefits (a)	0.1	0.9
Benefits paid	(29.8)	(27.5)
Foreign currency translation	18.6	6.7



Edgar Filing: FIRST DATA CORP - Form 10-K

Benefit obligation at end of period	909.1	798.5
Change in plan assets		
Fair value of plan assets at the beginning of period	721.1	656.3
Actual return on plan assets	61.0	53.9
Company contributions	31.6	29.9
Benefits paid	(26.4)	(25.7)
Foreign currency translation	18.5	6.7
Fair value of plan assets at end of period	805.8	721.1
Funded status of the plans	\$ (103.3)	\$ (77.4)

---

(a) Related to restructuring activities in Europe.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	Year ended December 31,	
	2012	2011
U.K. plan:		
Plan benefit obligations	\$ (659.5)	\$ (574.7)
Fair value of plan assets	658.3	588.4
Net pension (liabilities) assets (a) (b)	(1.2)	13.7
U.S. and other foreign plans:		
Plan benefit obligations	(249.6)	(223.8)
Fair value of plan assets	147.5	132.7
Net pension liabilities (b)	\$ (102.1)	\$ (91.1)
Funded status of the plans	\$ (103.3)	\$ (77.4)

(a) Pension assets are included in the Other long-term assets line of the Consolidated Balance Sheets.

(b) Pension liabilities are included in the Other long-term liabilities line of the Consolidated Balance Sheets.

The accumulated benefit obligation for all defined benefit pension plans was \$896.7 million and \$786.8 million as of December 31, 2012 and 2011, respectively.

The following table summarizes the activity in other comprehensive income, net of tax:

(in millions)	Year ended December 31,		
	2012	2011	2010
Total unrecognized gain/(loss) included in other comprehensive income at the beginning of period	\$ (88.8)	\$ (64.9)	\$ (93.4)
Unrecognized gain/(loss) arising during the period	(39.9)	(17.7)	27.1
U.K. plan benefit reinstatement		(7.0)	
Amortization of deferred gains/(losses) to net periodic benefit expense (a)	1.3	0.8	1.4
Total unrecognized gain/(loss) included in other comprehensive income at end of period	\$ (127.4)	\$ (88.8)	\$ (64.9)

(a) Expected amortization of deferred losses to net periodic benefit expense in 2013 is \$4.0 million pretax.

Amounts recorded in other comprehensive income represent unrecognized net actuarial gains and losses. The Company does not have net transition assets or obligations.

## Edgar Filing: FIRST DATA CORP - Form 10-K

The following table provides the components of net periodic benefit cost for the plans:

(in millions)	Year ended December 31,		
	2012	2011	2010
Service costs	\$ 5.0	\$ 6.1	\$ 3.1
Interest costs	37.7	39.8	40.0
Expected return on plan assets	(44.7)	(46.5)	(40.4)
Amortization	2.1	1.3	2.2
Net periodic benefit expense	\$ 0.1	\$ 0.7	\$ 4.9

**Assumptions.** The weighted-average rate assumptions used in the measurement of the Company's benefit obligations are as follows:

	As of December 31,		
	2012	2011	2010
Discount rate	4.29%	4.75%	5.40%
Rate of compensation increase (a)	3.95%	3.77%	4.00%

---

(a) The rate of compensation increases generally apply to active plans.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted-average rate assumptions used in the measurement of the Company's net cost are as follows:

	Year ended December 31,		
	2012	2011	2010
Discount rate	4.71%	5.21%	5.55%
Expected long-term return on plan assets	6.11%	6.83%	6.86%
Rate of compensation increase (a)	3.60%	4.24%	4.00%

(a) The rate of compensation increases generally apply to active plans.

Assumptions for the U.S. plans and the foreign plans are comparable in all of the above periods. The Company employs a building block approach in determining the long-term rate of return for plan assets with proper consideration of diversification and re-balancing. Historical markets are studied and long-term historical relationships between equities and fixed-income securities are preserved consistent with the widely accepted capital market principle that assets with higher volatility generate a greater return over the long run. Current market factors such as inflation and interest rates are evaluated before long-term capital market assumptions are determined. Peer data and historical returns are reviewed to check for reasonableness and appropriateness. All assumptions are the responsibility of management.

**Plan assets.** The Company's pension plan target asset allocation, based on the investment policy as of December 31, 2012, is as follows:

Asset Category	Target allocation U.S. plans	Target allocation Foreign plans
Equity securities	40%	60%
Debt securities	60%	40%

The Company employs a total return investment approach whereby a mix of equities and fixed income investments are used to maximize the long-term return of plan assets for a prudent level of risk. Risk tolerance is established through careful consideration of plan liabilities and plan funded status. The investment portfolio contains a diversified blend of equity and fixed-income investments. Furthermore, equity investments are diversified across U.S. and global equity investments. In addition, private equity securities comprise a very small part of the equity allocation. The fixed income allocation is a combination of fixed income investment strategies designed to contribute to the total rate of return of all plan assets while minimizing risk and supporting the duration of plan liabilities.

Investment risk is measured and monitored on an ongoing basis through quarterly investment portfolio reviews, annual liability measurements, and periodic asset and liability studies. The general philosophy of the Benefit Committee in setting the allocation percentages for the domestic plan shown above is to adhere to the appropriate allocation mix necessary to support the underlying plan liabilities as influenced significantly by the demographics of the participants and the frozen nature of the plan.

The goal of the Board of Trustees of the United Kingdom plan is the acquisition of secure assets of appropriate liquidity which are expected to generate income and capital growth to meet, together with new contributions from the Company, the cost of current and future benefits, as set out in the Trust Deed and Rules. The Trustees, together with the plan's consultants and actuaries, further design the asset allocation shown above to limit the risk of the assets failing to meet the liabilities over the long term. Currently the equity allocation is diversified amongst both United Kingdom and non-United Kingdom equities from North America, Europe, Japan and Asia Pacific. A small portion is allocated to other global emerging market equity securities. Fixed income is allocated primarily to United Kingdom government bond securities with the remaining portion in investment-grade corporate bonds.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Fair value measurements.** Financial instruments included in plan assets carried and measured at fair value on a recurring basis are classified in the table below according to the hierarchy described in Note 7 of these Consolidated Financial Statements:

(in millions)	As of December 31, 2012			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments:				
Cash and cash equivalents	\$ 0.6	\$	\$	\$ 0.6
Registered investment companies:				
Cash management fund	1.8			1.8
Equity funds	58.8			58.8
Fixed income securities		42.6		42.6
Private investment funds - redeemable (a)		698.6		698.6
Private investment funds - non-redeemable			0.1	0.1
Insurance annuity contracts			3.3	3.3
Total investments at fair value	\$ 61.2	\$ 741.2	\$ 3.4	\$ 805.8

(a) 42% of portfolio is invested in equity index funds, 57% in fixed income investments and 1% in other investments.

(in millions)	As of December 31, 2011			Total
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Investments:				
Cash and cash equivalents	\$ 3.2	\$	\$	\$ 3.2
Registered investment companies:				
Cash management fund	1.0			1.0
Equity funds	49.1			49.1
Fixed income funds	14.2			14.2
Fixed income securities		35.1		35.1
Private investment funds - redeemable (a)		613.1		613.1
Private investment funds - non-redeemable			1.0	1.0
Insurance annuity contracts			4.4	4.4
Total investments at fair value	\$ 67.5	\$ 648.2	\$ 5.4	\$ 721.1

(a) 46% of portfolio is invested in equity index funds and 54% in fixed income investments.



## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	Fair Value Measurement Using Significant Unobservable Inputs (Level 3)			
		Insurance annuity contracts		Private investment funds non-redeemable
Beginning balance as of January 1, 2011	\$	4.4	\$	0.3
Transfer in from level 2 (a)				1.4
Settlements				(0.7)
Ending balance as of December 31, 2011		4.4		1.0
Actual return on plan assets				0.1
Settlements		(1.1)		(1.0)
Ending balance as of December 31, 2012	\$	3.3	\$	0.1

(a) The plans value transfers into Level 3 utilizing values as of the beginning of the period.

**Registered investment companies.** The Company's domestic plan has investments in shares of mutual funds, primarily large cap, international and global equity funds, that are registered with the Securities and Exchange Commission. Prices of these funds are based on Net Asset Values (NAV) calculated by the funds and are publicly reported on national exchanges. The plan measures fair value of these investments using the NAV provided by the fund managers.

**Fixed income securities.** The Company's domestic plan has investments in several fixed income securities, primarily corporate bonds. The bonds were valued under a market approach using observable inputs including reported trades, benchmark yields, broker/dealer quotes, issuer spreads and other standard inputs.

**Private investment funds redeemable** The Company's domestic and United Kingdom plans are invested in shares or units of several private investment funds, not the underlying assets. Redeemable private investment funds include collective trusts, commingled funds, pooled funds, limited partnerships and limited liability corporations. The funds calculate NAV on a periodic basis and are available only from the fund managers. Private investment funds are redeemable at the NAV.

**Private investment funds non-redeemable** The Company's domestic plan has investments in several partnerships (limited partnership and limited liability corporations) for which the plan has a limited ability to redeem or transfer its interests; therefore, there is an illiquid market in which the plan can exit these investments. As a result, the plan measures fair value of these investments using estimates of fair value which come from partner capital statements provided by the partnerships.

**Insurance annuity contracts.** The Company's United Kingdom Plan is invested in several insurance annuity contracts. The value of these contracts is calculated by estimating future payments and discounting them to present value. As a result, there is no market for the Plan to exit these investments.



**Contributions.** Contributions to the plans in 2013 are expected to be approximately \$42 million.

The estimated future benefit payments, which reflect expected future service, are expected to be as follows:

<b>Year ended December 31, (in millions)</b>	<b>Amount</b>
2013	\$ 26.4
2014	27.3
2015	29.3
2016	32.1
2017	33.6
2018-2022	199.6

The Company's post-retirement health care and other insurance benefits for retired employees are limited and immaterial.

**FIRST DATA CORPORATION**

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

**Note 15: Segment Information**

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by a company's chief operating decision maker ( CODM ), or decision-making group, in deciding how to allocate resources and in assessing performance. First Data's CODM is its Chief Executive Officer. The Company is organized in three segments: Retail and Alliance Services, Financial Services and International.

The business segment measurements provided to and evaluated by the CODM are computed in accordance with the principles listed below.

- The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.
  
- Segment results exclude divested businesses.
  
- Segment revenue includes equity earnings in affiliates (excluding amortization expense) and intersegment revenue. Retail and Alliance Services segment revenue does not include equity earnings because it is reported using proportionate consolidation as described below.
  
- Segment revenue excludes reimbursable debit network fees, postage and other revenue.
  
- Segment earnings before net interest expense, income taxes, depreciation and amortization ( EBITDA ) includes equity earnings in affiliates and excludes depreciation and amortization expense, net income attributable to noncontrolling interests, other operating expenses and other income (expense). Retail and Alliance Services segment EBITDA does not include equity earnings because it is reported using proportionate consolidation as described below. Additionally, segment EBITDA is adjusted for items similar to certain of those used in calculating the Company's compliance with debt covenants. The additional items that are adjusted to determine segment EBITDA are:
  - stock based compensation and related expense is excluded;
  
  - official check and money order businesses' EBITDA are excluded;

- expenses related to the reorganization of global application development resources (applicable to 2010 ), expenses associated with domestic data center consolidation initiatives and planned workforce reduction expenses (applicable to 2010 ), certain platform development and other costs directly associated with the termination of the Chase Paymentech Solutions alliance, and expenses related to the conversion of certain BAMS alliance merchant clients onto the Company's platforms all of which are considered nonrecurring projects (excludes costs accrued in purchase accounting). Effective October 1, 2011, First Data and Bank of America N.A. ( the Bank ) jointly decided to have First Data operate the Bank's legacy settlement platform. Transition costs associated with the revised strategy are also excluded from segment EBITDA.
- debt issuance costs are excluded and represent costs associated with issuing debt and modifying the Company's debt structure;
- KKR related items include annual sponsor and other fees for management, consulting, financial and other advisory services.
- Retail and Alliance Services segment revenue and EBITDA are reflected based on the Company's proportionate share of the results of its investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. In addition, Retail and Alliance Services segment measures reflect commission payments to certain ISO's, which are treated as an expense in the Consolidated Statements of Operations, as contra revenue to be consistent with revenue share arrangements with other ISO's that are recorded as contra revenue.
- Corporate operations include administrative and shared service functions such as the executive group, legal, tax, treasury, internal audit, accounting, human resources, information technology and procurement. Costs incurred by Corporate that are directly attributable to a segment are allocated to the respective segment. Administrative, shared service and certain information technology costs are retained by Corporate.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present the Company's operating segment results for the years ended December 31, 2012, 2011 and 2010:

## Year ended December 31, 2012

(in millions)	Year ended December 31, 2012				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Revenues:					
Transaction and processing service fees	\$ 3,198.8	\$ 1,350.0	\$ 1,291.2	\$ 85.2	\$ 5,925.2
Product sales and other	404.0	40.1	391.0	39.8	874.9
Equity earnings in affiliates (a)			36.2		36.2
Total segment reporting revenues	\$ 3,602.8	\$ 1,390.1	\$ 1,718.4	\$ 125.0	\$ 6,836.3
Internal revenue	\$ 20.2	\$ 31.5	\$ 9.9	\$	\$ 61.6
External revenue	3,582.6	1,358.6	1,708.5	125.0	6,774.7
Depreciation and amortization	520.1	337.2	282.9	45.1	1,185.3
Segment EBITDA	1,594.8	603.1	483.8	(246.0)	2,435.7
Other operating expenses and other income (expense) excluding divestitures	(29.1)	(5.1)	(24.3)	(64.0)	(122.5)
Expenditures for long-lived assets	25.1	49.2	163.9	132.1	370.3
Equity earnings in affiliates	137.8		20.4		158.2
Investment in unconsolidated affiliates	1,219.6		193.5		1,413.1

## Year ended December 31, 2011

(in millions)	Year ended December 31, 2011				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Revenues:					
Transaction and processing service fees	\$ 2,974.5	\$ 1,350.0	\$ 1,337.9	\$ 108.3	\$ 5,770.7
Product sales and other	407.5	29.5	388.8	32.9	858.7
Equity earnings in affiliates (a)			34.6		34.6
Total segment reporting revenues	\$ 3,382.0	\$ 1,379.5	\$ 1,761.3	\$ 141.2	\$ 6,664.0
Internal revenue	\$ 17.5	\$ 37.8	\$ 9.8	\$	\$ 65.1
External revenue	3,364.5	1,341.7	1,751.5	141.2	6,598.9
Depreciation and amortization	571.1	347.7	222.7	45.1	1,186.6
Segment EBITDA	1,407.5	593.5	454.3	(206.8)	2,248.5
Other operating expenses and other income (expense) excluding divestitures	(0.4)	(10.5)	(12.1)	45.8	22.8
Expenditures for long-lived assets	33.4	60.0	168.0	143.4	404.8
Equity earnings in affiliates	118.5		34.9		153.4
Investment in unconsolidated affiliates	1,288.9		201.7		1,490.6

## Year ended December 31, 2010

(in millions)	Year ended December 31, 2010				Totals
	Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Revenues:					
Transaction and processing service fees	\$ 2,923.9	\$ 1,362.2	\$ 1,237.5	\$ 126.8	\$ 5,650.4

Edgar Filing: FIRST DATA CORP - Form 10-K

Product sales and other	390.9	46.8	353.9	23.9	815.5
Equity earnings in affiliates (a)			29.4		29.4
Total segment reporting revenues	\$ 3,314.8	\$ 1,409.0	\$ 1,620.8	\$ 150.7	\$ 6,495.3
Internal revenue	\$ 18.0	\$ 36.0	\$ 8.4	\$	\$ 62.4
External revenue	3,296.8	1,373.0	1,612.4	150.7	6,432.9
Depreciation and amortization	676.2	362.9	289.9	51.2	1,380.2
Segment EBITDA	1,322.3	553.0	329.8	(178.1)	2,027.0
Other operating expenses and other income (expense) excluding divestitures	(60.2)	(8.5)	(26.4)	(21.0)	(116.1)
Expenditures for long-lived assets	27.9	69.9	171.3	100.6	369.7
Equity earnings in affiliates	104.8		12.5		117.3
Investment in unconsolidated affiliates	1,013.5		194.7		1,208.2

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

(in millions)	Year ended December 31,		
	2012	2011	2010
<b>Segment Revenues:</b>			
Total reported segments	\$ 6,711.3	\$ 6,522.8	\$ 6,344.6
All Other and Corporate	125.0	141.2	150.7
Adjustments to reconcile to Adjusted revenue:			
Official check and money order revenues (b)	(12.7)	(9.9)	8.0
Eliminations of intersegment revenues	(61.6)	(65.1)	(62.4)
Adjusted revenue	6,762.0	6,589.0	6,440.9
Adjustments to reconcile to Consolidated revenues:			
Adjustments for non-wholly-owned entities (c)	73.2	179.7	224.1
Official check and money order revenues	12.7	9.9	(8.0)
ISO commission expense	470.9	403.5	333.8
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6
Consolidated revenues	\$ 10,680.3	\$ 10,713.6	\$ 10,380.4
<b>Segment EBITDA:</b>			
Total reported segments	\$ 2,681.7	\$ 2,455.3	\$ 2,205.1
All Other and Corporate	(246.0)	(206.8)	(178.1)
Adjusted EBITDA	2,435.7	2,248.5	2,027.0
Adjustments to reconcile to Net loss attributable to First Data Corporation:			
Divested businesses			1.1
Adjustments for non-wholly-owned entities (c)	6.8	59.5	34.3
Depreciation and amortization	(1,191.6)	(1,245.0)	(1,414.4)
Interest expense	(1,897.8)	(1,833.1)	(1,796.6)
Interest income	8.8	7.9	7.8
Other items (d)	(156.9)	62.4	(97.4)
Income tax benefit	224.0	270.1	323.8
Stock based compensation	(11.8)	(16.9)	(16.1)
Official check and money order EBITDA (b)	6.4	(0.5)	(21.2)
Costs of alliance conversions	(77.2)	(28.4)	(25.7)
Stock plan modification expenses			(7.8)
KKR related items	(33.6)	(37.4)	(28.5)
Debt issuance costs	(13.7)	(3.2)	(8.1)
Net loss attributable to First Data Corporation	\$ (700.9)	\$ (516.1)	\$ (1,021.8)

(a) Excludes equity losses that were recorded in expense and the amortization related to the excess of the investment balance over the Company's proportionate share of the investee's net book value for the International segment.

(b) Represents an adjustment to exclude the official check and money order businesses from revenue and EBITDA due to the Company's wind down of these businesses.

(c) 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.

Edgar Filing: FIRST DATA CORP - Form 10-K

(d) Includes restructuring, litigation and regulatory settlements and impairments as applicable to the periods presented and Other income (expense) as presented in the Consolidated Statement of Operations.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segment assets are as follows:

(in millions)	As of December 31,	
	2012	2011
Assets:		
Retail and Alliance Services	\$ 25,885.7	\$ 27,882.2
Financial Services	4,477.1	4,647.8
International	5,305.7	5,332.9
All Other and Corporate	2,230.5	2,413.4
Consolidated	\$ 37,899.0	\$ 40,276.3

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)	Year ended December 31,		
	2012	2011	2010
Depreciation and Amortization:			
Total reported segments	\$ 1,140.2	\$ 1,141.5	\$ 1,329.0
All Other and Corporate	45.1	45.1	51.2
	1,185.3	1,186.6	1,380.2
Adjustments to reconcile to consolidated depreciation and amortization:			
Adjustments for non-wholly-owned entities	101.1	115.1	107.2
Amortization of initial payments for new contracts	44.5	42.5	38.6
Total consolidated depreciation and amortization	\$ 1,330.9	\$ 1,344.2	\$ 1,526.0

Information concerning principal geographic areas was as follows:

(in millions)	United States		International	Total
Revenues				
2012	\$ 9,046.0	\$ 1,634.3	\$ 10,680.3	
2011	9,026.3	1,687.3	10,713.6	
2010	8,806.8	1,573.6	10,380.4	
Long-Lived Assets				
2012	\$ 20,594.9	\$ 3,128.3	\$ 23,723.2	
2011	21,154.6	3,290.5	24,445.1	
2010	21,979.0	3,424.6	25,403.6	

International represents businesses of significance, which have local currency as their functional currency regardless of the segments to which the associated revenues and long-lived assets applied.





## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 16: Quarterly Financial Results (Unaudited)

Summarized quarterly results for the two years ended December 31, 2012 and 2011, respectively, are as follows:

(in millions)	2012 by Quarter:			
	First	Second	Third	Fourth (a)
Revenues	\$ 2,564.0	\$ 2,685.5	\$ 2,674.0	\$ 2,756.8
Expenses	2,347.0	2,417.6	2,422.1	2,419.8
Operating profit	217.0	267.9	251.9	337.0
Interest income	2.5	1.7	2.1	2.5
Interest expense	(461.1)	(480.7)	(488.6)	(467.4)
Other income (expense)	(8.2)	(22.6)	(52.0)	(11.5)
Loss before income taxes and equity earnings in affiliates	(249.8)	(233.7)	(286.6)	(139.4)
Income tax (benefit) expense	(108.2)	(74.7)	(69.4)	28.3
Equity earnings in affiliates	27.5	44.0	43.0	43.7
Net loss	(114.1)	(115.0)	(174.2)	(124.0)
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	38.4	42.4	37.8	55.0
Net loss attributable to First Data Corporation	\$ (152.5)	\$ (157.4)	\$ (212.0)	\$ (179.0)

(in millions)	2011 by Quarter:			
	First	Second	Third (b)	Fourth (c)
Revenues	\$ 2,544.2	\$ 2,749.8	\$ 2,731.8	\$ 2,687.8
Expenses	2,437.7	2,537.8	2,438.6	2,358.0
Operating profit	106.5	212.0	293.2	329.8
Interest income	1.9	1.9	1.6	2.5
Interest expense	(442.3)	(462.3)	(466.7)	(461.8)
Other income (expense)	(26.3)	(1.4)	95.4	56.4
Loss before income taxes and equity earnings in affiliates	(360.2)	(249.8)	(76.5)	(73.1)
Income tax benefit	(148.0)	(88.1)	(18.9)	(15.1)
Equity earnings in affiliates	27.7	33.5	47.8	44.4
Net loss	(184.5)	(128.2)	(9.8)	(13.6)
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	32.6	47.6	44.1	55.7
Net loss attributable to First Data Corporation	\$ (217.1)	\$ (175.8)	\$ (53.9)	\$ (69.3)

(a) In the fourth quarter of 2012, the Company recorded a valuation allowance on state net operating losses of \$47.8 million in Income tax (benefit) expense. Refer to Note 17 of these Consolidated Financial Statements for additional information.

## Edgar Filing: FIRST DATA CORP - Form 10-K

(b) In the third quarter of 2011, the Company recorded a net \$55.4 million pretax (\$31.5 million after tax) benefit in the Consolidated Statement of Operations to correct cumulative depreciation and amortization errors related to purchase accounting associated with the Company's 2007 merger with an affiliate of Kohlberg Kravis Roberts & Co. The corrections impacted amortization of initial payments for new contracts within Revenues (\$1.6 million contra-revenue), Expenses (\$44.3 million benefit) and amortization of equity method investments within Equity earnings in affiliates (\$12.7 million benefit). The errors and the cumulative correction, which totaled \$55.4 million in aggregate and occurred over a four year period, were deemed immaterial to prior years and the current year, respectively. Additional immaterial related amounts were recorded in the fourth quarter.

(c) In the fourth quarter of 2011, the Company contributed the assets of its transportation business to an alliance in exchange for a 30% noncontrolling interest in the alliance. The Company recognized a pretax gain of \$59.1 million within Other income (expense) as a result of this transaction. Refer to Note 18 of these Consolidated Financial Statements for additional information.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## Note 17: Income Taxes

(in millions)	Year ended December 31,		
	2012	2011	2010
Components of pretax (loss) income:			
Domestic	\$ (875.5)	\$ (898.9)	\$ (1,289.1)
Foreign	124.2	292.7	118.4
	\$ (751.3)	\$ (606.2)	\$ (1,170.7)
(Benefit) provision for income taxes:			
Federal	\$ (301.4)	\$ (282.6)	\$ (313.9)
State and local	66.0	(27.9)	(39.3)
Foreign	11.4	40.4	29.4
	\$ (224.0)	\$ (270.1)	\$ (323.8)
Effective Income Tax Rate	29.8%	44.6%	27.7%

The Company's effective tax rates differ from statutory rates as follows:

	Year ended December 31,		
	2012	2011	2010
Federal statutory rate	35.0%	35.0%	35.0%
State income taxes, net of federal income tax benefit	1.1	1.5	2.0
Nontaxable income from noncontrolling interests	7.9	10.2	5.2
Impact of foreign operations (a) (c)	1.5	3.9	1.5
Valuation allowances (c)	(20.2)	(12.7)	(15.1)
Liability for unrecognized tax benefits (c)	4.1	3.3	2.1
Impact of contribution to alliance (b)	0.0	(2.2)	0.0
Prior year adjustments (c)	2.0	2.5	(1.2)
Other	(1.6)	3.1	(1.8)
Effective tax rate	29.8%	44.6%	27.7%

(a) The impact of foreign operations includes the effects of tax earnings and profits adjustments, foreign losses and differences between foreign tax expense and foreign taxes eligible for the U.S. foreign tax credit.

(b) The impact of contribution to alliance represents the tax effects resulting from the gain on the contribution of the Company's transportation business in exchange for a 30% interest in an alliance.

(c) The 2012 effective tax rate was negatively impacted by a total of approximately 9% as a result of the current year cumulative correction of immaterial prior year errors. The cumulative corrections had an impact on each of the following line items above: Impact of foreign operations, Valuation allowances, Liability for unrecognized tax benefits and Prior year adjustments.

## Edgar Filing: FIRST DATA CORP - Form 10-K

The Company's income tax (benefits) provisions consisted of the following components:

(in millions)	Year ended December 31,		
	2012	2011	2010
<b>Current</b>			
Federal	\$ (60.0)	\$ (54.0)	\$ (27.7)
State and local	16.0	25.8	18.3
Foreign	38.6	61.8	57.7
	(5.4)	33.6	48.3
<b>Deferred</b>			
Federal	(241.4)	(228.6)	(286.2)
State and local	50.0	(53.7)	(57.6)
Foreign	(27.2)	(21.4)	(28.3)
	(218.6)	(303.7)	(372.1)
	\$ (224.0)	\$ (270.1)	\$ (323.8)

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Income tax payments, net of refunds received, of \$70.1 million, \$67.2 million and \$100.5 million in 2012, 2011 and 2010, respectively, were greater than current expense primarily as a result of the decreased liability for unrecognized tax benefits reducing current expense.

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the book and tax bases of the Company's assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets when it is more likely than not that a tax benefit will not be realized. Deferred tax assets are included in both Other current assets and Other long-term assets in the Company's Consolidated Balance Sheets. Deferred tax liabilities are included in Deferred long-term tax liabilities in the Company's Consolidated Balance Sheets. The following table outlines the principal components of deferred tax items:

(in millions)	As of December 31,	
	2012	2011(a)
Deferred tax assets related to:		
Reserves and other accrued expenses	\$ 543.5	\$ 450.3
Pension obligations	47.9	44.2
Employee related liabilities	75.7	64.0
Deferred revenues	30.0	26.7
Unrealized securities and hedging (gain)/loss		42.2
Net operating losses and tax credit carryforwards	1,383.6	1,336.5
U.S. foreign tax credits on undistributed earnings	234.8	203.2
Foreign exchange (gain)/loss	48.5	61.5
Total deferred tax assets	2,364.0	2,228.6
Valuation allowance	(896.5)	(744.6)
Realizable deferred tax assets	1,467.5	1,484.0
Deferred tax liabilities related to:		
Property, equipment and intangibles	(1,206.0)	(1,382.0)
Investment in affiliates and other	(512.3)	(532.7)
Unrealized securities and hedging (gain)/loss	(0.6)	
U.S. tax on foreign undistributed earnings	(173.8)	(145.9)
Total deferred tax liabilities	(1,892.7)	(2,060.6)
Net deferred tax liabilities	\$ (425.2)	\$ (576.6)

(a) Certain amounts have been reclassified to conform to current year presentation.

The Company's deferred tax assets and liabilities were included in the Consolidated Balance Sheets as follows:

(in millions)	As of December 31,	
	2012	2011
Current deferred tax assets	\$ 73.9	\$ 108.3
Long-term deferred tax assets	10.4	10.5
Long-term deferred tax liabilities	(509.5)	(695.4)
Net deferred tax liabilities	\$ (425.2)	\$ (576.6)

As of December 31, 2012 and 2011, the Company had recorded valuation allowances of \$896.5 million and \$744.6 million, respectively, against federal, state and foreign net operating and capital losses, foreign tax credits and impairments. The increase to the valuation allowance of \$151.9 million in 2012 was primarily due to current year foreign and state net operating losses which may not be utilized within the statute of limitations and foreign tax credits for which it is likely that no benefit will be realized in the future. In determining the necessary amount of valuation allowance, the Company has considered a tax planning strategy related to its investments in affiliates. Implementation of this strategy would result in the immediate reversal of temporary differences associated with the excess of book basis over tax basis in the investments.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents the approximate amounts of federal, state and foreign net operating loss carryforwards and foreign tax credit, general business credit and minimum tax credit carryforwards:

(in millions)	As of December 31, 2012	
Federal net operating loss carryforwards (a)	\$	1,766.1
State net operating loss carryforwards (b)		2,759.2
Foreign net operating loss carryforwards (c)		2,450.0
Foreign tax credit carryforwards (d)		144.1
General business credit carryforwards (e)		11.1
Minimum tax credit carryforwards (f)		1.6

- 
- (a) If not utilized, these carryforwards will expire in years 2015 through 2032.
- (b) If not utilized, these carryforwards will expire in years 2013 through 2032.
- (c) Foreign net operating loss carryforwards of \$137 million, if not utilized, will expire in years 2013 through 2027. The remaining foreign net operating loss carryforwards of \$2,313 million have an indefinite life.
- (d) If not utilized, these carryforwards will expire in years 2018 through 2022.
- (e) If not utilized, these carryforwards will expire in years 2027 through 2031.
- (f) These carryforwards have an indefinite life.

The Company intends to indefinitely invest its net equity in its foreign operations, with the exception of any undistributed foreign earnings. Accordingly, as of December 31, 2012, no provision had been made for U.S. federal and state income taxes on the cumulative amount of temporary differences related to investments in foreign subsidiaries, other than those differences related to the undistributed earnings. Upon sale or liquidation of these investments, the Company would potentially be subject to U.S., state and foreign income taxes and withholding taxes payable to the various foreign countries. Determination of the amount of unrecognized deferred tax liability is not practicable because of the complexities associated with its hypothetical calculation.

A reconciliation of the unrecognized tax benefits for the year ended December 31, 2010, 2011 and 2012 is as follows:

(in millions)	Unrecognized Tax Benefits	
Balance as of January 1, 2010	\$	415.0
Increases for tax positions of prior years		0.5
Decreases for tax positions of prior years		(45.4)
Increases for tax positions related to the current period		1.9



Edgar Filing: FIRST DATA CORP - Form 10-K

Decreases for cash settlements with taxing authorities		(1.4)
Decreases due to the lapse of the applicable statute of limitations		(2.0)
Balance as of December 31, 2010	\$	368.6
Increases for tax positions of prior years		1.3
Decreases for tax positions of prior years		(28.5)
Increases for tax positions related to the current period		1.7
Decreases for cash settlements with taxing authorities		(1.0)
Decreases due to the lapse of the applicable statute of limitations		(7.4)
Balance as of December 31, 2011	\$	334.7
Increases for tax positions of prior years		5.5
Decreases for tax positions of prior years		(57.7)
Increases for tax positions related to the current period		6.2
Decreases for cash settlements with taxing authorities		(0.1)
Decreases due to the lapse of the applicable statute of limitations		(2.4)
Balance as of December 31, 2012	\$	286.2

Most of the unrecognized tax benefits are included in the Other long-term liabilities line of the Consolidated Balance Sheets, net of the federal benefit on state income taxes (approximately \$21 million at December 31, 2012). However, those unrecognized tax benefits that affect the federal consolidated tax years ending December 31, 2008 through December 31, 2012 are included in the Long-term deferred tax liabilities line of the Consolidated Balance Sheets, as these items reduce the Company's net operating loss

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

and credit carryforwards from those periods. The unrecognized tax benefits as of December 31, 2012, 2011, and 2010 included approximately \$163 million, \$172 million, and \$195 million, respectively, of tax positions that, if recognized, would affect the effective tax rate.

During the year ended December 31, 2012, the Company's liability for unrecognized tax benefits was reduced by \$52 million upon closure of the 2003 and 2004 federal tax years and the resolution of certain state audit issues. The reduction in liabilities was recorded through a decrease to tax expense and an increase to deferred tax liabilities.

During the year ended December 31, 2011, the Company's liability for unrecognized tax benefits was reduced by \$25 million after negotiating settlements with the Internal Revenue Service ( IRS ) regarding specific contested issues in the 2003 through 2006 federal tax years. The reduction in liabilities was recorded through a decrease to tax expense.

During the year ended December 31, 2010, the Company's liability for unrecognized tax benefits was reduced by \$39 million upon the closure of the 2002 federal tax year and after negotiating settlements with the IRS regarding specific contested issues in the 2003 and 2004 federal tax years. The reduction in the liability was recorded through a decrease to tax expense and an increase to deferred tax liabilities.

The Company recognizes interest and penalties related to unrecognized tax benefits in the Income tax (benefit) expense line item of the Consolidated Statements of Operations. Cumulative accrued interest and penalties (net of related tax benefits) are not included in the ending balances of unrecognized tax benefits. Cumulative accrued interest and penalties are included in the Other long-term liabilities line of the Consolidated Balance Sheets while the related tax benefits are included in the Long-term deferred tax liabilities line of the Consolidated Balance Sheets. The following table presents the approximate amounts associated with accrued interest expense and the cumulative accrued interest and penalties:

		Year ended December 31,		
	2012	2011	2010	
Current year accrued interest expense (net of related tax benefits)	\$ 4	\$ 9	\$ 14	
Cumulative accrued interest and penalties (net of related tax benefits)	\$ 47	\$ 69	\$ 67	

As of December 31, 2012, the Company anticipates it is reasonably possible that its liability for unrecognized tax benefits may decrease by approximately \$126 million within the next twelve months as the result of the possible closure of its 2005 through 2007 federal tax years, potential settlements with certain states and foreign countries and the lapse of the statute of limitations in various state and foreign jurisdictions. The potential decrease relates to various federal, state and foreign tax benefits including research and experimentation credits, transfer pricing adjustments and certain amortization and loss deductions.

The Company or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of December 31, 2012, the Company was no longer subject to income tax examination by the U.S. federal jurisdiction for years

## Edgar Filing: FIRST DATA CORP - Form 10-K

before 2005. State and local examinations are substantially complete through 2002. Foreign jurisdictions generally remain subject to examination by their respective authorities from 2005 forward, none of which are considered major jurisdictions.

Under the Tax Allocation Agreement executed at the time of the spin-off of The Western Union Company ( Western Union ) on September 29, 2006, Western Union is responsible for and must indemnify the Company against all taxes, interest and penalties that relate to Western Union for periods prior to the spin-off date. If Western Union were to agree to or be finally determined to owe any amounts for such periods but were to default in its indemnification obligation under the Tax Allocation Agreement, the Company as parent of the tax group during such periods generally would be required to pay the amounts to the relevant tax authority, resulting in a potentially material adverse effect on the Company's financial position and results of operations. As of December 31, 2012, the Company had approximately \$110 million of income taxes payable, including approximately \$4 million of uncertain income tax liabilities, recorded related to Western Union for periods prior to the spin-off date. The Company has recorded a corresponding account receivable of equal amount from Western Union, which is included as a long-term account receivable in the Other long-term assets line of the Company's Consolidated Balance Sheets, reflecting the indemnification obligation. During the year ended December 31, 2012, the uncertain income tax liabilities related to Western Union decreased by approximately \$14 million as a result of the closure of the 2003-2004 federal tax years. As of December 31, 2012, the Company anticipates it is reasonably possible that the uncertain tax liabilities related to Western Union may decrease by approximately \$4 million within the next twelve months as the result of the possible closure of its 2005 and 2006 federal tax years. The uncertain income tax liabilities and corresponding receivable are based on information provided by Western Union regarding its tax contingency reserves for periods prior to the spin-off date. There is no assurance that a Western Union-related issue raised by the IRS or other tax authority will be finally resolved at a cost not

**FIRST DATA CORPORATION**

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

in excess of the amount reserved and reflected in the Company's uncertain income tax liabilities and corresponding receivable from Western Union. The Western Union contingent liability is in addition to the Company's liability for unrecognized tax benefits discussed above.

The IRS completed its examination of the U.S. federal consolidated income tax returns of the Company for 2005-2007 and issued a 30-Day letter on October 31, 2012. The 30-Day letter claims that the Company and its subsidiaries, which included Western Union during some of the years at issue, owe additional taxes with respect to a variety of adjustments. The Company and Western Union agree with several of the adjustments in the 30-Day letter, such adjustments representing tax due of approximately \$40 million. This undisputed tax and associated interest due (pretax) of approximately \$16 million through December 31, 2012, have been fully reserved. The undisputed tax for which Western Union would be required to indemnify the Company is greater than the total tax due, such that settlement of the undisputed tax would result in a net refund to the Company. As to the adjustments that are disputed, such issues represent total taxes allegedly due of approximately \$59 million, of which \$40 million relates to the Company and \$19 million relates to Western Union. The Company estimates that total interest due (pretax) on the disputed amounts is approximately \$16 million through December 31, 2012, of which \$9 million relates to the Company and \$7 million relates to Western Union. As to the disputed issues, the Company and Western Union have contested the adjustments by filing a protest with the IRS. The IRS has prepared a rebuttal to the protest and has forwarded the case to Appeals. The Company believes that it has adequately reserved for the disputed issues in its liability for unrecognized tax benefits described above and that final resolution of those issues will not have a material adverse effect on its financial position or results of operations.

**Note 18: Investment in Affiliates**

Operating 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.

A merchant alliance, as it pertains to investments accounted for under the equity method, is an agreement between FDC and a financial institution that combines the processing capabilities and management expertise of the Company with the visibility and distribution channel of the bank. The alliance acquires credit and debit card transactions from merchants. The Company provides processing and other services to the alliance and charges fees to the alliance primarily based on contractual pricing. These fees have been separately identified on the face of the Consolidated Statements of Operations.

In November 2011, the Company formed an alliance, TCH LLC, by contributing the assets of its transportation business (a controlling interest in a business) to the alliance in exchange for a noncontrolling 30% interest in TCH, LLC. The alliance is accounted for as an equity method investment by the Company. The Company recognized a pretax gain of \$59.1 million in the Other income (expense) line item of the Consolidated Statement of Operations upon deconsolidation of the Company's assets associated with its transportation business and contribution of those assets to the alliance.

In the fourth quarter of 2011, the Company funded \$160.0 million to one of its merchant alliance partners for referrals from bank branches contributed to the alliance as called for by the agreement that extended the term of the alliance in 2008.

Edgar Filing: FIRST DATA CORP - Form 10-K

At December 31, 2012, there were ten affiliates accounted for under the equity method of accounting, comprised of five merchant alliances and five strategic investments in companies in related markets.

A summary of unaudited financial information for the merchant alliances and other affiliates accounted for under the equity method of accounting is presented below.

(in millions)	As of December 31,			
		2012		2011
Total assets	\$	2,834.8	\$	2,820.3
Total liabilities		2,467.9		2,514.7

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The primary components of assets and liabilities are settlement-related accounts similar to those described in Note 4 of these Consolidated Financial Statements.

(in millions)	Year ended December 31,		
	2012	2011	2010
Net operating revenues	\$ 1,278.4	\$ 1,114.4	\$ 999.1
Operating expenses	630.2	577.4	520.6
Operating income	\$ 648.2	\$ 537.0	\$ 478.5
Net income	\$ 639.4	\$ 509.8	\$ 455.6
FDC equity earnings	\$ 158.2	\$ 153.4	\$ 117.3

The formation of a merchant alliance accounted for under the equity method of accounting generally involves the Company and/or a financial institution contributing merchant contracts to the alliance and a cash payment from one owner to the other to achieve the desired ownership percentages. The asset amounts reflected above are owned by the alliances and other equity method investees and do not include any of such payments made by the Company. The amount by which the total of the Company's investments in affiliates exceeded its proportionate share of the investees' net assets was approximately \$1.3 billion and \$1.4 billion at December 31, 2012 and 2011, respectively.

The non-goodwill portion of this amount is considered an identifiable intangible asset that is amortized. The estimated future amortization expense for these intangible assets as of December 31, 2012 is as follows:

Year ended December 31, (in millions)	Amount
2013	\$ 78.4
2014	62.2
2015	57.1
2016	52.3
2017	49.1
Thereafter	48.2

These amounts assume that these alliances continue as they currently exist. Much of the difference between FDC's proportionate share of the investees' net income and FDC's equity earnings noted above relates to this amortization.

