FIRST DATA CORP
Form 10-Q
November 13, 2013
Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2013**

**OR**

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

**For the transition period from to**

**Commission file number 001-11073**

# FIRST DATA CORPORATION

(Exact name of registrant as specified in its charter)

**www.firstdata.com**

| | |
|---|---|
| **DELAWARE**<br>(State or other jurisdiction of incorporation or organization) | **47-0731996**<br>(I.R.S. Employer Identification No.) |
| **5565 GLENRIDGE CONNECTOR, N.E., SUITE 2000, ATLANTA, GEORGIA**<br>(Address of principal executive offices) | **30342**<br>(Zip Code) |

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

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

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

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

| | |
|---|---|
| Large accelerated filer o | Accelerated filer o |
| Non-accelerated filer x | Smaller reporting company o |

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

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

| **Class** | **Outstanding at October 31, 2013** |
|---|---|
| Common Stock, $0.01 par value per share | 1,000 shares |

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

Table of Contents

## INDEX

Table of Contents

## PART I. FINANCIAL INFORMATION

### ITEM 1. FINANCIAL STATEMENTS

### FIRST DATA CORPORATION

### CONSOLIDATED STATEMENTS OF OPERATIONS

**(Unaudited)**

| (in millions) | Three months ended September 30, 2013 | Three months ended September 30, 2012 | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 |
|---|---|---|---|---|
| Revenues: | | | | |
| Transaction and processing service fees: | | | | |
| Merchant related services (a) | $ 996.4 | $ 977.4 | $ 2,963.2 | $ 2,885.3 |
| Check services | 70.8 | 77.4 | 214.5 | 233.8 |
| Card services (a) | 423.7 | 431.0 | 1,250.2 | 1,298.8 |
| Other services | 129.3 | 126.3 | 364.6 | 369.7 |
| Product sales and other (a) | 215.5 | 217.5 | 622.8 | 637.9 |
| Reimbursable debit network fees, postage and other | 876.4 | 844.4 | 2,596.5 | 2,498.0 |
| | 2,712.1 | 2,674.0 | 8,011.8 | 7,923.5 |
| Expenses: | | | | |
| Cost of services (exclusive of items shown below) | 708.6 | 729.0 | 2,119.2 | 2,137.8 |
| Cost of products sold | 80.9 | 80.1 | 246.9 | 251.3 |
| Selling, general and administrative | 463.6 | 467.9 | 1,420.1 | 1,373.3 |
| Reimbursable debit network fees, postage and other | 876.4 | 844.4 | 2,596.5 | 2,498.0 |
| Depreciation and amortization | 271.3 | 293.5 | 818.2 | 897.1 |
| Other operating expenses: | | | | |
| Restructuring, net | 7.8 | 7.2 | 46.0 | 24.1 |
| Impairments | | | | 5.1 |
| | 2,408.6 | 2,422.1 | 7,246.9 | 7,186.7 |
| Operating profit | 303.5 | 251.9 | 764.9 | 736.8 |
| Interest income | 2.7 | 2.1 | 8.0 | 6.3 |
| Interest expense | (469.0) | (488.6) | (1,410.2) | (1,430.4) |
| Other income (expense) | (36.2) | (52.0) | (20.9) | (82.8) |
| | (502.5) | (538.5) | (1,423.1) | (1,506.9) |
| Loss before income taxes and equity earnings in affiliates | (199.0) | (286.6) | (658.2) | (770.1) |
| Income tax expense (benefit) | 28.6 | (69.4) | 101.7 | (252.3) |
| Equity earnings in affiliates | 47.3 | 43.0 | 136.0 | 114.5 |
| Net loss | (180.3) | (174.2) | (623.9) | (403.3) |
| Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest | 39.2 | 37.8 | 122.1 | 118.6 |
| Net loss attributable to First Data Corporation | $ (219.5) | $ (212.0) | $ (746.0) | $ (521.9) |

(a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of $40.3 million and $122.0 million for the three and nine months ended September 30, 2013, respectively, and $40.7 million and $119.4 million for the comparable periods in 2012.

See Notes to Consolidated Financial Statements.