**Note 19: Supplemental Guarantor Condensed Consolidating Financial Statements**

As described in Note 8 of these Consolidated Financial Statements, FDC's 9.875% senior notes, 12.625% senior notes, 10.55% senior notes and 11.25% senior subordinated notes are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly-owned, domestic subsidiaries of FDC other than Integrated Payment Systems Inc. (Guarantors). None of the other subsidiaries of FDC, either direct or indirect, guarantee the notes (Non-Guarantors). The Guarantors also unconditionally guarantee the senior secured revolving credit facility, senior

## Edgar Filing: FIRST DATA CORP - Form 10-K

secured term loan facility, the 8.875% senior secured notes, the 7.375% senior secured notes and the 6.75% senior secured notes, which rank senior in right of payment to all existing and future unsecured and second lien indebtedness of FDC's guarantor subsidiaries to the extent of the value of the collateral. The Guarantors further unconditionally guarantee the 8.25% senior second lien notes and 8.75%/10.00% PIK toggle senior second lien notes which rank senior in right of payment to all existing and future unsecured indebtedness of FDC's guarantor subsidiaries to the extent of the value of the collateral. The 9.875% senior note, 12.625% senior note, 10.55% senior note and 11.25% senior subordinated note guarantees are unsecured and rank equally in right of payment with all existing and future senior indebtedness of the guarantor subsidiaries but senior in right of payment to all existing and future subordinated indebtedness of FDC's guarantor subsidiaries. The 11.25% senior subordinated note guarantees are unsecured and rank equally in right of payment with all existing and future senior subordinated indebtedness of the guarantor subsidiaries.

During the second quarter of 2011, the Company began allocating certain general and administrative expenses of the parent company to its subsidiaries. This allocation was inadvertently not reflected in the Company's previously reported supplemental guarantor condensed consolidating financial statements. In the second quarter of 2010, the Company reorganized the ownership structure of two entities for tax purposes. The reorganization did not have any impact to the Company's consolidated financial statements, however, the impact of the reorganization was not appropriately reflected in the Company's previously reported supplemental guarantor condensed consolidating financial statements. The Company does not believe these errors were material. In addition to the items just described, the Company corrected certain other immaterial errors. The adjustments are limited to the

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

guarantor footnote and do not affect any other reported amounts or disclosures in the Company's consolidated financial statements. A summary of the corrections is as follows:

## Increase (Decrease) from Amounts Previously Reported

(in millions)	For the nine months ended September 30, 2012			
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments
(Loss) income before income taxes and equity earnings in affiliates	\$ 35.3	\$ (92.7)	\$ (1.6)	\$ 59.0
Income tax (benefit) expense	35.3	(34.7)	(0.6)	
Net (loss) income		(58.0)	(1.0)	59.0
Net (loss) income attributable to First Data Corporation		(58.0)	(1.0)	59.0

(in millions)	Year ended December 31, 2011			
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments
(Loss) income before income taxes and equity earnings in affiliates	\$ 110.4	\$ (260.1)	\$ (36.6)	\$ 186.3
Income tax (benefit) expense	110.4	(97.9)	(12.5)	
Net (loss) income		(162.2)	(24.1)	186.3
Net (loss) income attributable to First Data Corporation		(161.9)	(24.4)	186.3

(in millions)	Year ended December 31, 2010			
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments
(Loss) income before income taxes and equity earnings in affiliates	\$ 44.0	\$ (108.6)	\$ (9.4)	\$ 74.0
Income tax (benefit) expense	44.0	(40.4)	(3.6)	
Net (loss) income		(68.2)	(5.8)	74.0
Net (loss) income attributable to First Data Corporation		(68.4)	(5.6)	74.0

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in millions)	For the nine months ended September 30, 2012							
	FDC Parent Company		Guarantor Subsidiaries		Non-Guarantor Subsidiaries		Consolidation Adjustments	
	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected
	\$ 110.0	\$ 105.6	\$ 875.7	\$ 877.2	\$ 387.6	\$ 390.5	\$	\$



Edgar Filing: FIRST DATA CORP - Form 10-K

Selling, general and administrative								
Operating (loss) profit	(115.8)	(111.4)	553.7	552.2	298.9	296.0		
Interest income (expense) from intercompany notes	144.3	234.4	(148.6)	(240.0)	4.3	5.6		
Equity earnings from consolidated subsidiaries	435.1	375.9	120.8	121.0			(555.9)	(496.9)
(Loss) income before income taxes and equity earnings in affiliates	(1,031.8)	(996.5)	512.0	419.3	305.6	304.0	(555.9)	(496.9)
Income tax (benefit) expense	(509.9)	(474.6)	234.5	199.8	23.1	22.5		
Net (loss) income	(521.9)	(521.9)	390.8	332.8	283.7	282.7	(555.9)	(496.9)
Net (loss) income attributable to First Data Corporation	(521.9)	(521.9)	390.8	332.8	239.8	238.8	(630.6)	(571.6)

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	Year ended December 31, 2011							
	FDC Parent Company		Guarantor Subsidiaries		Non-Guarantor Subsidiaries		Consolidation Adjustments	
	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected
Cost of services	\$	\$	\$ 1,909.8	\$ 1,896.4	\$ 1,141.6	\$ 1,155.0	\$ (163.0)	\$ (163.0)
Selling, general and administrative	259.7	107.8	957.8	1,095.4	476.2	490.5		
Operating (loss) profit	(264.9)	(113.0)	698.8	574.6	507.6	479.9		
Interest income (expense) from intercompany notes	162.5	306.7	(176.6)	(311.9)	14.1	5.2		
Equity earnings from consolidated subsidiaries	637.9	452.2	134.5	133.9			(772.4)	(586.1)
(Loss) income before income taxes and equity earnings in affiliates	(1,218.1)	(1,107.7)	718.1	458.0	512.8	476.2	(772.4)	(586.1)
Income tax (benefit) expense	(702.0)	(591.6)	341.3	243.4	90.6	78.1		
Net (loss) income	(516.1)	(516.1)	530.4	368.2	422.0	397.9	(772.4)	(586.1)
Net (loss) income attributable to First Data Corporation	(516.1)	(516.1)	530.1	368.2	362.7	338.3	(892.8)	(706.5)

(in millions)	Year ended December 31, 2010							
	FDC Parent Company		Guarantor Subsidiaries		Non-Guarantor Subsidiaries		Consolidation Adjustments	
	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected
Cost of Services	\$	\$	\$ 1,944.3	\$ 1,949.6	\$ 1,227.5	\$ 1,222.2	\$ (148.5)	\$ (148.5)
Operating (loss) profit	(285.0)	(285.0)	475.3	470.0	326.4	331.7		
Interest income (expense) from intercompany notes	112.3	230.3	(146.4)	(249.7)	34.1	19.4		
Equity earnings from consolidated subsidiaries	323.8	249.8	150.2	150.2			(474.0)	(400.0)
(Loss) income before income taxes and equity earnings in affiliates	(1,620.3)	(1,576.3)	505.6	397.0	326.7	317.3	(500.0)	(426.0)
Income tax (benefit) expense	(598.5)	(554.5)	164.7	124.3	110.0	106.4		
Net (loss) income	(1,021.8)	(1,021.8)	458.6	390.4	218.2	212.4	(501.9)	(427.9)
Net (loss) income attributable to First Data Corporation	(1,021.8)	(1,021.8)	458.8	390.4	168.9	163.3	(627.7)	(553.7)

## CONSOLIDATED BALANCE SHEETS

(in millions)	As of December 31, 2011								
	FDC Parent Company		Guarantor Subsidiaries		Non-Guarantor Subsidiaries		Consolidation Adjustments		
	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected	
ASSETS	\$	\$	12.2	\$	\$	\$	\$ 86.1	\$	\$ (98.3)

Edgar Filing: FIRST DATA CORP - Form 10-K

Current intercompany notes receivable								
Total current assets	233.2	245.4	7,281.7	7,281.7	5,800.6	5,886.7		(98.3)
Goodwill			9,510.5	9,430.9	7,694.1	7,773.7		
Long-term intercompany receivables				4,330.2		962.7		(5,292.9)
Long-term intercompany notes receivable		3,229.4		251.5		59.0		(3,539.9)
Investment in consolidated subsidiaries	25,242.7	23,797.4	5,396.2	5,843.0			(30,638.9)	(29,640.4)
Total assets	26,579.8	28,376.1	27,676.1	32,625.0	16,659.3	17,846.7	(30,638.9)	(38,571.5)
<b>LIABILITIES AND EQUITY</b>								
Current intercompany notes payable		62.5		35.8				(98.3)
Total current liabilities	697.9	760.4	6,790.7	6,826.5	5,331.6	5,331.6		(98.3)
Long-term intercompany payables	5,707.0	5,292.9	(4,618.7)		(1,088.3)			(5,292.9)
Long-term intercompany notes payable	(1,887.3)	260.6	1,949.9	3,196.8	(62.6)	82.5		(3,539.9)
Total liabilities	26,483.2	28,279.5	5,968.5	11,869.9	4,349.2	5,582.6		(8,931.1)
First Data Corporation stockholder's equity	96.6	96.6	21,707.5	20,755.1	5,580.5	5,534.4	(27,288.0)	(26,289.5)
Total equity	96.6	96.6	21,707.6	20,755.1	12,242.7	12,196.7	(30,638.9)	(29,640.4)
Total liabilities and equity	26,579.8	28,376.1	27,676.1	32,625.0	16,659.3	17,846.7	(30,638.9)	(38,571.5)

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions) Source/(use)	FDC Parent Company		For the nine months ended September 30, 2012				Consolidation Adjustments	
	As previously reported	As corrected	Guarantor Subsidiaries As previously reported	Guarantor Subsidiaries As corrected	Non-Guarantor Subsidiaries As previously reported	Non-Guarantor Subsidiaries As corrected	As previously reported	As corrected
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Net (loss) income	\$ (521.9)	\$ (521.9)	\$ 390.8	\$ 332.8	\$ 283.7	\$ 282.7	\$ (555.9)	\$ (496.9)
Other non-cash and non-operating items, net	(405.3)	(346.1)	(193.9)	(194.1)	5.5	5.5	555.9	496.9
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(519.1)	(483.8)	381.9	347.2	0.3	(0.3)		
Net cash (used in) provided by operating activities	(1,361.8)	(1,267.3)	1,238.1	1,145.2	661.9	660.3		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
Intercompany	1,231.6	1,137.1	(1,191.1)	(1,098.2)	(40.5)	(38.9)		
Net cash provided by (used in) financing activities	1,243.1	1,148.6	(1,222.2)	(1,129.3)	(550.3)	(548.7)	248.6	248.6
<b>Year ended December 31, 2011</b>								
(in millions) Source/(use)	FDC Parent Company		Guarantor Subsidiaries		Non-Guarantor Subsidiaries		Consolidation Adjustments	
	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Net (loss) income	\$ (516.1)	\$ (516.1)	\$ 530.4	\$ 368.2	\$ 422.0	\$ 397.9	\$ (772.4)	\$ (586.1)
Other non-cash and non-operating items, net	(546.0)	(360.3)	(210.1)	(209.5)	11.4	11.4	772.4	586.1
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(437.4)	(327.0)	481.7	383.8	113.2	100.7		
Net cash (used in) provided by operating activities	(1,550.8)	(1,254.7)	1,584.1	1,324.6	1,082.3	1,045.7		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
Intercompany	1,516.6	1,220.5	(1,375.9)	(1,116.4)	(140.7)	(104.1)		

Edgar Filing: FIRST DATA CORP - Form 10-K

Net cash provided by (used in) financing activities	1,443.3	1,147.2	(1,426.1)	(1,166.6)	(985.9)	(949.3)	404.2	404.2
---	---------	---------	-----------	-----------	---------	---------	-------	-------

(in millions) Source/(use)	Year ended December 31, 2010							
	FDC Parent Company		Guarantor Subsidiaries		Non-Guarantor Subsidiaries		Consolidation Adjustments	
	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected	As previously reported	As corrected
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>								
Net (loss) income	\$ (1,021.8)	\$ (1,021.8)	\$ 458.6	\$ 390.4	\$ 218.2	\$ 212.4	\$ (501.9)	\$ (427.9)
Other non-cash and non-operating items, net (Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(11.6)	62.4	(207.4)	(207.4)	8.8	8.8	475.8	401.8
Net cash (used in) provided by operating activities	(1,624.3)	(1,506.3)	1,415.1	1,306.5	966.9	957.5	(3.0)	(3.0)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>								
Intercompany Net cash provided by (used in) financing activities	1,682.5	1,564.5	(1,454.7)	(1,346.1)	(227.8)	(218.4)		
Net cash provided by (used in) financing activities	1,460.1	1,342.1	(1,511.7)	(1,403.1)	(1,152.9)	(1,143.5)	551.2	551.2

As previously reported represents amounts reported in the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2012 or Annual Report on Form 10-K for the year ended December 31, 2011.

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present the results of operations, financial position and cash flows of FDC ( FDC Parent Company ), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and consolidation adjustments for the years ended December 31, 2012, 2011 and 2010 and as of December 31, 2012 and 2011 to arrive at the information for FDC on a consolidated basis.

(in millions)	Year ended December 31, 2012					Consolidated
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments		
<b>Revenues:</b>						
Transaction and processing service fees	\$	\$ 4,180.5	\$ 2,471.8	\$ (200.2)	\$	6,452.1
Product sales and other		569.8	355.8	(58.9)		866.7
Reimbursable debit network fees, postage and other		2,430.3	953.8	(22.6)		3,361.5
		7,180.6	3,781.4	(281.7)		10,680.3
<b>Expenses:</b>						
Cost of services (exclusive of items shown below)		1,829.6	1,234.1	(200.2)		2,863.5
Cost of products sold		252.9	142.3	(58.9)		336.3
Selling, general and administrative	89.4	1,217.3	518.7			1,825.4
Reimbursable debit network fees, postage and other		2,430.3	953.8	(22.6)		3,361.5
Depreciation and amortization	8.1	718.9	464.6			1,191.6
<b>Other operating expenses:</b>						
Restructuring, net	(0.2)	7.6	15.7			23.1
Impairments		5.1				5.1
		6,461.7	3,329.2	(281.7)		9,606.5
Operating (loss) profit	(97.3)	718.9	452.2			1,073.8
Interest income	0.1	0.3	8.4			8.8
Interest expense	(1,880.4)	(7.3)	(10.1)			(1,897.8)
Interest income (expense) from intercompany notes	313.0	(320.0)	7.0			
Other income (expense)	(102.1)	(8.1)	15.9			(94.3)
Equity earnings from consolidated subsidiaries	522.6	179.7		(702.3)		
	(1,146.8)	(155.4)	21.2	(702.3)		(1,983.3)
(Loss) income before income taxes and equity earnings in affiliates	(1,244.1)	563.5	473.4	(702.3)		(909.5)
Income tax (benefit) expense	(543.2)	273.7	45.5			(224.0)
Equity earnings in affiliates		157.4	0.8			158.2
Net (loss) income	(700.9)	447.2	428.7	(702.3)		(527.3)
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest			61.9	111.7		173.6
Net (loss) income attributable to First Data Corporation	\$ (700.9)	\$ 447.2	\$ 366.8	\$ (814.0)	\$	(700.9)
Comprehensive (loss) income	\$ (654.7)	\$ 448.6	\$ 421.5	\$ (693.2)	\$	(477.8)
Less: Comprehensive income attributable to noncontrolling			65.2	111.7		176.9

Edgar Filing: FIRST DATA CORP - Form 10-K

interests and redeemable  
noncontrolling interest  
Comprehensive (loss) income  
attributable to First Data  
Corporation

\$	(654.7)	\$	448.6	\$	356.3	\$	(804.9)	\$	(654.7)
----	---------	----	-------	----	-------	----	---------	----	---------

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2011

(As Corrected)

Non-

(in millions)	FDC Parent Company	Guarantor Subsidiaries	Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
<b>Revenues:</b>					
Transaction and processing service fees	\$	\$ 4,055.9	\$ 2,437.1	\$ (163.0)	\$ 6,330.0
Product sales and other		551.4	358.2	(57.5)	852.1
Reimbursable debit network fees, postage and other		2,445.0	1,159.1	(72.6)	3,531.5
		7,052.3	3,954.4	(293.1)	10,713.6
<b>Expenses:</b>					
Cost of services (exclusive of items shown below)		1,896.4	1,155.0	(163.0)	2,888.4
Cost of products sold		274.7	152.4	(57.5)	369.6
Selling, general and administrative	107.8	1,095.4	490.5		1,693.7
Reimbursable debit network fees, postage and other		2,445.0	1,159.1	(72.6)	3,531.5
Depreciation and amortization	8.3	743.1	493.6		1,245.0
<b>Other operating expenses:</b>					
Restructuring, net	(0.6)	23.1	23.9		46.4
Litigation and regulatory settlements	(2.5)				(2.5)
	113.0	6,477.7	3,474.5	(293.1)	9,772.1
Operating (loss) profit	(113.0)	574.6	479.9		941.5
Interest income	0.3	0.6	7.0		7.9
Interest expense	(1,812.9)	(7.6)	(12.6)		(1,833.1)
Interest income (expense) from intercompany notes	306.7	(311.9)	5.2		
Other income (expense)	59.0	68.4	(3.3)		124.1
Equity earnings from consolidated subsidiaries	452.2	133.9		(586.1)	
	(994.7)	(116.6)	(3.7)	(586.1)	(1,701.1)
(Loss) income before income taxes and equity earnings in affiliates	(1,107.7)	458.0	476.2	(586.1)	(759.6)
Income tax (benefit) expense	(591.6)	243.4	78.1		(270.1)
Equity earnings in affiliates		153.6	(0.2)		153.4
Net (loss) income	(516.1)	368.2	397.9	(586.1)	(336.1)
<b>Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest</b>					
			59.6	120.4	180.0
Net (loss) income attributable to First Data Corporation	\$ (516.1)	\$ 368.2	\$ 338.3	\$ (706.5)	\$ (516.1)
Comprehensive (loss) income	(477.6)	418.2	319.0	(564.1)	(304.5)
<b>Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest</b>					
			52.7	120.4	173.1
Comprehensive (loss) income attributable to First Data Corporation	\$ (477.6)	\$ 418.2	\$ 266.3	\$ (684.5)	\$ (477.6)





## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	Year ended December 31, 2010					Consolidated
	FDC Parent Company	Guarantor Subsidiaries	Guarantor Non-Subsidiaries	Consolidation Adjustments		
<b>Revenues:</b>						
Transaction and processing service fees	\$	\$ 4,001.7	\$ 2,328.3	\$ (148.5)	\$	6,181.5
Product sales and other		542.6	319.3	(52.6)		809.3
Reimbursable debit network fees, postage and other		2,299.8	1,160.3	(70.5)		3,389.6
		6,844.1	3,807.9	(271.6)		10,380.4
<b>Expenses:</b>						
Cost of services (exclusive of items shown below)		1,949.6	1,222.2	(148.5)		3,023.3
Cost of products sold		257.8	170.0	(52.6)		375.2
Selling, general and administrative	264.7	877.2	437.8			1,579.7
Reimbursable debit network fees, postage and other		2,299.8	1,160.3	(70.5)		3,389.6
Depreciation and amortization	7.6	937.9	468.9			1,414.4
<b>Other operating expenses:</b>						
Restructuring, net	12.7	46.0	13.3			72.0
Impairments		7.8	3.7			11.5
Litigation and regulatory settlements		(2.0)				(2.0)
	285.0	6,374.1	3,476.2	(271.6)		9,863.7
Operating (loss) profit	(285.0)	470.0	331.7			516.7
Interest income	1.0	1.1	5.7			7.8
Interest expense	(1,775.2)	(6.4)	(15.0)			(1,796.6)
Interest income (expense) from intercompany notes	230.3	(249.7)	19.4			
Other income (expense)	2.8	31.8	(24.5)	(26.0)		(15.9)
Equity earnings from consolidated subsidiaries	249.8	150.2		(400.0)		
	(1,291.3)	(73.0)	(14.4)	(426.0)		(1,804.7)
(Loss) income before income taxes and equity earnings in affiliates	(1,576.3)	397.0	317.3	(426.0)		(1,288.0)
Income tax (benefit) expense	(554.5)	124.3	106.4			(323.8)
Equity earnings in affiliates		117.7	1.5	(1.9)		117.3
Net (loss) income	(1,021.8)	390.4	212.4	(427.9)		(846.9)
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest			49.1	125.8		174.9
Net (loss) income attributable to First Data Corporation	\$ (1,021.8)	\$ 390.4	\$ 163.3	\$ (553.7)	\$	(1,021.8)
Comprehensive (loss) income	(976.8)	399.5	207.2	(435.1)		(805.2)
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest			46.0	125.8		171.8
Comprehensive (loss) income attributable to First Data Corporation	\$ (976.8)	\$ 399.5	\$ 161.2	\$ (560.9)	\$	(977.0)



## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	As of December 31, 2012					Consolidated
	FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments		
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 228.0	\$ 37.2	\$ 343.1	\$	\$	608.3
Accounts receivable, net of allowance for doubtful accounts	4.4	879.7	963.6			1,847.7
Settlement assets (a)		5,097.1	4,076.7			9,173.8
Intercompany notes receivable			30.8	(30.8)		
Other current assets	73.0	145.3	35.3			253.6
Total current assets	305.4	6,159.3	5,449.5	(30.8)		11,883.4
Property and equipment, net of accumulated depreciation	30.7	561.4	263.7			855.8
Goodwill		9,485.3	7,797.2			17,282.5
Customer relationships, net of accumulated amortization		2,071.7	1,684.6			3,756.3
Other intangibles, net of accumulated amortization	605.0	619.7	603.9			1,828.6
Investment in affiliates		1,375.2	37.9			1,413.1
Long-term settlement assets (a)			54.3			54.3
Long-term intercompany receivables		5,501.3	1,141.1	(6,642.4)		
Long-term intercompany notes receivable	3,397.3	270.0	8.4	(3,675.7)		
Other long-term assets	427.1	373.5	108.2	(83.8)		825.0
Investment in consolidated subsidiaries	24,257.2	5,379.5		(29,636.7)		
Total assets	\$ 29,022.7	\$ 31,796.9	\$ 17,148.8	\$ (40,069.4)	\$	37,899.0
<b>LIABILITIES AND EQUITY</b>						
Current liabilities:						
Accounts payable	\$ 13.8	\$ 141.8	\$ 105.3	\$	\$	260.9
Short-term and current portion of long-term borrowings	15.1	55.1	186.9			257.1
Settlement obligations (a)		5,097.1	4,129.2			9,226.3
Intercompany notes payable	30.8			(30.8)		
Other current liabilities	608.1	620.3	372.2			1,600.6
Total current liabilities	667.8	5,914.3	4,793.6	(30.8)		11,344.9
Long-term borrowings	22,462.3	47.8	18.8			22,528.9
Long-term deferred tax (assets) liabilities	(1,079.7)	1,512.7	76.5			509.5
Long-term intercompany payables	6,642.4			(6,642.4)		
Long-term intercompany notes payable	276.7	3,315.6	83.4	(3,675.7)		
Other long-term liabilities	651.7	222.7	31.3	(83.8)		821.9
Total liabilities	29,621.2	11,013.1	5,003.6	(10,432.7)		35,205.2
Redeemable equity interest			67.4	(67.4)		
Redeemable noncontrolling interest				67.4		67.4
First Data Corporation stockholders equity	(598.5)	20,783.8	5,598.9	(26,382.7)		(598.5)
Noncontrolling interests			70.5	3,154.4		3,224.9
Equity of consolidated alliance			6,408.4	(6,408.4)		
Total equity	(598.5)	20,783.8	12,077.8	(29,636.7)		2,626.4
Total liabilities and equity	\$ 29,022.7	\$ 31,796.9	\$ 17,148.8	\$ (40,069.4)	\$	37,899.0



## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	As of December 31, 2011				
	(As Corrected)				
	FDC Parent	Guarantor	Guarantor	Consolidation	
	Company	Subsidiaries	Subsidiaries	Adjustments	Consolidated
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 162.2	\$ 37.1	\$ 286.4	\$	\$ 485.7
Accounts receivable, net of allowance for doubtful accounts	25.3	939.4	883.9		1,848.6
Settlement assets (a)		6,093.2	4,565.1		10,658.3
Intercompany notes receivable	12.2		86.1	(98.3)	
Other current assets	45.7	212.0	65.2		322.9
Total current assets	245.4	7,281.7	5,886.7	(98.3)	13,315.5
Property and equipment, net of accumulated depreciation	31.4	623.5	281.0		935.9
Goodwill		9,430.9	7,773.7		17,204.6
Customer relationships, net of accumulated amortization		2,468.4	1,957.0		4,425.4
Other intangibles, net of accumulated amortization	606.8	638.7	633.7		1,879.2
Investment in affiliates		1,452.8	37.8		1,490.6
Long-term settlement assets (a)			181.0		181.0
Long-term intercompany receivables		4,330.2	962.7	(5,292.9)	
Long-term intercompany notes receivable	3,229.4	251.5	59.0	(3,539.9)	
Other long-term assets	465.7	304.3	74.1		844.1
Investment in consolidated subsidiaries	23,797.4	5,843.0		(29,640.4)	
Total assets	\$ 28,376.1	\$ 32,625.0	\$ 17,846.7	\$ (38,571.5)	\$ 40,276.3
<b>LIABILITIES AND EQUITY</b>					
Current liabilities:					
Accounts payable	\$ 7.1	\$ 113.4	\$ 85.4	\$	\$ 205.9
Short-term and current portion of long-term borrowings	0.3	39.6	93.5		133.4
Settlement obligations (a)		6,093.2	4,744.6		10,837.8
Intercompany notes payable	62.5	35.8		(98.3)	
Other current liabilities	690.5	544.5	408.1		1,643.1
Total current liabilities	760.4	6,826.5	5,331.6	(98.3)	12,820.2
Long-term borrowings	22,422.4	69.0	30.3		22,521.7
Long-term deferred tax (assets) liabilities	(1,091.6)	1,677.5	109.5		695.4
Long-term intercompany payables	5,292.9			(5,292.9)	
Long-term intercompany notes payable	260.6	3,196.8	82.5	(3,539.9)	
Other long-term liabilities	634.8	100.1	28.7		763.6
Total liabilities	28,279.5	11,869.9	5,582.6	(8,931.1)	36,800.9
Redeemable equity interest			67.4	(67.4)	
Redeemable noncontrolling interest				67.4	67.4
First Data Corporation stockholders' equity	96.6	20,755.1	5,534.4	(26,289.5)	96.6
Noncontrolling interests			60.8	3,250.6	3,311.4
Equity of consolidated alliance			6,601.5	(6,601.5)	

Edgar Filing: FIRST DATA CORP - Form 10-K

Total equity		96.6		20,755.1		12,196.7		(29,640.4)		3,408.0
Total liabilities and equity	\$	28,376.1	\$	32,625.0	\$	17,846.7	\$	(38,571.5)	\$	40,276.3

---

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

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(in millions)	Year ended December 31, 2012				
	FDC Parent Company	Guarantor Subsidiaries	Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net (loss) income	\$ (700.9)	\$ 447.2	\$ 428.7	\$ (702.3)	\$ (527.3)
Adjustments to reconcile to net cash (used in) provided by operating activities:					
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	8.1	844.5	478.3		1,330.9
Charges (gains) related to other operating expenses and other income (expense)	101.9	20.8	(0.2)		122.5
Other non-cash and non-operating items, net	(483.9)	(265.8)	7.2	702.3	(40.2)
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(461.8)	515.0	(171.7)		(118.5)
Net cash (used in) provided by operating activities	(1,536.6)	1,561.7	742.3		767.4
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Current year acquisitions, net of cash acquired	(33.0)	0.1			(32.9)
Contributions to equity method investments		(7.9)			(7.9)
Payments related to other businesses previously acquired		(4.4)			(4.4)
Proceeds from sale of property and equipment		7.1	0.9		8.0
Additions to property and equipment	(2.6)	(88.9)	(101.6)		(193.1)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(0.8)	(137.8)	(38.6)		(177.2)
Other investing activities	228.3	219.0	6.7	(443.6)	10.4
Net cash provided by (used in) investing activities	191.9	(12.8)	(132.6)	(443.6)	(397.1)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Short-term borrowings, net			99.1		99.1
Accrued interest funded upon issuance of notes	6.5				6.5
Debt modification proceeds and related financing costs	10.8				10.8
Principal payments on long-term debt	(3.4)	(56.2)	(23.7)		(83.3)
Proceeds from sale-leaseback transactions		13.8			13.8
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests			(54.0)	(207.9)	(261.9)
Distributions paid to equity holders			(424.0)	424.0	



Edgar Filing: FIRST DATA CORP - Form 10-K

Purchase of noncontrolling interest			(25.1)			(25.1)
Redemption of Parent's redeemable common stock	(1.7)					(1.7)
Cash dividends	(6.7)		(227.5)	227.5		(6.7)
Intercompany	1,405.0	(1,502.2)	97.2			
Net cash provided by (used in) financing activities	1,410.5	(1,544.6)	(558.0)	443.6		(248.5)
Effect of exchange rate changes on cash and cash equivalents		(4.2)	5.0			0.8
Change in cash and cash equivalents	65.8	0.1	56.7			122.6
Cash and cash equivalents at beginning of period	162.2	37.1	286.4			485.7
Cash and cash equivalents at end of period	\$ 228.0	\$ 37.2	\$ 343.1	\$	\$	\$ 608.3

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2011

(As Corrected)

Non-

(in millions)	FDC Parent Company	Guarantor Subsidiaries	Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net (loss) income	\$ (516.1)	\$ 368.2	\$ 397.9	\$ (586.1)	\$ (336.1)
Adjustments to reconcile to net cash (used in) provided by operating activities:					
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	8.3	827.4	508.5		1,344.2
(Gains) charges related to other operating expenses and other income (expense)	(59.6)	(45.3)	27.2		(77.7)
Other non-cash and non-operating items, net	(360.3)	(209.5)	11.4	586.1	27.7
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(327.0)	383.8	100.7		157.5
Net cash (used in) provided by operating activities	(1,254.7)	1,324.6	1,045.7		1,115.6
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Current year acquisitions, net of cash acquired		(19.1)	(0.1)		(19.2)
Contributions to equity method investments		(161.5)			(161.5)
Payments related to other businesses previously acquired			3.2		3.2
Proceeds from dispositions, net of expenses paid and cash disposed			1.7		1.7
Proceeds from sale of property and equipment		14.3	2.8		17.1
Additions to property and equipment	(4.6)	(101.3)	(97.0)		(202.9)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(1.0)	(161.6)	(39.3)		(201.9)
Distributions and dividends from subsidiaries	109.7	294.5		(404.2)	
Other investing activities	1.5	6.9	(3.5)		4.9
Net cash provided by (used in) investing activities	105.6	(127.8)	(132.2)	(404.2)	(558.6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Short-term borrowings, net			(107.3)		(107.3)
Debt modification and related financing costs	(39.7)				(39.7)
Principal payments on long-term debt	(32.9)	(52.7)	(18.9)		(104.5)
Proceeds from sale-leaseback transactions		2.5	11.7		14.2
			(44.2)	(283.1)	(327.3)

Edgar Filing: FIRST DATA CORP - Form 10-K

Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests					
Contributions from noncontrolling interest			0.8		0.8
Distributions paid to equity holders			(577.6)	577.6	
Redemption of Parent's redeemable common stock	(0.5)				(0.5)
Cash dividends	(0.2)		(109.7)	109.7	(0.2)
Intercompany	1,220.5	(1,116.4)	(104.1)		
Net cash provided by (used in) financing activities	1,147.2	(1,166.6)	(949.3)	404.2	(564.5)
Effect of exchange rate changes on cash and cash equivalents		(14.2)	(2.1)		(16.3)
Change in cash and cash equivalents	(1.9)	16.0	(37.9)		(23.8)
Cash and cash equivalents at beginning of period	164.1	21.1	324.3		509.5
Cash and cash equivalents at end of period	\$ 162.2	\$ 37.1	\$ 286.4	\$	\$ 485.7

## FIRST DATA CORPORATION

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Year ended December 31, 2010

(As Corrected)

Non-

(in millions)	FDC Parent Company	Guarantor Subsidiaries	Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Net (loss) income	\$ (1,021.8)	\$ 390.4	\$ 212.4	\$ (427.9)	\$ (846.9)
Adjustments to reconcile to net cash (used in) provided by operating activities:					
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	7.6	1,036.9	481.5		1,526.0
Charges related to other operating expenses and other income (expense)	9.9	20.0	41.5	26.0	97.4
Other non-cash and non-operating items, net	62.4	(207.4)	8.8	401.8	265.6
(Decrease) increase in cash resulting from changes in operating assets and liabilities, excluding the effects of acquisitions and dispositions	(564.4)	66.6	213.3	(2.9)	(287.4)
Net cash (used in) provided by operating activities	(1,506.3)	1,306.5	957.5	(3.0)	754.7
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Current year acquisitions, net of cash acquired		(1.7)	(0.1)		(1.8)
Contributions to equity method investments		(1.4)			(1.4)
Payments related to other businesses previously acquired			(1.4)		(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed			21.2		21.2
Proceeds from sale of property and equipment		1.4	4.1		5.5
Additions to property and equipment	(4.2)	(113.0)	(92.9)		(210.1)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(1.7)	(116.9)	(41.0)		(159.6)
Distributions and dividends from subsidiaries	225.8	187.9		(413.7)	
Other investing activities	3.8	135.1	14.0	(134.5)	18.4
Net cash provided by (used in) investing activities	223.7	91.4	(96.1)	(548.2)	(329.2)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Short-term borrowings, net			75.1		75.1
Debt modification and related financing costs	(61.2)				(61.2)
Principal payments on long-term debt	(143.8)	(57.0)	(19.6)		(220.4)

Edgar Filing: FIRST DATA CORP - Form 10-K

Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests			(31.0)	(185.1)	(216.1)
Purchase of noncontrolling interest				(213.3)	(213.3)
Distributions paid to redeemable equity holders			(7.5)	7.5	
Distributions paid to equity holders			(368.5)	368.5	
Redemption of Parent's redeemable common stock	(2.5)				(2.5)
Redemption of redeemable equity of consolidated alliance			(347.8)	347.8	
Cash dividends	(14.9)		(225.8)	225.8	(14.9)
Intercompany	1,564.5	(1,346.1)	(218.4)		
Net cash provided by (used in) financing activities	1,342.1	(1,403.1)	(1,143.5)	551.2	(653.3)
Effect of exchange rate changes on cash and cash equivalents		0.9	(0.6)		0.3
Change in cash and cash equivalents	59.5	(4.3)	(282.7)		(227.5)
Cash and cash equivalents at beginning of period	104.6	25.4	607.0		737.0
Cash and cash equivalents at end of period	\$ 164.1	\$ 21.1	\$ 324.3	\$	\$ 509.5

## FIRST DATA CORPORATION

## SCHEDULE II Valuation and Qualifying Accounts

(dollars, in millions)

Description	Balance at Beginning of Period	Charged to Costs and Expenses	Additions		Deductions (b)	Balance at End of Period
			Reclassifications from Other Accounts (a)			
Year ended December 31, 2012 deducted from receivables	\$ 28.4	\$ 83.6	\$ 8.3		\$ 74.3	\$ 46.0
Year ended December 31, 2011 deducted from receivables	\$ 29.1	\$ 61.3	\$ 0.0		\$ 62.0	\$ 28.4
Year ended December 31, 2010 deducted from receivables	\$ 22.5	\$ 68.7	\$ 0.0		\$ 62.1	\$ 29.1

---

(a) Amounts related to reclassifications from other current liabilities to allowance for doubtful accounts.

(b) Amounts related to business divestitures and write-offs against assets.

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

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

*Evaluation of Disclosure Controls and Procedures.*

The Company has evaluated, under the supervision of the Company's Chief Executive Officer and the Chief Financial Officer, the effectiveness of disclosure controls and procedures as of December 31, 2012. This is done in order to ensure that information the Company is required to disclose in reports that are filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

Based on this evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of December 31, 2012, due to a material weakness, described below in Management's Report on Internal Control over Financial Reporting.

Notwithstanding the material weakness discussed below, management has concluded that the consolidated financial statements included in this form 10-K present fairly, in all material aspects, the Company's financial position, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

*Management's Report on Internal Control over Financial Reporting.*

Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

The Company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. All control systems have inherent limitations so that no evaluation of controls can provide absolute assurance that all control issues are detected. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012, based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ( COSO ) Framework to Internal Control Environment.

Management has concluded that it did not design and maintain effective controls relating to the accounting and reporting for income taxes and also concluded that this is a material weakness in internal control over financial reporting as of December 31, 2012. Specifically, the controls in place relating to the establishment and measurement of valuation allowances against deferred tax assets were not properly designed to provide reasonable assurance that the Company's income tax benefit and deferred tax assets and liabilities would be properly recorded and disclosed in the financial statements. The Company has an insufficient number of personnel with appropriate knowledge, experience or training in accounting for income taxes. The existing organizational structure resulted in incomplete or inadequate oversight and review of complex issues, calculations and disclosures. Although the amount of tax related adjustments recorded to the Company's financial statements have been immaterial, the absence of sufficient controls creates the risk that a material error would not be prevented or detected in a timely manner.

Based on management's evaluation under the COSO framework, management concluded that the Company's internal controls over financial reporting were not effective as of December 31, 2012.

Ernst & Young LLP, an independent registered public accounting firm, has issued an attestation report on the Company's internal control over financial reporting which is contained below.

### *Remediation of Material Weakness*

Management has initiated a remediation plan which includes the following actions:

- The Tax Department is in the process of being restructured, key resources have been refocused on the most critical areas and additional technical resources are being added.
- Processes, procedures and controls over income tax accounting will be reviewed and modified to ensure greater oversight and transparency.
- Additional external resources will be engaged to ensure that all concepts and interpretations around income tax accounting have been appropriately considered.

### *Changes in Internal Control over Financial Reporting*



## Edgar Filing: FIRST DATA CORP - Form 10-K

Except for the material weakness in internal control over financial reporting related to the accounting and reporting for income taxes there were no changes in the Company's internal control over financial reporting identified in connection with the above evaluation that occurred during the last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholder of First Data Corporation

We have audited First Data Corporation's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). First Data Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment. Management has identified a material weakness in controls related to First Data Corporation's accounting for deferred income taxes. We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of First Data Corporation as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), cash flows and equity for each of the three years in the period ended December 31, 2012. This material weakness was considered in determining the nature, timing and extent of audit tests applied in our audit of the 2012 financial statements, and this report does not affect our report dated March 19, 2013, which expressed an unqualified opinion on those financial statements.

Edgar Filing: FIRST DATA CORP - Form 10-K

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, First Data Corporation has not maintained effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

/s/Ernst & Young LLP

Denver, Colorado

March 19, 2013

**ITEM 9B. OTHER INFORMATION**

None

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.**

The Company's executive officers and members of the Board of Directors (the Board) are as follows:

Name	Age	Position
Edward A. Labry III	50	Chief Executive Officer
Peter W. Boucher	58	Executive Vice President
John Elkins	60	Executive Vice President and President, First Data International Regions
David R. Money	57	Executive Vice President, General Counsel and Secretary
Ray E. Winborne	45	Executive Vice President and Chief Financial Officer
Joe W. Forehand	64	Director and Chairman of the Board
Henry R. Kravis	69	Director
Scott C. Nuttall	40	Director
Tagar C. Olson	35	Director

*Edward A. Labry III* has been Chief Executive Officer since January 2013. Mr. Labry was Executive Vice President from February 2006 until January 2013 and President, First Data North America from January 2011 until January 2013. Mr. Labry was President, Retail and Alliance Services from February 2009 until January 2011 and President, First Data USA from September 2007 to February 2009. He served as the Company's President of Commercial Services from January 2006 to September 2007. From May 2005 to January 2006 he was President of the Company's Prepaid Services business and from February 2004 to May 2005 he was special assistant to the Company's Chairman. Mr. Labry joined Concord EFS, Inc., in 1985 and served as President at the time the Company acquired Concord EFS, Inc. He is a board member of Dixon Gallery and Gardens, Hutchison School and Cumberland University.

*Peter W. Boucher* joined the Company as Executive Vice President of Human Resources in April 2006. From March 2003 to March 2006 he was Senior Vice President of Janus Capital Group. Mr. Boucher joined Citigroup, Inc. in January 1998 and served as Senior Human Resources Officer, Corporate Center until December 2002.

*John Elkins* joined the Company as Executive Vice President and Chief Marketing Officer in September 2009. In January 2011 he was appointed head of the Company's business outside North America, including the Asia Pacific, Europe, Middle East and Africa, and Latin America regions. Prior to joining the Company, Mr. Elkins served as a senior advisor to McKinsey & Company from November 2007 to September 2009. He also previously served as Executive Vice President and Chief Marketing Officer for Visa International from April 2003 to November 2007. Elkins is the founder and former Chairman and CEO of FutureBrand, a worldwide corporate brand, retail, industrial and packaging strategy and design consultancy.

*David R. Money* has been Executive Vice President, General Counsel and Secretary since February 2007. Mr. Money was Vice President and General Counsel of Alta Health Strategies from November 1990 to October 1995 when Alta Health Strategies was acquired by the Company. He filled a series of increasingly responsible positions in the Company's General Counsel's Office until being promoted to General Counsel-Level A in March 2001 and Deputy General Counsel in March 2004. Mr. Money was named the Company's acting general counsel in June 2006 and was subsequently named Executive Vice President, General Counsel and Secretary in February 2007. Prior to November 1990, Mr. Money was a partner in the law firm of Jones, Waldo, Holbrook and McDonough in Salt Lake City, Utah.

*Ray E. Winborne* has been Executive Vice President and Chief Financial Officer of the Company since November 2010. Previously, Mr. Winborne was acting Chief Financial Officer of the Company from May 2010 until November 2010 and Senior Vice

President and Controller of the Company from September 2009 until November 2010. He was the Senior Vice President-Finance and Controller of Delta Air Lines Inc. from April 2007 to September 2009 and served as the Senior Vice President, CFO Southeast Region for AT&T, Inc. from January 2007 to April 2007. Prior to that time, Mr. Winborne held various positions in the finance group of BellSouth Corporation from January 1999 to December 2006, most recently serving as BellSouth's Controller. From 1990 to 1999, Mr. Winborne was employed by the public accounting firm PricewaterhouseCoopers LLP.