Table of Contents

**FIRST DATA CORPORATION**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

**(Unaudited)**

| (in millions) | Three months ended September 30, 2013 | Three months ended September 30, 2012 | Nine months ended September 30, 2013 | Nine months ended September 30, 2012 |
|---|---|---|---|---|
| Net loss | $ (180.3) | $ (174.2) | $ (623.9) | $ (403.3) |
| Other comprehensive income (loss), net of tax: | | | | |
| Unrealized gains (losses) on securities | 0.1 | (0.8) | 1.0 | (0.2) |
| Unrealized gains on hedging activities | | 23.8 | | 72.1 |
| Foreign currency translation adjustment | 79.5 | 96.4 | (68.3) | 3.7 |
| Pension liability adjustments | 1.2 | (0.3) | 3.5 | 0.7 |
| Total other comprehensive income (loss), net of tax | 80.8 | 119.1 | (63.8) | 76.3 |
| Comprehensive loss | (99.5) | (55.1) | (687.7) | (327.0) |
| Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest | 41.6 | 41.3 | 122.5 | 119.1 |
| Comprehensive loss attributable to First Data Corporation | $ (141.1) | $ (96.4) | $ (810.2) | $ (446.1) |

See Notes to Consolidated Financial Statements.

Table of Contents

**FIRST DATA CORPORATION**

**CONSOLIDATED BALANCE SHEETS**

| (in millions, except common stock share amounts) | As of September 30, 2013 (Unaudited) | As of December 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 358.6 | $ 608.3 |
| Accounts receivable, net of allowance for doubtful accounts of $37.9 (2013) and $33.3 (2012) | 1,632.3 | 1,847.7 |
| Settlement assets | 9,181.7 | 9,173.8 |
| Other current assets | 351.7 | 253.6 |
| Total current assets | 11,524.3 | 11,883.4 |
| Property and equipment, net of accumulated depreciation of $1,100.4 (2013) and $1,024.3 (2012) | 866.9 | 855.8 |
| Goodwill | 17,232.0 | 17,282.5 |
| Customer relationships, net of accumulated amortization of $4,284.7 (2013) and $3,839.0 (2012) | 3,322.6 | 3,756.3 |
| Other intangibles, net of accumulated amortization of $1,712.8 (2013) and $1,544.0 (2012) | 1,726.9 | 1,828.6 |
| Investment in affiliates | 1,338.7 | 1,413.1 |
| Long-term settlement assets | 18.6 | 54.3 |
| Other long-term assets | 813.7 | 825.0 |
| Total assets | $ 36,843.7 | $ 37,899.0 |
| **LIABILITIES AND EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $ 254.6 | $ 260.9 |
| Short-term and current portion of long-term borrowings | 248.3 | 257.1 |
| Settlement obligations | 9,197.6 | 9,226.3 |
| Other current liabilities | 1,371.1 | 1,600.6 |
| Total current liabilities | 11,071.6 | 11,344.9 |
| Long-term borrowings | 22,565.1 | 22,528.9 |
| Long-term deferred tax liabilities | 553.1 | 509.5 |
| Other long-term liabilities | 786.1 | 821.9 |
| Total liabilities | 34,975.9 | 35,205.2 |
| Commitments and contingencies (See Note 7) | | |
| Redeemable noncontrolling interest | 67.9 | 67.4 |
| First Data Corporation stockholder s deficit: | | |
| Common stock, $0.01 par value; authorized and issued 1,000 shares (2013 and 2012) | | |
| Additional paid-in capital | 7,376.1 | 7,341.5 |
| Paid-in capital | 7,376.1 | 7,341.5 |
| Accumulated loss | (8,155.3) | (7,387.8) |
| Accumulated other comprehensive loss | (616.4) | (552.2) |
| Total First Data Corporation stockholder s deficit | (1,395.6) | (598.5) |
| Noncontrolling interests | 3,195.5 | 3,224.9 |
| Total equity | 1,799.9 | 2,626.4 |
| Total liabilities and equity | $ 36,843.7 | $ 37,899.0 |

See Notes to Consolidated Financial Statements.