*Joe W. Forehand* has been a member of the Board since September 2009 and Chairman of the Board since March 2010. Mr. Forehand was interim Chief Executive Officer of the Company from March 2010 until October 2010. In his more than 30 years with Accenture Ltd., Mr. Forehand served as the CEO from 1999 until 2004, prior to that, as chief executive of the Communications and High Technology Operating Group, and as Chairman of the board of directors of Accenture Ltd. from 2001 until 2006. Mr. Forehand is a member of the Portfolio Management Committee for Kohlberg Kravis Roberts & Co. ( KKR ) and has also been involved with KKR's growth and emphasis on the technology industry sector. He is a board member of Aricent Inc.

*Henry R. Kravis* has been a member of the Board since September 2009. Mr. Kravis, a pioneer of the private equity industry, co-founded KKR in 1976 and is its Co-Chairman and Co-Chief Executive Officer. He is actively involved in managing KKR and serves on its regional Private Equity Investment and Portfolio Management Committees. In addition to serving on the board of the general partner of KKR & Co. L.P., Mr. Kravis currently serves on the board of China International Capital Corporation Limited. He also serves as a director, chairman emeritus or trustee of several cultural, professional and education institutions, including The Business Council, Claremont McKenna, Columbia Business School, the Council on Foreign Relations, Mount Sinai Hospital, the New York City Investment Fund, Partnership for New York City, Rockefeller University, and Tsinghua University School of Economics and Management. He earned a B.A. from Claremont McKenna College in 1967 and a M.B.A. from the Columbia Business School in 1969. Mr. Kravis has more than four decades of experience financing, analyzing, and investing in public and private companies, as well as serving on the boards of a number of KKR portfolio companies.

*Scott C. Nuttall* has been a member of the Board since September 2007 and is a Member of KKR. Mr. Nuttall joined KKR in 1996 and heads KKR's Global Capital and Asset Management Group which includes the Client and Partner Group, KKR Capital Markets and KKR Asset Management. He has played a significant role in KKR's private equity investments in Alea Group Holdings, Amphenol, Bristol West Holdings, Capmark Financial, First Data Corporation, KinderCare Learning Centers, Legg Mason, Masonite International, Walter Industries and Willis Group. Mr. Nuttall is currently a member of the board of directors of KKR Financial Holdings and Legg Mason. He is actively involved in funds affiliated with KKR and is a member of KKR's Management Committee. Prior to joining KKR, he was with the Blackstone Group where he was involved in numerous merchant banking and merger and acquisition transactions. He received a B.S., summa cum laude, from the University of Pennsylvania.

*Tagar C. Olson* has been a member of the Board since September 2007. Mr. Olson joined KKR in 2002 and is a Member and Co-Head of KKR's Financial Services industry team within the Private Equity platform. Mr. Olson has played a significant role in the investments in Santander Consumer USA, First Data Corporation, KKR Debt Investors, Legg Mason, Visant, Capmark, KSL Holdings, KSL Recreation, Masonite, and Yellow Pages Group. Currently, he is on the board of directors of Santander Consumer USA and Visant. Prior to joining KKR, Mr. Olson was with Evercore Partners Inc., where he was involved in a number of private equity transactions and mergers and acquisitions. He holds a B.S. and B.A.S., summa cum laude, from the University of Pennsylvania.

The Company's Governance, Compensation and Nominations Committee (the Committee) identifies individuals qualified to become members of the Board and recommends to the Board nominees for election as directors at each annual meeting of shareholders and to fill vacancies on the Board. The Committee looks for certain qualities common to all Board members, including integrity, collegiality, and ability and willingness to make a commitment to the Company. When considering whether directors and nominees have the experience, qualifications, attributes and skills, the Committee and the Board focused primarily on the information discussed in each of the directors' individual biographies set forth above. With regard to Mr. Forehand, the Board considered his many years experience at a publicly held consulting and technology services company, including service as chairman of the board. With regard to Mr. Kravis, the Board considered his significant experience and expertise

## Edgar Filing: FIRST DATA CORP - Form 10-K

in private equity investments. With regard to Mr. Nuttall, the Board considered his broad perspective brought by Mr. Nuttall's involvement in KKR's diverse investments and his extensive knowledge of the business and capital structure of the Company through his involvement since the 2007 merger. With regard to Mr. Olson, the Board considered his expertise in the financial services industry and his extensive knowledge of the business and capital structure of the Company through his involvement since the 2007 merger.

### **Code of Ethics for Senior Financial Officers**

The Company has adopted a Code of Ethics for Senior Financial Officers which applies to its Chief Executive Officer, Chief Financial Officer, and Principal Accounting Officer. The Code is available on the Company's web site at [www.firstdata.com](http://www.firstdata.com) under About First Data, Investor Relations and Corporate Governance.

**Audit Committee Financial Expert and Recommendation of Directors.**

The Company's Audit Committee consists of Messrs. Nuttall and Olson. The Board of Directors has determined that Messrs. Nuttall and Olson are audit committee financial experts as defined by regulations of the Securities and Exchange Commission. The Company does not have procedures by which security holders may recommend nominees to its board of directors.



**PART III**

**ITEM 11. EXECUTIVE COMPENSATION**

**FIRST DATA CORPORATION  
COMPENSATION DISCUSSION AND ANALYSIS  
FISCAL YEAR 2012**

***EXECUTIVE SUMMARY***

In 2012, the Governance, Compensation and Nominations Committee (the Committee) of First Data Corporation (FDC or the Company) based funding for executive incentives on a comprehensive view of company performance, including financial and strategic achievements. During 2012, the Committee rewarded employees, including senior executives of FDC based on improved financial performance during 2012 and significant progress against First Data's six strategic pillars. Key initiatives supporting each pillar are carefully tracked and results are monitored via a balanced scorecard of related metrics. This successful overall performance was supported by financial results which, year over year, as measured by adjusted EBITDA (earnings before interest, taxes, depreciation and amortization), were 8.3% greater than 2011.

During 2012, FDC's executive team remained unchanged in support of our customer first philosophy and further leveraged our broad global product set and positioned the company to fully take advantage of regulatory changes and emerging developments in the payments industry.

On January 9, 2013 the Company announced via an 8-K filing that Jon Judge will be resigning from the role of Chief Executive Officer. His post-termination compensation is detailed in the Retention and Transition Agreement, which was contained in the 8-K.

On January 28, 2013, the Company announced the appointment of Edward A. Labry III, 49, as interim Chief Executive Officer of the Company. And on February 4, 2013, the departure of Kevin Kern, Executive Vice President, Operations & Technology, was announced. Mr. Kern will be receiving benefits pursuant to the terms of the FDC Corporation Severance/Change in Control Policy. At this time, it was also announced that executive officer, J. Mark Herrington, First Data's Executive Vice President, Global Product, will be leaving the company.

FDC remains committed to a compensation philosophy, strategy, and process that incents and rewards both short-term and long-term company performance. Details of the compensation philosophy and programs are addressed within the appropriate sections of the following discussion.

***ROLE OF THE COMMITTEE***

## Edgar Filing: FIRST DATA CORP - Form 10-K

The Committee reviews and approves all aspects of FDC's compensation programs for its executive officers. Specifically, under its charter, the Committee is tasked with:

- establishing FDC's compensation philosophy;
- evaluating performance and setting compensation for FDC's executive officers;
- overseeing regulatory compliance with respect to compensation matters; and
- delegating to and monitoring various subcommittees with responsibility for administrative and legal compliance for retirement and benefit plans.

During 2012, the Committee was comprised of Scott C. Nuttall (Chairperson), Joe W. Forehand and Henry R. Kravis. All of the foregoing individuals are affiliated with Kohlberg Kravis Roberts & Co. ( KKR ) and, therefore, not deemed independent Directors. Disclosure of payments between FDC and KKR affiliates are described in Item 13 of this Form 10-K.

The equity compensation provided to the senior executives of FDC is approved by the Governance, Compensation and Nominations Committee (the Holdings Committee ) of First Data Holdings Inc. ( Holdings ), the parent corporation of FDC (the Committee and the Holdings Committee together referred to as the Committees ). The Holdings Committee is comprised of the same individuals as are members of the Committee.

***ROLE OF MANAGEMENT***

FDC's management provides information, data, analysis, updates and recommendations to the Committee. Specifically, management provides recommendations on pay levels for executive officers other than the Chief Executive Officer ( CEO ) as well as the design of all material compensation and benefit plans. Finally, management is responsible for the administration of FDC's executive compensation programs and policies.

***EXECUTIVE COMPENSATION PROGRAM OBJECTIVES***

*Executive Compensation Philosophy*

FDC's executive compensation philosophy and corresponding pay practices are designed to create a strong incentive for FDC executives to achieve the Company's financial and strategic objectives, resulting in increased value for shareholders.

Alignment of the executives' interests with the interest of shareholders is created via equity compensation and annual incentive compensation, the value of which is driven by company performance over the long and short term, respectively. Other than base pay, FDC offers few non-performance based elements of compensation, such as executive benefits and perquisites.

When considering the design of FDC compensation plans, incentive plan funding schemes, and individual compensation decisions, the Committee carefully considers four guiding principles. These objectives work together to bring an appropriate balance to FDC compensation programs and have remained a consistent guide for the Committee over the last several years.

- Align compensation with company performance and creation of shareholder value
- Facilitate equity ownership
- Drive behaviors consistent with FDC's core values
- Pay at a competitive market position

Align Compensation with Company Performance and Creation of Shareholder Value

The Committee places a great emphasis on the alignment of compensation with increased shareholder value. The annual cash incentive and annual equity plans described below primarily drive this alignment.

Annual cash incentives are funded each year on the basis of overall company performance, while equity-based incentives are designed to provide greater value to executives when they achieve long-term value creation. Together, these elements of compensation reinforce the relationship between pay and performance.

FDC's incentive structure creates a strong incentive for executives to drive company performance over both the short and long term, while ensuring alignment between long-term shareholder and executive interests.

#### Facilitate Equity Ownership

The 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates (the 2007 Equity Plan) facilitates significant equity ownership by executive officers. All executive officers have purchased shares of stock and received matching grants of stock options in Holdings. The Holdings Committee believes that by requiring a personal investment in Holdings, the 2007 Equity Plan is a powerful mechanism to facilitate equity ownership and closely align executive and shareholder interests.

To ensure ongoing competitive compensation for executives and to strengthen long-term alignment, an annual equity grant program was established in 2011 and is further described below. Initially, grants under this annual program were below typical public company market levels due to the unique nature of FDC's ownership and overall equity compensation structure. Beginning in 2013 and going forward, equity grant levels will be increased in order to further facilitate significant equity ownership and alignment.

Drive Behaviors Consistent with FDC's Core Values

FDC is entrusted with highly sensitive and confidential customer information and therefore requires the highest level of integrity from its employees. During 2012, FDC stressed its vision, mission and core values to reflect FDC's purpose, long-term vision and the global employee attitudes and attributes that drive the Company's success in the marketplace. FDC's five core values are: Put Customers First, Empower our People, Act with Integrity, Deliver Excellence and Enjoy the Journey.

Executive behavior is considered by the Committee when determining annual executive incentive awards and all other compensation decisions. Furthermore, FDC's annual objectives and strategies are closely aligned with FDC's vision, mission and values. Success against these objectives and strategies is a key consideration in the Committee's evaluation of overall company performance.

Pay at a Competitive Market Position

FDC and the Committee review the Company's executive compensation practices and targets against a peer group of companies on an annual basis. FDC's current competitive positioning and the impact future decisions may have on such positioning are carefully evaluated. The peer group used to assess competitive positioning reflects FDC's direct business competitors and companies with which FDC competes for talent.

FDC's 2012 peer group remains the same as in 2011 and is comprised of direct competitors, frequently identified peer companies to FDC's direct competitors, and other companies deemed comparable to FDC in terms of industry, pay practices, revenue and market value. The 2012 peer group includes the following 21 companies:

- Accenture
- Capital One Financial
- eBay
- Fiserv
- SAIC
- SunTrust Banks
- Visa
- ADP
- Computer Sciences Corp.
- Fidelity Nat'l Info Services
- Mastercard
- SLM Corp.
- Symantec Corp.
- Western Union
- American Express
- Discover Financial
- Fifth Third Bancorp
- PNC Financial Services
- State Street Corp.
- Total System Services
- Yahoo!

Competitive benchmarks for each of FDC's executive officers are created by utilizing available information disclosed in proxy statements of these companies in combination with generally available market compensation survey information. It is important to note that compensation data from non-peer group companies is also given significant consideration since FDC also recruits talent from organizations outside the payments industry.

In order to successfully attract and retain top performing executives, FDC annually reviews market data and aims to provide competitive base pay and short-term cash incentive opportunities. As a privately held company, competitive cash compensation programs are required for FDC to attract and retain top talent due to the uncertain time horizon and lack of liquidity associated with FDC's equity-based compensation vehicles.

*ELEMENTS OF COMPENSATION*

Compensation for FDC's executive officers is delivered through:

- base salary;
- annual cash incentives;
- equity;
- perquisites; and
- retirement plans.

Base Salary

Base salary forms the foundation of FDC's compensation program. Base salaries for executives reflect market competitive levels (as described above) and factors unique to each executive such as scope of responsibilities, individual skill set, experience level, time in role, individual performance, pay relative to internal peers and overall value to FDC. Another factor that may influence base salary levels is an executive's base salary prior to employment by FDC and the level of compensation required to recruit the executive.

During the 2012 annual pay review process which included consideration of individual performance, salary increase trends and competitive market pay for each executive position. For 2012, no base pay adjustments were made to executive officers with the exception of Mr. Elkins whose base pay was increased from \$575,000 to \$625,000 in recognition of his 2011 promotion to President, First Data International Regions.

Effective March 1, 2013, Mr. Elkins base salary will be increased to \$750,000 and Mr. Winborne's base salary will be increased to \$675,000. Current base salary levels for named executive officers are as follows:

	Base Salary as of December 31, 2012	Base Salary as of March 1, 2013
Jonathan J. Judge, Chief Executive Officer	\$ 1,500,000	N/A
Edward A. Labry III, Executive Vice President & President, First Data North America	\$ 1,000,000	\$ 1,000,000
John Elkins, Executive Vice President & President, First Data International Regions	\$ 625,000	\$ 750,000
Ray E. Winborne, Executive Vice President & Chief Financial Officer	\$ 600,000	\$ 675,000
Kevin M. Kern, Executive Vice President, Operations & Technology	\$ 575,000	N/A

Annual Cash Incentives*Plan Design and Mechanics*

Executive officers are eligible to receive a performance-based annual cash incentive under the FDC Senior Executive Incentive Plan (SEIP). SEIP payouts to executive officers are based on target annual cash incentive levels established by the Committee on the basis of company financial performance and established strategic objectives for the year. The SEIP is an essential element of FDC's compensation program because the awards are driven by company performance.

At the beginning of 2012, the Committee approved target bonus levels for all executive officers. The Committee also approved a fully discretionary funding structure for 2012 for the SEIP. This structure was deemed most appropriate to ensure the Committee maintained the discretion and ability to appropriately incent and reward the performance of each executive based upon all factors relevant to the evaluation of company performance. Company performance was evaluated based on key financial metrics such as revenue and EBITDA and achievements which advanced progress against First Data's six strategic pillars. Non-financial progress was measured via a balanced scorecard of metrics measuring results related to each of FDC's six strategic pillars: (i) Customer First; (ii) Best Products Enabled with Best Technology;

## Edgar Filing: FIRST DATA CORP - Form 10-K

(iii) Profitable Top-Line Revenue Growth; (iv) Global Business Delivered Locally; (v) Continuous Operational Improvement; and (vi) Inter-Generational Leadership.

### *Determination of 2012 Awards*

The 2012 awards to be paid in March of 2013 to executive officers under the SEIP were determined by the Committee after careful evaluation of FDC and executive performance during 2012. The Committee considered both financial and strategic results during the year in determining SEIP funding for 2012. The Committee established an 85% funding level for the SEIP based on a combination of strong financial performance and strong progress and accomplishments in key strategic areas such as margin improvement, customer alignment, product innovation and operational efficiency, including but certainly not limited to:

- Year-over-year EBITDA growth of 8.3%



## Edgar Filing: FIRST DATA CORP - Form 10-K

- Implemented new service models and standardized project flows that improved customer satisfaction, which will help FDC consistently deliver to its customers going forward.
- Introduced new innovative tools and products to improve customer offerings, increase customer penetration, generate new revenue opportunities and drive speed to revenue.
- Successfully renewed contracts with several customers on a global scale; key new deals and client signings in North America and International Regions.
- Improved operations globally and stabilized infrastructure in EMEA.
- Continued progress with employee engagement, pay for performance culture and a greatly expanded emphasis on talent development.

The Committee awarded each executive 85% of their individual incentive target for the 2012 year paid in March 2013.

	2012 SEIP Target	SEIP Funding Percent	2012 SEIP Payout
<b>Jonathan J. Judge</b>	\$ 2,250,000	85%	\$ 1,912,500
<b>Edward A. Labry III</b>	\$ 1,250,000	85%	\$ 1,062,500
<b>John Elkins</b>	\$ 781,250	85%	\$ 664,063
<b>Ray E. Winborne</b>	\$ 600,000	85%	\$ 510,000
<b>Kevin Kern</b>	\$ 575,000	85%	\$ 488,750

### *Determination of 2013 Targets*

When establishing executive officer target award levels under the SEIP, the Committee considers multiple factors including: peer group practices, each executive's base salary level and the scope and responsibilities of each executive's position. For 2013, the Committee concluded that the annual cash incentive targets for FDC's executive officers met all FDC compensation objectives and should remain unchanged from 2012 levels on a percentage of base pay basis. Incentive targets for 2013 each named executive officer are as follows:

	2013 SEIP Target as a % of Base Pay	2013 SEIP Target in \$
<b>Edward A. Labry III</b>	125%	\$ 1,250,000
<b>John Elkins</b>	125%	\$ 937,500
<b>Ray E. Winborne</b>	100%	\$ 675,000

### Equity

The equity compensation program is intended to align long-term compensation opportunities with the interests of beneficial shareholders of the Company. Specifically, the purpose of the 2007 Equity Plan is to promote FDC's long-term financial interests and growth by:

- attracting and retaining executives with the experience and abilities required to make a substantial contribution to the success of the Company;
- rewarding executives for long-term commitment and the creation of value over the long term;
- motivating executives by means of growth-related incentives tied to achievement of long range goals; and
- aligning the interests of the Company's executives with those of the Company's majority beneficial shareholders.

*2012 Equity Awards*

In 2012, the Holdings Committee implemented an annual equity grant program for FDC executives in order to maintain a more competitive overall total compensation structure and promote long-term retention of key talent. Annual grants will be made on a discretionary basis, with amounts determined in the sole discretion of the Holdings Committee based on each executive's role and performance. Per his employment agreement, Mr. Judge has an annual equity award target value of \$1,000,000.

2012 grants were made half in time-vested options and half in restricted stock awards, based on the grant date fair value of \$3 per share of stock and a grant of two options for each share of restricted stock granted. Equity awards made pursuant to this structure in 2012 were made under the 2007 Equity Plan. Restricted shares vest upon the later of three years from grant date or a liquidity event, as defined by the plan. Time options vest one-third per year over a three year period from the grant date.

The following equity awards were approved for executive officers in March 2012:

	<b>Stock Option Grant</b>	<b>Restricted Stock Award</b>
<b>Jonathan J. Judge</b>	333,333	166,667
<b>Edward A. Labry III</b>	200,000	100,000
<b>John Elkins</b>	183,333	91,667
<b>Ray E. Winborne</b>	166,667	83,333
<b>Kevin Kern</b>	166,667	83,333

The Committee believes that annual equity grants in conjunction with: (1) personal investments by senior executives in Holdings stock with a long holding period, (2) making a proportional one-time grant of stock options with a relatively long five year vesting period, and (3) performance-based vesting requirements on one half of all investment-matching options granted, is an effective approach to align the interests of executives and shareholders, as well as maximize teamwork, retention and motivation within the executive team.

*General Provisions for Options and Purchased Shares under the 2007 Equity Plan*

Options granted in 2010 and prior: Vesting of all time options is fully accelerated upon a Change in Control or a Liquidity Event, as defined in the 2007 Equity Plan. Vesting of all performance options is fully accelerated upon a Change in Control or a Liquidity Event only if one of the following conditions is also met: (a) the Sponsor IRR (as defined in the 2007 Equity Plan) is achieved, or (b) the Sponsor Return (as defined in the 2007 Equity Plan) is achieved.

Options granted in 2012: Initial Public Offering ( IPO ) or sale of First Data has no impact on options vesting unless the Sponsor's (KKR's) stake drops to a level below 10% of their original investment. If it does, then all options granted in 2012 become 100% vested. If the sale of First Data results in a Change in Control whereby the sponsor stake drops below 50% and the sponsor no longer controls a majority of the Board all call rights are eliminated and options granted in 2012 become 100% vested.

## Edgar Filing: FIRST DATA CORP - Form 10-K

If an option holder terminates employment with FDC for any reason, all options are subject to call rights by Holdings until a Change in Control or a Liquidity Event, as defined in the 2007 Equity Plan.

If an option holder's employment is terminated due to Death, Disability, Good Reason or Not for Cause (as defined in the 2007 Equity Plan), call rights may be exercised on vested options at the fair market value share price. In this event, shares obtained through previous option exercises may be called at the fair market value share price. In the event of Death or Disability, the option holder has a put right to exchange vested options for the difference of the fair market value and the option exercise price.

If the option holder's employment is terminated voluntarily or for Cause (as defined in the 2007 Equity Plan), call rights may be exercised on vested options at the lesser of the fair market value share price or the option exercise price. In this event, shares obtained through previous option exercises may be called at the lesser of the fair market value

share price or the option exercise price. This provision greatly enhances the retention of executives who participate in the 2007 Equity Plan by eliminating all potential option gains for executives who voluntarily terminate prior to a Liquidity Event.

Shares of purchased stock held by executives may not be sold prior to a Liquidity Event. If a shareholder's employment is terminated voluntarily or due to Death, Disability, Good Reason or Not for Cause (as defined in the 2007 Equity Plan), call rights may be exercised on purchased shares at the fair market value share price. In the event of Death or Disability, the shareholder has a put right to sell shares back to Holdings at the fair market value share price.

If the shareholder's employment is terminated for Cause (as defined in the 2007 Equity Plan), call rights may be exercised on purchased shares at the lesser of the fair market value share price or the original purchase price.

Restricted Stock Awards/Restricted Stock Units awarded in 2012 will have the restrictions lapse/vest at the later of: (a) three years from grant date (March 3, 2015), and (b) following an IPO plus any mandatory lock-up period (up to 180 additional days from IPO).

#### *Grant Process*

March 3, 2012 annual equity grants were made under the 2007 Equity Plan, and granted at the then-current fair market value (\$3.00) on the date of each grant. Fair market value was determined by the full Holdings Board at the time of grant. Equity grants were made on the date the grants were approved by the Committee.

#### Perquisites

FDC's compensation philosophy is to focus on performance-based forms of compensation while providing only minimal, but competitive, executive benefits and perquisites. Reimbursement for relocation and moving expenses and an annual stipend for personal financial planning are offered to FDC's executive officers. Executives are also authorized to use the corporate aircraft for personal purposes in limited instances.

FDC's relocation program is required to attract and retain top talent in a competitive environment. The program ensures a new or transferred executive can transition into their new work location as quickly and efficiently as possible.

The financial planning benefit is provided as a fixed dollar benefit, grossed-up to cover taxes on the benefit. For the Chief Executive Officer, the benefit is \$20,000 per year. For all other executives, the benefit is \$20,000 in their first year as an executive officer and \$10,000 in each subsequent year.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Competitive analysis indicates that the relocation and financial planning benefits are comparable to what is offered by other companies with whom the Company competes for talent. The Committee reviews the appropriateness of perquisites provided to executive officers on an annual basis.

### Retirement Plans

In 2012, all employees in the U.S., including executive officers, were eligible to participate in the First Data Corporation Incentive Savings Plan ( ISP ). The ISP is a qualified 401(k) plan designed to comply with Internal Revenue Service ( IRS ) safe harbor rules. FDC maintains the ISP to allow employees to save for their retirement on a pre-tax basis and provides company contributions to help employees build retirement savings. FDC offers the ISP not only because it is a market competitive practice, but it is critical to provide a vehicle for its employees to save for retirement.

The Company matches 100% of employee deferrals up to 3% of eligible pay and 50% of employee deferrals on the next 1% of eligible pay. Eligible pay includes base and incentive compensation and is capped by IRS limitations applicable to qualified plans. Company contributions become 100% vested after 2 years of service and there is no service requirement to begin receiving company matching contributions.

FDC does not currently offer defined benefit plans to new employees, nor does it offer non-qualified retirement plans to its executive officers.

### ***SEVERANCE AND CHANGE IN CONTROL AGREEMENTS***

In general, FDC does not enter into employment agreements with employees, including the Company's executive officers, except in the case of Mr. Judge and Mr. Labry. A description of these agreements is provided below. All current executive officers serve at the will of the Board.

The Company believes that reasonable and appropriate severance and Change in Control benefits are necessary in order to be competitive in the Company's executive attraction and retention efforts. The Company's severance benefits are equivalent to those typically found in other companies and reflect the fact that it may be difficult for such executives to find comparable employment within a short period of time. Information regarding applicable payments under such agreements for the named executive officers is provided in the Severance Benefit table.

The FDC Corporation Severance/Change in Control Policy (the Policy) provides for the payment of benefits to executive officers upon severance from FDC and/or upon a change of control. The Policy is intended to promote uniform treatment of senior executives who are involuntarily terminated other than for Cause or who voluntarily leave the Company for Good Reason, as defined under the 2007 Equity Plan. Under the Policy, no benefits are provided based solely on a Change in Control. The Policy provides for payment of the following severance benefits:

(i) For executive officers appointed prior to May 1, 2011, or having 5 years or more service in such a position: total cash payments equal to the executive officer's base pay plus target bonus multiplied by 2.

For executive officers appointed on or after May 1, 2011 and having 2 to 5 years of service in such a position: total cash payments equal to the executive officer's base pay plus target bonus multiplied by 1.5.

For executive officers appointed on or after May 1, 2011 and having less than 2 years of service in such a position: total cash payments equal to the executive officer's base pay for one year.

(ii) A cash payment equal to the executive officer's prorated bonus target for the year of termination.

(iii) A cash payment equal to the financial planning benefits to which the executive officer would have been entitled to during the severance period.

(iv) Continuation of medical, dental and vision benefits coverage for the severance period, with a portion of the costs of the benefits paid by the executive officer.

(v) A Gross Up Payment is made if it is determined that any Internal Revenue Code Section 280G parachute payments provided by the Company to or, on behalf of, an eligible executive would be subject to the excise tax imposed by Internal Revenue Code Section 4999. The Gross-Up Payment is an amount so that after payment of all taxes, the eligible executive retains an amount equal to the Excise Tax imposed by Internal Revenue Code Section 4999. Executives are eligible for this benefit regardless of whether their employment is terminated following a Change in Control.

As a condition to receiving severance benefits under the Policy, all employees are required to release FDC and its employees from all claims they may have against them and agree to a number of restrictive covenants which are structured to protect FDC from potential loss of customers or employees and to prohibit the release of confidential company information.

#### ***OTHER BENEFIT PLANS***

All executive officers are also eligible to participate in the employee benefit plans and programs generally available to FDC's employees, including participation in FDC's matching gift program and coverage under FDC's medical, dental, life and disability insurance plans.

***EMPLOYMENT/ TRANSITION AND TERMINATION AGREEMENTS WITH FDC EXECUTIVES***

***Retention and Transition Agreement with Mr. Judge***

Holdings and the Company entered into a Retention and Transition Agreement (the Agreement ) with Mr. Judge on January 9, 2013 and a copy of this Agreement, in its entirety, was included in the Current Report Form 8-K. Under the terms of the Agreement, Mr. Judge s current compensatory arrangement continued until January 31, 2013 (the Effective Date ). Thereafter, subject to the conditions outlined in the Agreement, the Company agrees to provide to Executive the following payments and benefits: (i) Executive will receive salary continuation for a period of 24 months, with the sum total of payments equal to 2 times his base pay plus target bonus; (ii) insurance coverage in accordance with COBRA paid for by the Company and Company-funded health insurance until age 65 following the COBRA period; (iii) continued vesting



in previously granted equity awards until March 31, 2014; (iv) agreement not to exercise the Company's Call Rights on Mr. Judge's equity holdings without his mutual agreement; and (v) a cash payment equal to financial planning benefits for two years following termination.

Pursuant to the terms of the Agreement, Mr. Judge is subject to covenants not to: (i) disparage FDC or interfere with existing or prospective business relationships; (ii) disclose confidential information; (iii) solicit certain employees of FDC; and (iv) compete. In the event of an alleged material breach of the covenant not to solicit certain employees of FDC, obtains employment, and/or not to compete, any unpaid severance amounts, including but not limited to the items listed in the previous paragraph, will cease and future payments will be forfeited.

#### ***Termination Agreement with Mr. Kern***

Effective February 28, 2013, Holdings and the Company entered into a Termination Agreement with Mr. Kern pursuant to the terms of the FDC Corporation Severance/Change in Control Policy. Mr. Kern's Termination Agreement and any subsequent payments are conditioned upon the execution and effectiveness of a release of claims against FDC and its affiliates and in addition to certain accrued amounts, Mr. Kern is entitled to (i) payment, in installments ratably over a 24 month period, of two times the sum of his base salary and target annual bonus; (ii) a monthly amount equal to the applicable COBRA premiums until the earlier of the end of the 24 month period or the date on which Mr. Kern becomes eligible to receive comparable benefits from a subsequent employer for Mr. Kern and his eligible dependents; (iii) a pro rata portion of the annual bonus that would have otherwise been payable in respect of such year if he had remained employed through such year; and (iv) a cash payment equal to financial planning benefits for two years following termination.

#### ***Employment Agreement with Mr. Labry***

In connection with the Company's merger with Concord EFS, Inc., on April 1, 2003 an employment agreement was entered into with Edward A. Labry III. The agreement provided Mr. Labry's compensation for the initial employment period and that he may be eligible for additional compensation under certain Company plans or arrangements. Under the agreement, Mr. Labry agreed not to compete with the Company, or solicit any employees or customers of the Company, during his employment with the Company and twelve months thereafter. The initial employment period was February 26, 2004 through February 26, 2006. However, the agreement automatically extends for additional thirty (30) day periods unless either party gives notice to the other party fifteen (15) days before the end of an employment period. As of the date hereof, neither party has provided notice to terminate the agreement.

### ***TAX AND ACCOUNTING CONSIDERATIONS***

During 2012, Internal Revenue Code Section 162(m) limitations on tax deductibility of compensation did not apply to FDC as the Company's common stock is not registered or publicly traded. The Committee has not considered Internal Revenue Code Section 162(m) deductibility limitations in the planning of 2012 compensation since they do not apply.

### ***DIRECTOR COMPENSATION***

Edgar Filing: FIRST DATA CORP - Form 10-K

Name	Fees Earned or Paid in Cash (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non-Qualified Deferred Compensation		All Other Compensation (\$)	Total (\$)
					Compensation Earnings (\$)			
James R. Fisher (1)	175,000	0	0	0	0	0	0	175,000
Joe W. Forehand (2)	800,000	0	0	680,000	0	0	0	1,480,000
Henry R. Kravis	40,000	0	0	0	0	0	0	40,000
Scott C. Nuttall	40,000	0	0	0	0	0	0	40,000
Tagar C. Olson	40,000	0	0	0	0	0	0	40,000

---

FDC Directors do not receive compensation. However, all of the Directors of FDC are also Directors of FDC's parent company, Holdings. The Board of Directors of Holdings has approved an annual cash retainer for each non-employee director of Holdings, other than Mr. Forehand, of \$40,000 per year.

All Directors other than Mr. Forehand are eligible to defer up to \$40,000 of their retainer in the First Data Holdings Inc. 2008 Non-Employee Director Deferred Compensation Plan and each such Director elected to defer \$40,000 of their retainer earned in 2012. Deferrals in the Non-Employee Director Deferred Compensation Plan track the value of shares of Holdings and are payable to participants only upon Separation of Service or Death.

(1) On November 8, 2012, James Fisher informed the Company, that he did not intend to run for re-election as a member of the First Data Corporation Board of Directors. His term expired on December 31, 2012.

(2) Mr. Forehand received a non-executive Chairman Compensation package from Holdings consisting of \$800,000 per year payable in monthly installments and an annual bonus determined at the discretion of the Holdings Committee, with a target amount of \$800,000. Based on the 85% company performance factor in 2012, his 2012 bonus was \$680,000.

#### *Reimbursements*

Directors are reimbursed for their expenses incurred in attending Board, committee and shareholder meetings, including those for travel, meals and lodging. Directors are also reimbursed for their expenses incurred in attending director education programs.

#### *Indemnification*

The Company's Certificate of Incorporation provides that the Company shall indemnify and hold harmless each director to the fullest extent permitted or authorized by the General Corporation Law of the State of Delaware.

### **REPORT OF THE GOVERNANCE, COMPENSATION AND NOMINATIONS COMMITTEE**

The Governance, Compensation and Nominations Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Governance, Compensation and Nominations Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

### **GOVERNANCE, COMPENSATION AND NOMINATIONS COMMITTEE**

Edgar Filing: FIRST DATA CORP - Form 10-K

Scott C. Nuttall (Chairperson)

Henry R. Kravis

Joe W. Forehand

## SUMMARY COMPENSATION TABLE

Name and Principal Position	Year	Salary (\$)	Bonus (\$ (1))	Stock Awards (\$ (2))	Option Awards (\$ (3))	Non-Equity Incentive Plan Compensation (\$)	Change in Pension Value and Non Qualified Deferred Compensation Earnings (\$) (4)	All Other Compensation (\$ (5))	Total (\$)
Jonathan J. Judge, Chief Executive Officer	2012	1,500,000	1,912,500	500,001	531,333	0	0	389,841	4,833,675
	2011	1,500,000	2,137,500	125,001	146,249	0	0	662,524	4,571,274
	2010	375,000	5,567,123	0	6,304,000	0	0	147,997	12,394,120
Ray E. Winborne, Executive Vice President & Chief Financial Officer	2012	600,000	510,000	249,999	265,667	0	0	30,926	1,656,592
	2011	595,833	570,000	240,000	1,739,850	0	0	27,707	3,173,390
	2010	479,744	613,068	0	187,088	0	0	38,603	1,318,503
Edward A. Labry III, Executive Vice President	2012	1,000,000	1,062,500	300,000	318,800	0	0	209,121	2,890,421
	2011	1,000,000	1,187,500	300,000	351,000	0	0	173,243	3,011,743
	2010	812,500	2,113,281	3,750,000	14,002,500	0	0	65,634	20,743,915
John Elkins, Executive Vice President	2012	616,667	664,063	275,001	292,233	0	0	27,418	1,875,382
	2011	570,833	682,183	240,000	280,800	0	0	25,665	1,799,481
	2010	550,000	467,500	0	1,678,000	0	0	25,665	2,721,165
Kevin M. Kern, Executive Vice President	2012	575,000	488,750	249,999	265,667	0	0	31,317	1,610,733
	2011	570,833	546,250	262,500	307,125	0	0	26,066	1,712,774
	2010	487,500	478,958	300,000	1,197,825	0	0	31,514	2,495,797

(1) In 2012, payouts under the Senior Executive Incentive Plan were determined by The Committee using a Company performance factor of 85%; reported as bonus due to the discretionary nature of the funding determination for 2012.

(2) The table reflects the grant date fair value of all restricted shares used for financial reporting purposes and awarded under the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates. For further information on stock awards granted in 2012, see the Grant of Plan-Based Awards Table.

(3) The table reflects the grant date fair value of all stock options used for financial reporting purposes and awarded under the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates. See Note 13 to the Consolidated Financial Statements included in Item 8 of this Form 10-K for the year ended December 31, 2012 for a discussion of the relevant assumptions used in calculating grant date fair value. For further information on options granted in 2012, see the Grant of Plan-Based Awards Table.

(4) During 2012, no executive officer participated in a Non-Qualified Deferred Compensation plan.

(5) Full explanation of these amounts is provided in the Perquisite and Personal Benefits Table and accompanying footnotes.

## PERQUISITE AND PERSONAL BENEFITS

Name	Year	Employee	Non-Qualified	Tax			Other	Total (\$)			
		Financial Planning (\$ (1))	Stock Purchase Plans (\$ (2))	Defined Contributions (\$ (3))	Deferred Compensation (\$ (3))	Life Insurance (\$ (3))	Gross Up Payments (\$ (4))		Severance Payments (\$ (5))	Relocation Benefits (\$ (5))	Compensation (\$ (6))
<b>Jonathan J. Judge</b>											
	2012	20,000	0	8,750	0	4,902	52,141	0	2,810	301,238	389,841
	2011	20,000	0	8,575	0	4,902	193,188	\$ 0	329,191	106,668	662,524
	2010	20,000	0	5,625	0	613	20,091	\$ 0	5,000	96,668	147,997
<b>Ray E. Winborne</b>											
	2012	10,000		8,750		660	8,923			2,593	30,926
	2011	10,000	0	8,575	0	570	6,963	0	0	1,599	27,707
	2010	20,000	0	8,575	0	420	9,608	0	0	0	38,603
<b>Edward A. Labry III</b>											
	2012	10,000	0	8,750	0	1,710	47,827	0	23,612	117,222	209,121
	2011	10,000	0	8,575	0	1,260	30,297	0	10,268	112,843	173,243
	2010	10,000	0	8,575	0	1,260	8,267	0	0	37,532	65,634
<b>John Elkins</b>											
	2012	10,000	0	8,750	0	4,158	4,510	0	0	0	27,418
	2011	10,000	0	8,575	0	2,580	4,510	0	0	0	25,665
	2010	10,000	0	8,575	0	2,580	4,510	0	0	0	25,665
<b>Kevin Kern</b>											
	2012	10,000	0	8,750	0	2,709	7,315	0	0	2,543	31,317
	2011	10,000	0	0	0	2,580	11,286	0	0	2,200	26,066
	2010	20,000	0	0	0	1,806	9,708	0	0	0	31,514

(1) Executive officers are eligible to receive an annual cash benefit for personal financial planning. These benefits are grossed-up for taxes and the gross-up payment is reported in the Tax Gross Up Payments column.

(2) For all Executives, this column represents company contributions in the First Data Corporation Incentive Savings Plan ( ISP ), a qualified 401(k) plan. The ISP is described in the Compensation Discussion and Analysis.

(3) Includes the value of imputed income on life insurance premiums paid by the Company.

(4) For 2012, amounts include all tax gross up payments related to financial planning, personal corporate aircraft usage and relocation. These tax gross-up amounts are respectively as follows: Mr. Judge \$9,608/\$40,460/\$2,073; Mr. Winborne \$4,804/\$4,119/\$0; Mr. Labry \$4,804/\$43,023/\$0; and Mr. Elkins \$4,510/\$0/\$0; and Mr. Kern \$4,804/\$2,511/\$0

(5) Mr. Judge received relocation benefits in the amount of \$2,810. Mr. Labry received relocation benefits in the amount of \$23,612 for transportation and storage of home goods.

(6) Messrs. Judge and Labry received value from personal use of corporate aircraft in the amounts of \$298,780; and \$114,764 respectively. These amounts represent the incremental cost associated with the personal use of the aircraft by each of the named executive officers. The calculation of incremental cost for personal use of the corporate aircraft includes the average hourly variable costs of operating the aircraft for the year attributed to the named executive officer's personal flight activity. In addition, Messrs. Judge, Winborne, Labry, and Kern have the following amounts reported for costs associated with guests of Named Executive Officers that attended FDC's President Club, \$2,458, \$2,593, \$2,458, and \$2,543, respectively.



## GRANTS OF PLAN-BASED AWARDS

Name	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plans (1)	Estimated Future Payouts Under Equity Incentive Plans (1)	All Other Stock Awards: Number of Shares or Units (#) (2)	All Other Option Awards: Number of Securities Underlying Options (#) (3)	Exercise or Base Price of Option Awards (\$)	Grant Date Fair Value of Stock and Option Awards (\$) (4)	Market Close Price per Share (\$)
Jonathan J. Judge	3/3/2012			166,667			500,001	3.00
	3/3/2012				333,333	3.00	531,333	3.00
Ray E. Winborne	3/3/2012			83,333			249,999	3.00
	3/3/2012				166,667	3.00	265,667	3.00
Edward A. Labry								
III	3/3/2012			100,000			300,000	3.00
	3/3/2012				200,000	3.00	318,800	3.00
John Elkins	3/3/2012			91,667			275,001	3.00
	3/3/2012				183,333	3.00	292,233	3.00
Kevin Kern	3/3/2012			83,333			249,999	3.00
	3/3/2012				166,667	3.00	265,667	3.00

(1) No executive officers were eligible for any Estimated Future Payouts under Non-Equity or Equity Incentive Plans during 2012.

(2) Grants reflected in this column are grants of Restricted Stock made under the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates. All restricted shares granted in 2012 vest only upon the lapse of three years following the grant date and the lapse of transfer restrictions under the 2007 Equity Plan.