5

Table of Contents

**FIRST DATA CORPORATION**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(Unaudited)**

| **(in millions)** | **Nine months ended September 30, 2013** | **2012** |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net loss | $ (623.9) | $ (403.3) |
| Adjustments to reconcile to net cash provided by operating activities: | | |
| Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues) | 908.1 | 1,004.1 |
| Charges related to other operating expenses and other income (expense) | 66.9 | 112.1 |
| Other non-cash and non-operating items, net | (5.1) | (37.8) |
| Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in: | | |
| Accounts receivable, current and long-term | 193.5 | 39.9 |
| Other assets, current and long-term | 3.8 | 220.6 |
| Accounts payable and other liabilities, current and long-term | (243.8) | (92.7) |
| Income tax accounts | 32.5 | (304.7) |
| Net cash provided by operating activities | 332.0 | 538.2 |
| | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Current period acquisitions | | (1.9) |
| Contributions to equity method investments | | (7.9) |
| Payments related to other businesses previously acquired | 0.2 | (3.2) |
| Proceeds from dispositions, net of expenses paid and cash disposed | 14.5 | |
| Proceeds from sale of property and equipment | 4.2 | 7.8 |
| Additions to property and equipment | (132.3) | (136.3) |
| Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs | (128.0) | (141.2) |
| Other investing activities | 7.2 | 7.3 |
| Net cash used in investing activities | (234.2) | (275.4) |
| | | |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Short-term borrowings, net | (3.1) | (22.0) |
| Accrued interest funded upon issuance of notes | (6.5) | 6.5 |
| Debt modification (payments) proceeds and related financing costs, net | (49.0) | 10.8 |
| Principal payments on long-term debt | (72.4) | (60.2) |
| Proceeds from sale-leaseback transactions | | 13.8 |
| Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interest | (156.5) | (199.0) |
| Redemption of Parent s redeemable common stock | (7.5) | (0.5) |
| Purchase of noncontrolling interest | (23.7) | (25.1) |
| Cash dividends | (21.5) | (5.1) |
| Net cash used in financing activities | (340.2) | (280.8) |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | (7.3) | 2.5 |
| Change in cash and cash equivalents | (249.7) | (15.5) |
| Cash and cash equivalents at beginning of period | 608.3 | 485.7 |
| Cash and cash equivalents at end of period | $ 358.6 | $ 470.2 |

See Notes to Consolidated Financial Statements.

Table of Contents

**FIRST DATA CORPORATION**

**CONSOLIDATED STATEMENTS OF EQUITY**

**(Unaudited)**

| | | First Data Corporation Shareholder | | | | |
|---|---|---|---|---|---|---|
| **Nine months ended September 30, 2013 (in millions)** | **Total** | **Accumulated Loss** | **Accumulated Other Comprehensive Income (Loss)** | **Common Shares** | **Paid-In Capital** | **Noncontrolling Interests** |
| Balance, December 31, 2012 | $ 2,626.4 | $ (7,387.8) | $ (552.2) | | $ 7,341.5 | $ 3,224.9 |
| Dividends and distributions paid to noncontrolling interests | (130.5) | | | | | (130.5) |
| Net (loss) income (a) | (648.5) | (746.0) | | | | 97.5 |
| Other comprehensive (loss) income | (63.8) | | (64.2) | | | 0.4 |
| Adjustment to redemption value of redeemable noncontrolling interest | (2.0) | | | | (2.0) | |
| Stock compensation expense and other | 30.8 | | | | 30.8 | |
| Cash dividends paid by First Data Corporation to Parent | (21.5) | (21.5) | | | | |
| Purchase of noncontrolling interest | 9.0 | | | | 5.8 | 3.2 |
| Balance, September 30, 2013 | $ 1,799.9 | $ (8,155.3) | $ (616.4) | | $ 7,376.1 | $ 3,195.5 |

| **Nine months ended September 30, 2012 (in millions)** | | | | | | |
|---|---|---|---|---|---|---|
| Balance, December 31, 2011 | $ 3,408.0 | $ (6,680.2) | $ (598.4) | | $ 7,375.2 | $ 3,311.4 |
| Dividends and distributions paid to noncontrolling interests | (171.6) | | | | | (171.6) |
| Net (loss) income (a) | (429.9) | (521.9) | | | | 92.0 |
| Other comprehensive income | 76.3 | | 75.8 | | | 0.5 |
| Stock compensation expense and other | 11.7 | | | | 11.7 | |
| Cash dividends paid by First Data Corporation to Parent | (5.1) | (5.1) | | | | |
| Purchase of noncontrolling interest | (47.6) | | | | (46.1) | (1.5) |
| Balance, September 30, 2012 | $ 2,841.8 | $ (7,207.2) | $ (522.6) | | $ 7,340.8 | $ 3,230.8 |

(a) The total net loss presented in the Consolidated Statements of Equity for the nine months ended September 30, 2013 and 2012 is $24.6 million and $26.6 million, respectively, greater than the amount presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interest not included in equity.

See Notes to Consolidated Financial Statements.

Table of Contents

**FIRST DATA CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**Note 1: Basis of Presentation**

The accompanying Consolidated Financial Statements of First Data Corporation ( FDC or the Company ) should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2012. Significant accounting policies disclosed therein have not changed.

The accompanying Consolidated Financial Statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company as of September 30, 2013 and the consolidated results of its operations and comprehensive income (loss) for the three and nine months ended September 30, 2013 and 2012 and the consolidated cash flows and changes in equity for the nine months ended September 30, 2013 and 2012. Results of operations reported for interim periods are not necessarily indicative of results for the entire year due in part to the seasonality of certain business units.

**Use of Estimates**

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

**Presentation**

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2013** | **2012** | **2013** | **2012** |
| Amortization of initial payments for new contracts | $ 10.4 | $ 12.0 | $ 30.7 | $ 33.7 |
| | $ 19.7 | $ 21.4 | $ 59.2 | $ 73.3 |

Amortization related to equity method investments

**Revenue Recognition**

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2013 | 2012 | 2013 | 2012 |
| Interchange fees and assessments | $ 4,925.0 | $ 4,669.4 | $ 14,319.7 | $ 13,588.3 |
| Debit network fees | $ 727.9 | $ 702.0 | $ 2,157.0 | $ 2,070.9 |

**New Accounting Guidance**

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

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

**Note 2: Supplemental Financial Information**

**Supplemental Statement of Operations Information**

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2013** | **2012** | **2013** | **2012** |
| Investment (losses) and gains | $ | $ (8.1) | $ 2.3 | $ (7.8) |
| Derivative financial instruments losses | (25.5) | (43.0) | (11.3) | (86.8) |
| Divestitures, net | 2.3 | | 2.3 | |
| Non-operating foreign currency (losses) and gains | (13.0) | (0.9) | (14.2) | 11.8 |
| Other income (expense) | $ (36.2) | $ (52.0) | $ (20.9) | $ (82.8) |

**Supplemental Cash Flow Information**

Due to the short period of time between receipt of cash from the associations and payment to the merchants, which typically occurs intra-day except on weekends, the changes in settlement assets and obligations are presented on a net basis within operating activities in the Consolidated Statements of Cash Flows. Because the changes in the settlement assets balance exactly offset changes in settlement obligations, the activity nets to zero.

During the nine months ended September 30, 2013 and 2012, the Company entered into capital leases, net of trade-ins, totaling approximately $109 million and $49 million, respectively.