(3) Grants reflected in this column are grants of Stock Options made under the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates. The grant price was determined at the time of the grant by the Board, pursuant to their authority under the plan, to be \$3.00. The option grant listed vests in equal annual installments, one-third per year, over a three year period from the grant date of March 3, 2012 and have a ten-year term and applies to all grants dated March 3, 2012.

(4) Grant Date Fair Value for restricted stock and options is based on their valuation for financial reporting purposes at the time of grant.



OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

Name	Company (1)	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Options (#) Un- exercisable (2)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested # (3)	Market Value of Shares or Units of Stock That Have Not Vested (\$ (3)	
Jonathan J.									
Judge	Holdings	0	*2,000,000	0	3.00	11/10/2020			
	Holdings	800,000	1,200,000	0	3.00	11/10/2020			
	Holdings	27,777	55,556	0	3.00	3/8/2021			
	Holdings	0	333,333	0	3.00	3/3/2022			
	Holdings						41,667	\$	145,835
	Holdings						166,667	\$	583,335
Ray E.									
Winborne	Holdings	0	*56,250	0	3.00	6/23/2020			
	Holdings	22,500	33,750	0	3.00	6/23/2020			
	Holdings	0	*443,750	0	3.00	2/1/2021			
	Holdings	177,500	266,250	0	3.00	2/1/2021			
	Holdings	53,333	106,667	0	3.00	3/8/2021			
	Holdings	0	166,667	0	3.00	3/3/2022			
	Holdings						80,000	\$	280,000
	Holdings						83,333	\$	291,666
Edward A.									
Labry III	Holdings	3,750,000	0	0	3.00	9/24/2017			
	Holdings	750,000	1,125,000	0	3.00	5/19/2020			
	Holdings	0	*5,625,000	0	3.00	5/19/2020			
	Holdings	1,125,000	750,000	0	3.00	9/23/2019			
	Holdings	66,666	133,334	0	3.00	3/8/2021			
	Holdings		200,000	0	3.00	3/3/2022			
	Holdings						1,250,000	\$	4,375,000

Edgar Filing: FIRST DATA CORP - Form 10-K

Name	Company (1)	Option Awards				Stock Awards			Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$)
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Unexercisable	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (3)	Market Value of Shares or Units of Stock That Have Not Vested (\$) (3)	
	Holdings						100,000	\$ 350,000	
	Holdings						100,000	\$ 350,000	
	WU	30,000	0	0	19.07	12/8/2014			
	WU	200,000	0	0	20.65	2/22/2016			
John Elkins	Holdings	0	*500,000	0	3.00	5/19/2020			
	Holdings	200,000	300,000	0	3.00	5/19/2020			
	Holdings	53,333	106,667	0	3.00	3/8/2021			
	Holdings		183,333	0	3.00	3/3/2022			
	Holdings						80,000	\$ 280,000	
	Holdings						91,667	\$ 320,835	
Kevin Kern	Holdings	0	*337,500	0	3.00	5/12/2020			
	Holdings	0	*112,500	0	3.00	5/19/2020			
	Holdings	135,000	90,000	0	3.00	9/1/2019			
	Holdings	45,000	67,500	0	3.00	5/12/2020			
	Holdings	60,000	90,000	0	3.00	5/19/2020			
	Holdings	67,500	45,000	0	3.00	9/23/2019			
	Holdings	58,333	116,667	0	3.00	3/8/2021			
	Holdings	0	166,667	0	3.00	3/3/2022			
	Holdings						100,000	350,000	
	Holdings						87,500	306,250	

Name	Company (1)	Option Awards				Stock Awards			Equity Incentive Plan
		Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised Options (#) Un- exercisable (2)	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) Unearned Options (#)	Option Exercise Price (\$)	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested (#) (3)	Market Value of Shares or Units of Stock That Have Not Vested (\$ (3)	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)
	Holdings					83,333	291,666		

(1) Western Union ( WU ) equity awards were granted under the 1992 and/or 2002 First Data Corporation Long-Term Incentive Plans in connection with the spin-off of Western Union from FDC in September 2006. At that time, one option of WU was granted for each FDC option held and strike prices were adjusted accordingly to provide equivalent value. All unvested Western Union Equity Awards became fully vested on September 24, 2007. All Holdings equity awards were granted under the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates.

(2) Grants reflected in this column are grants of Stock Options made under the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates. For Messrs. Judge, Winborne, Labry, Elkins, and Kern the performance option grants (noted as \* ) vests contingent upon attainment of EBITDA thresholds in any fiscal year through 2013 as follows, 25% if \$2.8 billion is attained, 75% if \$3.1 billion is attained and 100% if \$3.4 billion is attained. All other option grants listed time-vest in equal annual installments 20% each year over a five year period. Also, on May 19, 2010, the strike price on all time-vested options granted to Messrs. Labry, Kern and Elkins in 2008 was modified from \$5.00 to \$3.00. March 2011 and March 2012 stock option award vesting terms were changed and are described in footnote 3 of the Grants of Plan-Based Awards Table.

(3) All grants reflected in this column are awards of Restricted Stock made under the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates. All restricted shares granted in 2010 vest only upon the lapse of transfer restrictions under the 2007 Equity Plan. March 2011 and March 2012 Restricted Stock Award vesting terms are described in footnote 2 of the Grants of Plan-Based Awards Table. Market value of the shares is based on the per share price of \$3.50 as of December 31, 2012, as determined by the Board of Directors for purposes of the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates.

**OPTION EXERCISES AND STOCK VESTED**

Name	Company	Option Awards		Stock Awards	
		Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$) (1)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$)

NOTHING TO REPORT



**PENSION BENEFITS**

During 2012, no executive officers participated in either a qualified or non-qualified defined benefit plan sponsored by FDC.

**NON QUALIFIED DEFERRED COMPENSATION**

During 2012, no executive officers participated in a non-qualified deferred compensation plan sponsored by FDC.

**SEVERANCE BENEFITS (1)**

Name	Cash Payments (\$ (2))	Health & Welfare Benefits (\$ (3))	Financial Planning (\$ (4))	Unvested Stock Options (\$ (5))	Unvested Restricted Stock (\$ (6))	Estimated 280G Tax Gross Up (\$)	Total (\$)
Jonathan J. Judge	7,500,000	21,085	40,000	0	230,904	0	7,791,989
Ray E. Winborne	2,400,000	21,754	20,000	0	236,250	0	2,678,004
Edward A. Labry III	4,500,000	20,747	20,000	0	4,666,667	0	9,207,414
John Elkins	2,812,500	14,158	20,000	0	243,542	0	3,090,200
Kevin Kern	2,300,000	14,357	20,000	0	601,562	0	2,935,919

(1) Benefits are determined based on an assumed termination date of December 31, 2012 and the terms of the FDC Severance/Change in Control Policy, effective September 24, 2007 and amended in 2008. Executive officers are eligible to receive benefits under this plan following three months of service and in the event of an involuntary termination Not for Cause, Death or Disability, or in the event of a voluntary termination for Good Reason.

(2) Represents two times the sum of each executive's base salary and target bonus as of December 31, 2012.

(3) Represents the company-paid portion of Medical, Dental and Vision benefits for each executive for a period of two years.

(4) Represents the cash value of the financial planning benefit for each executive for a period of two years.

(5) Stock Option vesting is not accelerated under any of the severance scenarios.

(6) The terms of the Restricted Stock Awards issued during 2010 to Messrs. Labry and Kern provide that the entire award shall vest following a severance-eligible departure from the Company. The terms of the Restricted Stock Awards issued during 2011 and 2012 to all Named Officers provide that the award will vest based on number of months completed since grant divided by 36 months following a severance-eligible departure from the Company. Value based on December 31, 2012 fair market value of \$3.50, as previously determined by the Committee.

## Edgar Filing: FIRST DATA CORP - Form 10-K

Executive officers participate in the FDC Corporation Severance/Change in Control Policy (the Policy), which was most recently restated in 2007 and further amended in 2008 to incorporate legislative changes under Internal Revenue Code Section 409A. The Policy provides for the payment of benefits to executive officers upon severance from FDC and/or upon a change of control.

The Policy is intended to promote uniform treatment of senior executives who are involuntarily terminated other than for cause or who voluntarily leave the Company for Good Reason as defined under the 2007 Incentive Plan for Key Employees of First Data Corporation and its Affiliates. Under the Policy, no benefits are provided based solely on a Change in Control. The Policy provides for payment of the following severance benefits:

1. A cash payment equal to the executive officer's base pay plus target bonus multiplied by 2.
2. A cash payment equal to the executive officer's prorated bonus target for the year of termination.
3. A cash payment equal to the financial planning benefits to which the executive officer would have been entitled to during the two years following termination.

4. Continuation of medical, dental and vision benefits coverage for a period of 2 years, with a portion of the cost of the benefits paid by the executive officer.

5. A Gross Up Payment is made if it is determined that any Internal Revenue Code Section 280G parachute payments provided by the Company to, or on behalf of, an eligible executive would be subject to the excise tax imposed by Internal Revenue Code Section 4999. The Gross-up Payment is an amount so that after payment of all taxes the eligible executive retains an amount equal to the Excise Tax imposed by Internal Revenue Code Section 4999. Executives are eligible for this benefit regardless of whether their employment is terminated following the triggering Change in Control.

As a condition to receiving severance benefits under the Policy, all employees are required to release FDC and its employees from all claims they may have against them and agree to a number of restrictive covenants which are structured to protect FDC from potential loss of customers or employees and prohibit the release of confidential company information.

The actual payments under the policy are contingent upon many factors as of the time benefits would be paid, including elections by the executive and tax rates.

#### **Compensation Committee Interlocks and Insider Participation**

None of the Company's Governance, Compensation and Nominations Committee members have been an officer or employee of the Company at any time, except for Joe W. Forehand who was appointed acting CEO prior to the nomination of Jonathan J. Judge. During 2012, the Company had no compensation committee interlocks.

### Equity Compensation Plan Information

The Company does not have any compensation plans under which the Company's common stock may be issued. First Data Holdings Inc., the Company's parent company, has adopted the 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates. The following table contains certain information regarding options, warrants or rights under the plan as of December 31, 2012.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	91,158,174	\$ 3.00	11,006,854
Equity compensation plans not approved by security holders			
Total	91,158,174	\$ 3.00	11,006,854

### Beneficial Ownership

All of the outstanding stock of First Data Corporation is held by First Data Holdings Inc. The following table sets forth, as of March 1, 2013, the beneficial ownership of common stock of First Data Holdings Inc. by each person known by the Company to beneficially own more than 5% of the equity securities of First Data Holdings Inc., each director, each Named Executive Officer and all directors and executive officers as a group. Unless otherwise indicated in the footnotes to this table, the Company believes that each person has sole voting and investment power of the shares.

Name	Number of Shares	
	Beneficially Owned (1,2)	Percent of Class
New Omaha Holdings L.P. (3)	1,266,800,220	98%
Jonathan J. Judge	2,300,000	*
John Elkins	801,110	*
Kevin M. Kern	724,721	*
Edward A. Labry III (4)	8,924,999	*
Ray E. Winborne	706,804	*
Joe W. Forehand	1,833,333	*
Henry R. Kravis (3), (5)	0	*
Scott C. Nuttall (5)	0	*
Tagar C. Olson (5)	0	*
All directors and executive officers as a group (12 persons)	18,645,361	1%



\* Less than one percent

- (1) The number of shares reported includes shares covered by options that are exercisable within 60 days of March 1, 2013 as follows: Mr. Elkins 467,777; Mr. Forehand, 1,500,000; Mr. Judge, 966,666; Mr. Kern, 524,721; Mr. Labry, 6,424,999; Mr. Winborne, 373,471; and all directors and executive officers as a group, 12,652,028.
- (2) No shares are pledged as security except for 2,370,000 shares held by Mr. Labry.
- (3) New Omaha Holdings L.P. is a limited partnership in which investment funds associated with Kohlberg Kravis Roberts & Co. L.P. and other co-investors own the limited partner interests. New Omaha Holdings LLC is the general partner of New Omaha Holdings L.P. KKR 2006 Fund L.P. is the sole member of New Omaha Holdings LLC. KKR Associates 2006 L.P. is the general partner of KKR 2006 Fund L.P. KKR 2006 GP LLC is the general partner of KKR 2006 Associates L.P. KKR Fund Holdings L.P. is the designated member of KKR 2006 GP LLC. KKR Fund Holdings GP Limited is a general partner of KKR Fund Holdings L.P. KKR Group Holdings L.P. is a general partner of KKR Fund Holdings L.P. and the sole shareholder of KKR Fund Holdings GP Limited. KKR Group Limited is the sole general partner of KKR Group Holdings L.P. KKR & Co. L.P. is the sole shareholder of KKR Group Limited. KKR Management LLC is the sole general partner of KKR & Co. L.P. Henry R. Kravis and George R. Roberts are the designated members of KKR Management LLC. In addition, Messrs. Kravis and Roberts have been designated as managers of KKR 2006 GP LLC by KKR Fund Holdings L.P. In such capacities, each of the aforementioned entities and individuals may be deemed to have voting and dispositive power with respect to the shares held by New Omaha Holdings L.P. but each such entity and individual disclaims beneficial ownership of the shares held by New Omaha Holdings L.P. The address of each of the entities listed in this footnote is c/o Kohlberg Kravis Roberts & Co. L.P., 9 West 57th, Street, New York, New York 10019.
- (4) Includes the Labry Family Trust-2002 holdings of 130,000 shares and 253,500 additional shares covered by options that are exercisable within 60 days. Mr. Labry disclaims beneficial ownership of any shares owned directly or indirectly by the Labry Family Trust-2002, except to the extent of his pecuniary interest therein.
- (5) Each of Messrs. Kravis, Nuttall and Olson is a member of the Company's board of directors and serves as an executive of Kohlberg Kravis Roberts & Co. L.P. and/or one or more of its affiliates. Each of Messrs. Kravis, Nuttall and Olson disclaim beneficial ownership of the shares held by New Omaha Holdings L.P.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

#### **Policies Regarding the Approval of Transactions with Related Parties**

Under the Company's Director Code of Conduct, each director must report to the Company's General Counsel upon learning of any prospective transaction or relationship in which the director will have a financial or personal interest (direct or indirect) that is with the Company, involves the use of Company assets, or involves competition against the Company (consistent with any confidentiality obligation the director may have). The General Counsel must then advise the Board of any such transaction or relationship and the Board must pre-approve any material transaction or relationship.

Under the Company's Code of Conduct, executive officers may not use their personal influence to get the Company to do business with a company in which they, their family members or their friends have an interest. In situations where an executive officer is in a position of influence or where a conflict of interest would arise, the prior approval of the General Counsel is required.

#### **Certain Relationships and Related Transactions**

## Edgar Filing: FIRST DATA CORP - Form 10-K

First Data has a management agreement with affiliates of Kohlberg Kravis Roberts & Co. L.P. ( KKR ) (the Management Agreement ) pursuant to which KKR provides management, consulting, financial and other advisory services to the Company. Pursuant to the Management Agreement, KKR receives an aggregate annual management fee and reimbursement of out-of-pocket expenses incurred in connection with the provision of services. The Management Agreement has an initial term expiring on December 31, 2019, provided that the term will be extended annually thereafter unless the Company provides prior written notice of its desire not to automatically extend the term. The Management Agreement provides that KKR also is entitled to receive a fee equal to a percentage of the gross transaction value in connection with certain subsequent financing, acquisition, disposition and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the Management Agreement in the event of an initial public offering or under certain other circumstances. The Management Agreement terminates automatically upon the consummation of an initial public offering and may be terminated at any time by mutual consent of the Company and KKR. The Management Agreement also contains customary exculpation and indemnification provisions in favor of KKR and its affiliates. From January 1, 2012 through December 31, 2012, the Company paid \$20.1 million of management fees.

On February 28, 2012, the Company entered into an Amended and Restated Engagement Letter with KCM and others, pursuant to which KCM agreed to assist in arranging and coordinating the Company's request for an extension of the maturity of certain commitments and loans under its senior secured lending facility. The Company paid KCM \$0.6 million for such services.

## Edgar Filing: FIRST DATA CORP - Form 10-K

In August 2012, September 2012 and January 2013, KKR Capital Markets LLC ( KCM ) assisted the Company in arranging and coordinating the Company's request for an extension of the maturity of certain commitments and loans under its senior secured lending facility. The Company paid KCM \$2.4 million for such services.

On March 9, 2012, the Company entered into a purchase agreement in which KCM agreed to serve as one of the initial purchasers for an offering of secured notes and receive a portion of the underwriting commission for the offering. Under the terms of the agreement, the Company paid underwriting commissions of \$2.1 million to KCM.

On August 2, 2012, the Company entered into a purchase agreement in which KCM agreed to serve as one of the initial purchasers for an offering of secured notes and receive a portion of the underwriting commission for the offering. Under the terms of the agreement, the Company paid underwriting commissions of \$3.4 million to KCM.

On September 13, 2012, the Company entered into a purchase agreement in which KCM agreed to serve as one of the initial purchasers for an offering of secured notes and receive a portion of the underwriting commission for the offering. Under the terms of the agreement, the Company paid underwriting commissions of \$1.6 million to KCM.

On January 30, 2013, the Company entered into a purchase agreement in which KCM agreed to serve as one of the initial purchasers for an offering of unsecured notes and receive a portion of the underwriting commission for the offering. Under the terms of the agreement, the Company paid underwriting commissions of \$1.5 million to KCM.

From January 1, 2012 through December 31, 2012, the Company paid \$12.3 million of expenses to Capstone Consulting LLC, a consulting company that works exclusively with KKR's portfolio companies, for consulting, financial and other advisory services to the Company.

### **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The Company retained Ernst & Young LLP to audit the accounts of the Company and its subsidiaries for 2012 and 2011. Ernst & Young LLP has served as the independent registered public accounting firm for the Company or its predecessor entities since 1980.

#### *Summary of Principal Accountant's Fees for 2012 and 2011*

##### **Audit Fees.**

Ernst & Young LLP's fees for the Company's annual audit were \$7.0 million in 2012 and \$6.9 million in 2011. Audit fees primarily include fees related to the audit of the Company's annual consolidated financial statements; the review of its quarterly consolidated financial statements;

## Edgar Filing: FIRST DATA CORP - Form 10-K

statutory audits required domestically and internationally; comfort letters, consents, and assistance with and review of documents filed with the SEC; offering memoranda, purchase accounting and other accounting and financial reporting consultation and research work billed as audit fees or necessary to comply with the standards of the Public Company Accounting Oversight Board (United States).

### **Audit-Related Fees.**

Ernst & Young LLP's fees for audit-related services that are reasonably related to the performance of the audit or review of the Company's consolidated financial statements were \$2.7 million in 2012 and \$1.9 million in 2011. Audit-related fees primarily include fees related to service auditor examinations, due diligence related to mergers and acquisitions, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards not classified as audit fees.

### **Tax Fees.**

Ernst & Young LLP's fees for tax compliance, tax advice and tax planning services to the Company were \$0.7 million in 2012 and \$0.6 million in 2011.

### **All Other Fees.**

The Company did not pay Ernst & Young LLP any fees for all other professional services in 2012 or 2011.

*Audit Committee Pre-approval of Service of Independent Registered Public Accounting Firm*

The Audit Committee has established a policy to pre-approve all audit and non-audit services provided by the independent registered public accounting firm. These services may include audit services, audit-related services, tax services and other services. Pursuant to the policy, the Audit Committee annually reviews and pre-approves services that may be provided by the independent registered public accounting firm for each audit year. The pre-approval is detailed as to the particular service or category of services and is subject to a specific budget. Once pre-approved, the services and pre-approved amounts are monitored against actual charges incurred and modified if appropriate. The Chairperson of the Committee has the authority to pre-approve such services between meetings of the Audit Committee and reports such pre-approvals to the Audit Committee at the next regularly scheduled meeting.

During 2012, all audit and non-audit services provided by Ernst & Young LLP were pre-approved by the Audit Committee of the Board of Directors or, consistent with the pre-approval policy of the Audit Committee, by the Chairperson of the Committee.

**PART IV**

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this report:

(1) Financial Statements

See Index to Financial Statements on page 56.

(2) Financial Statement Schedules

See Index to Financial Statements on page 56.

(3) Those exhibits required by Item 601 of Regulation S-K and by paragraph (b) below.

(b) The following exhibits are filed as part of this Annual Report or, where indicated, were heretofore filed and are hereby incorporated by reference:

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
2.1	Agreement and Plan of Merger, dated as of April 1, 2007, among New Omaha Holdings L.P., Omaha Acquisition Corporation and First Data Corporation (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on April 2, 2007, Commission File No. 1-11073).
3(i)	Restated Certificate of Incorporation of First Data Corporation (incorporated by reference to Exhibit 3(i) of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
3(ii)	Company's By-laws (incorporated by reference to Exhibit 3(ii) of the Company's Quarterly Report on Form 10-Q filed on May 13, 2011, Commission File No. 1-11073).
4.1	Indenture dated as of March 26, 1993 between the Company and Wells Fargo Bank Minnesota, National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed on June 3, 1994, Commission File No. 1-11073 (Registration No. 33-74568)).
4.2	

## Edgar Filing: FIRST DATA CORP - Form 10-K

2007 Supplemental Indenture, dated as of August 22, 2007, between First Data Corporation and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 28, 2007, Commission File No. 1-11073).