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

**Note 3: Restructuring**

**Restructuring Charges and Reversal of Restructuring Accruals**

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

| | | Pretax Benefit (Charge) | | | | |
|---|---|---|---|---|---|---|
| (in millions) | Approximate Number of Employees | Retail and Alliance Services | Financial Services | International | All Other and Corporate | Totals |
| **Three months ended September 30, 2013** | | | | | | |
| Restructuring charges | 100 | $ (1.8) | $ (3.6) | $ (0.6) | $ (4.1) | $ (10.1) |
| Restructuring accrual reversals | | 1.2 | 0.2 | 0.6 | 0.3 | 2.3 |
| Total pretax charge, net of reversals | | $ (0.6) | $ (3.4) | $ | $ (3.8) | $ (7.8) |
| **Nine months ended September 30, 2013** | | | | | | |
| Restructuring charges | 460 | $ (16.9) | $ (8.5) | $ (1.4) | $ (22.4) | $ (49.2) |
| Restructuring accrual reversals | | 1.9 | 0.2 | 0.6 | 0.5 | 3.2 |
| Total pretax charge, net of reversals | | $ (15.0) | $ (8.3) | $ (0.8) | $ (21.9) | $ (46.0) |
| **Three months ended September 30, 2012** | | | | | | |
| Restructuring charges | 10 | $ (4.4) | $ | $ (1.7) | $ (1.2) | $ (7.3) |
| Restructuring accrual reversals | | | | 0.1 | | 0.1 |
| Total pretax charge, net of reversals | | $ (4.4) | $ | $ (1.6) | $ (1.2) | $ (7.2) |
| **Nine months ended September 30, 2012** | | | | | | |
| Restructuring charges | 580 | $ (7.4) | $ | $ (17.8) | $ (2.0) | $ (27.2) |
| Restructuring accrual reversals | | 1.0 | | 0.8 | 1.3 | 3.1 |
| Total pretax charge, net of reversals | | $ (6.4) | $ | $ (17.0) | $ (0.7) | $ (24.1) |

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

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

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

The following table summarizes the Company s utilization of restructuring accruals for the nine months ended September 30, 2013:

| **(in millions)** | | **Employee Severance** |
|---|---|---|
| Remaining accrual as of January 1, 2013 | $ | 13.1 |
| Expense provision | | 49.2 |
| Cash payments and other | | (30.3) |
| Changes in estimates | | (3.2) |
| Remaining accrual as of September 30, 2013 | $ | 28.8 |

**Note 4: Borrowings**

**Short-Term Borrowings**

As of September 30, 2013 and December 31, 2012, FDC had approximately $231 million and $346 million available, respectively, under short-term lines of credit and other arrangements with foreign banks and alliance partners primarily to fund settlement activity. These arrangements are primarily associated with international operations and are in various functional currencies, the most significant of which are the Australian dollar, the Polish zloty and the euro. The total amounts outstanding against short-term lines of credit and other arrangements were $79.6 million and $177.2 million as of September 30, 2013 and December 31, 2012, respectively. Certain of these arrangements are uncommitted but FDC had $48.1 million and $130.0 million of borrowings outstanding against them as of September 30, 2013 and December 31, 2012, respectively.

**Senior Secured Credit Facilities**

**Senior Secured Revolving Credit Facility.** As of September 30, 2013, FDC s senior secured revolving credit facility had commitments from financial institutions to provide $1,016.2 million of credit. Up to $500 million of the senior secured revolving credit facility is available for letters of credit, of which $48.1 million and $45.1 million were issued as of September 30, 2013 and December 31, 2012, respectively. In addition to the outstanding letters of credit, FDC had $95.0 million outstanding against this facility as of September 30, 2013 and no amounts outstanding as of December 31, 2012. At September 30, 2013, $873.1 million remained available under this facility after considering the outstanding borrowings and letters of credit.

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

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

**FIRST DATA CORPORATION**

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

**(Unaudited)**

loans under the new facility which have the same terms except the new loans bear interest at a rate per annum equal to, at FDC s option, LIBOR Rate plus 400 basis points or a base rate plus 300 basis points.

On April 15, 2013, FDC further amended its senior secured term loan facility to create a senior secured replacement term loan facility in an aggregate principal amount equal to the aggregate outstanding principal amount of the term loans due in 2018 that currently bear interest at a rate per annum equal to, at FDC s option, LIBOR Rate plus 500 basis points or a base rate plus 400 basis points. All of the previously outstanding 2018 term loans were exchanged for loans under the new facility which have the same terms except the new loans bear interest at a rate per annum equal to, at FDC s option, LIBOR Rate plus 400 basis points or a base rate plus 300 basis points. FDC paid closing fees in connection with the transaction.