- 4.3 Indenture, dated as of October 24, 2007, between First Data Corporation, the subsidiaries of First Data Corporation identified therein and Wells Fargo Bank, National Association, as trustee, governing the 9.875% Senior Notes (incorporated by reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 4.4 Senior Indenture, dated as of September 24, 2008, between First Data Corporation, the subsidiaries of First Data Corporation identified therein and Wells Fargo Bank, National Association, as trustee, governing the Senior Notes due 2015 and Senior PIK Notes due 2015 (incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2008, Commission File No. 1-11073).
- 4.5 Senior Subordinated Indenture, dated as of September 24, 2008, between First Data Corporation, the subsidiaries of First Data Corporation identified therein and Wells Fargo Bank, National Association, as trustee, governing the Senior Subordinated Notes due 2016 (incorporated by reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2008, Commission File No. 1-11073).
- 4.6 Indenture, dated as of August 20, 2010, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 8.875% Senior Secured Notes Due 2020 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 26, 2010).
- 4.7 Pledge Agreement, dated as of August 20, 2010, among the Company, the other pledgors named therein and Wells



## Edgar Filing: FIRST DATA CORP - Form 10-K

- Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on August 26, 2010).
- 4.8 Security Agreement, dated as of August 20, 2010, among the Company, the other grantors named therein and Wells Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on August 26, 2010).
- 4.9 Indenture, dated as of December 17, 2010, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 8.25% Senior Second Lien Notes due 2021 and the 8.75/10.00% PIK Toggle Senior Second Lien Notes due 2022 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 22, 2010).
- 4.10 Indenture, dated as of December 17, 2010, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 12.625% Senior Notes due 2021 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on December 22, 2010).
- 4.11 Pledge Agreement, dated as of December 17, 2010, among the Company, the other pledgors named therein and Wells Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on December 22, 2010).
- 4.12 Security Agreement, dated as of December 17, 2010, among the Company, the other grantors named therein and Wells Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on December 22, 2010).
- 4.13 Indenture, dated as of April 13, 2011, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 7.375% Senior Secured Notes due 2019 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed April 13, 2011).
- 4.14 2012 Extension Agreement, dated as of March 13, 2012, among the Company, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit A - Marked Pages of Credit Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed March 26, 2012).
- 4.15 First Supplemental Indenture, dated as March 23, 2012, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the additional 7.375% Senior Secured Notes due 2019 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed March 26, 2012).
- 4.16 Indenture, dated as August 16, 2012, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 6.750% Senior Secured Notes due 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 20, 2012).
- 4.17 First Supplemental Indenture, dated as September 27, 2012, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the additional 6.750% Senior Secured Notes due 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 2012).
- 4.18 Indenture, dated as of February 13, 2013, by and among First Data Corporation, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 11.25% Senior Notes due 2021 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on February 13, 2013).
- 10.1 Credit Agreement, dated as of September 24, 2007, as amended and restated as of September 28, 2007 among First Data Corporation, the several lenders from time to time parties thereto, Credit Suisse, Cayman Islands Branch, as administrative agent, swingline lender and letter of credit issuer, Citibank, N.A., as syndication agent, and Credit Suisse Securities (USA) LLC, Citigroup Global Markets, Inc., Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P., HSBC Securities (USA) Inc., Lehman Brothers Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and bookrunners (incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K filed on March 13, 2008, Commission File No. 1-11073).



## Edgar Filing: FIRST DATA CORP - Form 10-K

- 10.2 Guarantee Agreement, dated September 24, 2007, among First Data Corporation, the subsidiaries of First Data Corporation identified therein and Credit Suisse, Cayman Islands Branch, as Collateral Agent (incorporated by reference to Exhibit 10.11 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.3 Pledge Agreement, dated September 24, 2007, among First Data Corporation, the subsidiaries of First Data Corporation identified therein, and Credit Suisse, Cayman Islands Branch, as Collateral Agent (incorporated by reference to Exhibit 10.12 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.4 Security Agreement, dated September 24, 2007, among First Data Corporation, the subsidiaries of First Data Corporation identified therein, and Credit Suisse, Cayman Islands Branch, as Collateral Agent (incorporated by reference to Exhibit 10.13 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.5 Amendment Agreement, dated as of August 10, 2010, among First Data Corporation, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit A - Marked Pages of Credit Agreement, Exhibit B - Form of First Lien Intercreditor Agreement, Exhibit C - Form of Second Lien Intercreditor Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 16, 2010).
- 10.6 2011 Extension Agreement, dated as of March 24, 2011, among the Company, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit A - Marked Pages of Credit Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 13, 2011).
- 10.7 2012 August Extension Agreement, dated as of August 16, 2012, among First Data Corporation, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit A - Marked Pages of Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 20, 2012).
- 10.8 September 2012 Joinder Agreement, dated as of September 27, 2012, among the Company, certain of its subsidiaries, Credit Suisse AG, Cayman Islands Branch, as initial lender, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit B - Marked Pages of the Conformed Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 2, 2012).
- 10.9 Registration Rights Agreement, dated as of February 13, 2013, by and among First Data Corporation, the guarantors named therein and the several initial purchasers with respect to the 11.25% Senior Notes due 2021 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on February 13, 2013).
- 10.10 February 2013 Joinder Agreement, dated as of February 13, 2013, among First Data Corporation, certain of its subsidiaries, Credit Suisse AG, Cayman Islands Branch, as initial lender, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit B - Marked Pages of the Conformed Credit Agreement (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on February 13, 2013).
- 10.11 Management Agreement, dated September 24, 2007, among First Data Corporation, Kohlberg Kravis Roberts & Co. L.P. and New Omaha Holdings L.P. (incorporated by reference to Exhibit 10.10 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.12 Employment Agreement between the Company and Edward A. Labry III dated April 1, 2003 (incorporated by reference to the Exhibit 10.27 of the Company's Annual Report on Form 10-K filed on February 24, 2006, Commission File No. 1-11073).\*
- 10.13 Employment Agreement with Jonathan J. Judge, effective as of October 1, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 28, 2010).\*



## Edgar Filing: FIRST DATA CORP - Form 10-K

- 10.14 Retention and Transition Agreement with Jonathan J. Judge (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 11, 2013).\*
- 10.15 Form of Stock Option Agreement for Executive Committee Members (incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).\*
- 10.16(1) Form of Management Stockholder's Agreement for Executive Committee Members (as amended).\*
- 10.17 Form of Sale Participation Agreement (incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.18 2002 First Data Corporation Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit C of the Company's Definitive Proxy Statement on Schedule 14A filed on April 17, 2007, Commission File No. 1-11073).\*
- 10.19 Company's Senior Executive Incentive Plan, as amended and restated effective January 1, 2011 (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed on May 13, 2011, Commission File No. 1-11073).\*
- 10.20 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for Executive Officers (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on December 14, 2004, Commission File No. 1-11073).\*
- 10.21 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for Section 16 Executive Committee Members, as amended July 2005 (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed on November 9, 2005, Commission File No. 1-11073).\*
- 10.22 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for employees other than Executive Officers (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K filed on March 1, 2005, Commission File No. 1-11073).\*
- 10.23 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for employees other than Executive Committee Members, as amended July 2005 (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed on November 9, 2005, Commission File No. 1-11073).\*
- 10.24 Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed May 25, 2010).\*
- 10.25 Form of Stock Option Agreement (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on May 25, 2010).\*
- 10.26 First Data Corporation Bonus Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 23, 2010).\*
- 10.27 First Data Corporation Severance Policy (Global Pay Structure Level 6 Employees) (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on April 17, 2012).\*
- 10.28 Form of Stock Option Agreement (effective April 2010) (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on June 23, 2010).\*

## Edgar Filing: FIRST DATA CORP - Form 10-K

10.29	First Data Holdings Inc. 2008 Non-Employee Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.25 of the Company's Form S-4 filed on August 13, 2008, Commission File No. 1-11073). *
10.30	First Data Corporation Long Term Cash Award Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on April 17, 2012). *
10.31(1)	2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates, as amended. *
10.32(1)	First Data Corporation Severance / Change in Control Policy. *
21(1)	Subsidiaries of the Company.
31.1(1)	Certification of CEO pursuant to rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2(1)	Certification of CFO pursuant to rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(1)	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(1)	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(2)	XBRL Instance Document
101.SCH(2)	XBRL Taxonomy Extension Schema Document
101.CAL(2)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(2)	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB(2)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(2)	XBRL Taxonomy Extension Presentation Linkbase Document

---

(1) Filed herewith

(2) These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

\* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this report.

Edgar Filing: FIRST DATA CORP - Form 10-K

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST DATA CORPORATION  
(Registrant)

By: /S/ EDWARD A. LABRY III  
**Edward A. Labry III**  
Chief Executive Officer

Date: March 19, 2013

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

Name	Title	Date
/S/ EDWARD A. LABRY III <b>Edward A. Labry III</b>	Chief Executive Officer (Principal Executive Officer)	March 19, 2013
/S/ RAY E. WINBORNE <b>Ray E. Winborne</b>	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	March 19, 2013
/S/ BARRY D. COOPER <b>Barry D. Cooper</b>	Senior Vice President and Chief Accounting Officer (Principal Accounting Officer)	March 19, 2013
/S/ JOE W. FOREHAND <b>Joe W. Forehand</b>	Director and Chairman of the Board	March 19, 2013
/S/ HENRY R. KRAVIS <b>Henry R. Kravis</b>	Director	March 19, 2013
/S/ SCOTT C. NUTTALL <b>Scott C. Nuttall</b>	Director	March 19, 2013
/S/ TAGAR C. OLSON <b>Tagar C. Olson</b>	Director	March 19, 2013

**EXHIBIT INDEX**

<b>EXHIBIT NO.</b>	<b>DESCRIPTION</b>
2.1	Agreement and Plan of Merger, dated as of April 1, 2007, among New Omaha Holdings L.P., Omaha Acquisition Corporation and First Data Corporation (incorporated by reference to Exhibit 2.1 of the Company's Current Report on Form 8-K filed on April 2, 2007, Commission File No. 1-11073).
3(i)	Restated Certificate of Incorporation of First Data Corporation (incorporated by reference to Exhibit 3(i) of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
3(ii)	Company's By-laws (incorporated by reference to Exhibit 3(ii) of the Company's Quarterly Report on Form 10-Q filed on May 13, 2011, Commission File No. 1-11073).
4.1	Indenture dated as of March 26, 1993 between the Company and Wells Fargo Bank Minnesota, National Association, as Trustee (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 filed on June 3, 1994, Commission File No. 1-11073 (Registration No. 33-74568)).
4.2	2007 Supplemental Indenture, dated as of August 22, 2007, between First Data Corporation and Wells Fargo Bank, National Association, as trustee (incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on August 28, 2007, Commission File No. 1-11073).
4.3	Indenture, dated as of October 24, 2007, between First Data Corporation, the subsidiaries of First Data Corporation identified therein and Wells Fargo Bank, National Association, as trustee, governing the 9.875% Senior Notes (incorporated by reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
4.4	Senior Indenture, dated as of September 24, 2008, between First Data Corporation, the subsidiaries of First Data Corporation identified therein and Wells Fargo Bank, National Association, as trustee, governing the Senior Notes due 2015 and Senior PIK Notes due 2015 (incorporated by reference to Exhibit 4.1 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2008, Commission File No. 1-11073).
4.5	Senior Subordinated Indenture, dated as of September 24, 2008, between First Data Corporation, the subsidiaries of First Data Corporation identified therein and Wells Fargo Bank, National Association, as trustee, governing the Senior Subordinated Notes due 2016 (incorporated by reference to Exhibit 4.2 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2008, Commission File No. 1-11073).
4.6	Indenture, dated as of August 20, 2010, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 8.875% Senior Secured Notes Due 2020 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 26, 2010).
4.7	Pledge Agreement, dated as of August 20, 2010, among the Company, the other pledgors named therein and Wells Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on August 26, 2010).
4.8	Security Agreement, dated as of August 20, 2010, among the Company, the other grantors named therein and Wells Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on August 26, 2010).
4.9	Indenture, dated as of December 17, 2010, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 8.25% Senior Second Lien Notes due 2021 and the 8.75/10.00% PIK Toggle Senior Second Lien Notes due 2022 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 22, 2010).
4.10	Indenture, dated as of December 17, 2010, among the Company, the subsidiary guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 12.625% Senior Notes due 2021 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on December 22, 2010).



4.11 Pledge Agreement, dated as of December 17, 2010, among the Company, the other pledgors named therein and

## Edgar Filing: FIRST DATA CORP - Form 10-K

- Wells Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on December 22, 2010).
- 4.12 Security Agreement, dated as of December 17, 2010, among the Company, the other grantors named therein and Wells Fargo Bank, National Association, as collateral agent (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on December 22, 2010).
- 4.13 Indenture, dated as of April 13, 2011, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 7.375% Senior Secured Notes due 2019 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed April 13, 2011).
- 4.14 2012 Extension Agreement, dated as of March 13, 2012, among the Company, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit A - Marked Pages of Credit Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed March 26, 2012).
- 4.15 First Supplemental Indenture, dated as March 23, 2012, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the additional 7.375% Senior Secured Notes due 2019 (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed March 26, 2012).
- 4.16 Indenture, dated as August 16, 2012, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 6.750% Senior Secured Notes due 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on August 20, 2012).
- 4.17 First Supplemental Indenture, dated as September 27, 2012, by and among the Company, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the additional 6.750% Senior Secured Notes due 2020 (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on October 2, 2012).
- 4.18 Indenture, dated as of February 13, 2013, by and among First Data Corporation, the guarantors named therein and Wells Fargo Bank, National Association, as trustee, governing the 11.25% Senior Notes due 2021 (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on February 13, 2013).
- 10.1 Credit Agreement, dated as of September 24, 2007, as amended and restated as of September 28, 2007 among First Data Corporation, the several lenders from time to time parties thereto, Credit Suisse, Cayman Islands Branch, as administrative agent, swingline lender and letter of credit issuer, Citibank, N.A., as syndication agent, and Credit Suisse Securities (USA) LLC, Citigroup Global Markets, Inc., Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P., HSBC Securities (USA) Inc., Lehman Brothers Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as joint lead arrangers and bookrunners (incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K filed on March 13, 2008, Commission File No. 1-11073).
- 10.2 Guarantee Agreement, dated September 24, 2007, among First Data Corporation, the subsidiaries of First Data Corporation identified therein and Credit Suisse, Cayman Islands Branch, as Collateral Agent (incorporated by reference to Exhibit 10.11 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.3 Pledge Agreement, dated September 24, 2007, among First Data Corporation, the subsidiaries of First Data Corporation identified therein, and Credit Suisse, Cayman Islands Branch, as Collateral Agent (incorporated by reference to Exhibit 10.12 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.4 Security Agreement, dated September 24, 2007, among First Data Corporation, the subsidiaries of First Data Corporation identified therein, and Credit Suisse, Cayman Islands Branch, as Collateral Agent (incorporated by reference to Exhibit 10.13 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.5 Amendment Agreement, dated as of August 10, 2010, among First Data Corporation, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative



## Edgar Filing: FIRST DATA CORP - Form 10-K

agent, including: Exhibit A - Marked Pages of Credit Agreement, Exhibit B - Form of First Lien Intercreditor Agreement, Exhibit C - Form of Second Lien Intercreditor Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on August 16, 2010).

- 10.6 2011 Extension Agreement, dated as of March 24, 2011, among the Company, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit A - Marked Pages of Credit Agreement (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed April 13, 2011).
- 10.7 2012 August Extension Agreement, dated as of August 16, 2012, among First Data Corporation, certain of its subsidiaries, certain of the lenders under the Credit Agreement, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit A - Marked Pages of Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 20, 2012).
- 10.8 September 2012 Joinder Agreement, dated as of September 27, 2012, among the Company, certain of its subsidiaries, Credit Suisse AG, Cayman Islands Branch, as initial lender, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit B - Marked Pages of the Conformed Credit Agreement (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 2, 2012).
- 10.9 Registration Rights Agreement, dated as of February 13, 2013, by and among First Data Corporation, the guarantors named therein and the several initial purchasers with respect to the 11.25% Senior Notes due 2021 (incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on February 13, 2013).
- 10.10 February 2013 Joinder Agreement, dated as of February 13, 2013, among First Data Corporation, certain of its subsidiaries, Credit Suisse AG, Cayman Islands Branch, as initial lender, and Credit Suisse AG, Cayman Islands Branch, as administrative agent, including: Exhibit B - Marked Pages of the Conformed Credit Agreement (incorporated by reference to Exhibit 4.3 to the Company's Current Report on Form 8-K filed on February 13, 2013).
- 10.11 Management Agreement, dated September 24, 2007, among First Data Corporation, Kohlberg Kravis Roberts & Co. L.P. and New Omaha Holdings L.P. (incorporated by reference to Exhibit 10.10 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.12 Employment Agreement between the Company and Edward A. Labry III dated April 1, 2003 (incorporated by reference to the Exhibit 10.27 of the Company's Annual Report on Form 10-K filed on February 24, 2006, Commission File No. 1-11073). \*
- 10.13 Employment Agreement with Jonathan J. Judge, effective as of October 1, 2010 (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on September 28, 2010).\*
- 10.14 Retention and Transition Agreement with Jonathan J. Judge (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 11, 2013).\*
- 10.15 Form of Stock Option Agreement for Executive Committee Members (incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073). \*
- 10.16(1) Form of Management Stockholder's Agreement for Executive Committee Members (as amended). \*
- 10.17 Form of Sale Participation Agreement (incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q filed on November 14, 2007, Commission File No. 1-11073).
- 10.18 2002 First Data Corporation Long-Term Incentive Plan, as amended (incorporated by reference to Exhibit C of the Company's Definitive Proxy Statement on Schedule 14A filed on April 17, 2007, Commission File No. 1-11073). \*
- 10.19 Company's Senior Executive Incentive Plan, as amended and restated effective January 1, 2011 (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed on May 13, 2011, Commission



## Edgar Filing: FIRST DATA CORP - Form 10-K

File No. 1-11073). \*

- 10.20 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for Executive Officers (incorporated by reference to Exhibit 99.1 of the Company's Current Report on Form 8-K filed on December 14, 2004, Commission File No. 1-11073). \*
- 10.21 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for Section 16 Executive Committee Members, as amended July 2005 (incorporated by reference to Exhibit 10.3 of the Company's Quarterly Report on Form 10-Q filed on November 9, 2005, Commission File No. 1-11073). \*
- 10.22 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for employees other than Executive Officers (incorporated by reference to Exhibit 10.10 of the Company's Annual Report on Form 10-K filed on March 1, 2005, Commission File No. 1-11073). \*
- 10.23 Form of Non-Qualified Stock Option Agreement under the First Data 2002 Long-Term Incentive Plan for employees other than Executive Committee Members, as amended July 2005 (incorporated by reference to Exhibit 10.5 of the Company's Quarterly Report on Form 10-Q filed on November 9, 2005, Commission File No. 1-11073). \*
- 10.24 Form of Restricted Stock Award Agreement (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed May 25, 2010).\*
- 10.25 Form of Stock Option Agreement (incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on May 25, 2010).\*
- 10.26 First Data Corporation Bonus Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 23, 2010).\*
- 10.27 First Data Corporation Severance Policy (Global Pay Structure Level 6 Employees) (incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed on April 17, 2012).\*
- 10.28 Form of Stock Option Agreement (effective April 2010) (incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed on June 23, 2010).\*
- 10.29 First Data Holdings Inc. 2008 Non-Employee Director Deferred Compensation Plan (incorporated by reference to Exhibit 10.25 of the Company's Form S-4 filed on August 13, 2008, Commission File No. 1-11073). \*
- 10.30 First Data Corporation Long Term Cash Award Plan (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on April 17, 2012). \*
- 10.31(1) 2007 Stock Incentive Plan for Key Employees of First Data Corporation and its Affiliates, as amended. \*
- 10.32(1) First Data Corporation Severance / Change in Control Policy. \*
- 21(1) Subsidiaries of the Company.
- 31.1(1) Certification of CEO pursuant to rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

## Edgar Filing: FIRST DATA CORP - Form 10-K

31.2(1)	Certification of CFO pursuant to rule 13a-14(a) or 15d-14(a) of the Exchange Act, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1(1)	Certification of CEO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2(1)	Certification of CFO pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS(2)	XBRL Instance Document
101.SCH(2)	XBRL Taxonomy Extension Schema Document
101.CAL(2)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(2)	XBRL Taxonomy Extension Definitions Linkbase Document
101.LAB(2)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(2)	XBRL Taxonomy Extension Presentation Linkbase Document

---

(1) Filed herewith

(2) These interactive data files shall not be deemed filed for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under those sections.

\* Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(b) of this report.