**10.55% Senior Unsecured Notes**

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

**11.25% Senior Unsecured Notes Due 2021**

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

The notes are unsecured and (i) rank senior in right of payment to any existing and future subordinated indebtedness, including the existing senior subordinated notes; (ii) rank equally in right of payment to any existing and future senior indebtedness; (iii) are 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) are effectively subordinated in right of payment to all existing and future indebtedness and other liabilities of the non-guarantor subsidiaries (other than indebtedness and liabilities owed to FDC or one of its subsidiary guarantors).

The notes are similarly guaranteed in accordance with their terms by each of FDC s domestic subsidiaries that guarantee obligations under FDC s senior secured term loan facility described in more detail in Note 15 of these Consolidated Financial Statements.

FDC may redeem the notes, in whole or in part, at any time prior to January 15, 2016, at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, FDC may redeem the notes, in whole or in part, at established redemption prices. In addition, until January 15, 2016, FDC may redeem up to 35% of the aggregate principal amount of the notes at 111.25% with the net cash proceeds of one or more equity offerings.

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

FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**10.625% Senior Unsecured Notes Due 2021**

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

The notes 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) are 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) are 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 in more detail in Note 15 of these Consolidated Financial Statements.

FDC may redeem the notes, in whole or in part, at any time prior to April 15, 2016, at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, FDC may redeem the notes, in whole or in part, at established redemption prices. In addition, until April 15, 2016, FDC may redeem up to 35% of the aggregate principal amount of the notes at 110.625% with the net cash proceeds of one or more equity offerings.

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

**11.75% Senior Unsecured Subordinated Notes Due 2021**

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

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

The notes are similarly guaranteed in accordance with their terms by each of FDC s domestic subsidiaries that guarantee obligations under FDC s senior secured term loan facility described in more detail in Note 15 of these Consolidated Financial Statements.

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

FDC may redeem the notes, in whole or in part, at any time prior to May 15, 2016, at a price equal to 100% of the principal amount of the notes redeemed plus accrued and unpaid interest to the redemption date and a make-whole premium. Thereafter, FDC may redeem the notes, in whole or in part, at established redemption prices. In addition, until May 15, 2016, FDC may redeem up to 35% of the aggregate principal amount of the notes at 111.75% with the net cash proceeds of one or more equity offerings.

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

**Debt Financing Costs**

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

**Other**

In August 2013, FDC paid off its 4.70% notes due 2013 for $15.1 million.

**Debt transactions effected subsequent to September 30, 2013**

**Debt Offering.** On October 30, 2013, FDC entered into an agreement to offer $1,000 million additional aggregate principal amount of 11.75% senior subordinated notes due 2021. FDC intends to use the net proceeds from the offering, together with cash on hand, to redeem $1,000 million aggregate principal amount of its outstanding 11.25% senior subordinated notes due 2016 and to pay related fees and expenses.

The notes will be issued under the indenture governing the 11.75% Senior Unsecured Subordinated Notes due 2021 that were issued on May 30, 2013 described above. The notes are expected to be treated as a single series with the existing 11.75% Senior Unsecured Subordinated Notes and will have the same terms as the existing notes and will vote as one class under the indenture governing the notes.

**Related Financing Costs.** In connection with this debt offering, FDC will incur approximately $11 million in lender and underwriting fees and other expenses.

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

**Note 5: Segment Information**

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

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

| | Three months ended September 30, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(in millions)** | | **Retail and Alliance Services** | | **Financial Services** | | **International** | | **All Other and Corporate** | | **Totals** |
| Revenues: | | | | | | | | | | |
| Transaction and processing service fees | $ | 819.8 | $ | 331.1 | $ | 331.4 | $ | 18.8 | $ | 1,501.1 |
| Product sales and other | | 96.9 | | 15.3 | | 92.8 | | 13.2 | | 218.2 |
| Equity earnings in affiliates (a) | | | | | | 7.4 | | | | 7.4 |
| Total segment reporting revenues | $ | 916.7 | $ | 346.4 | $ | 431.6 | $ | 32.0 | $ | 1,726.7 |
| Internal revenue | $ | 5.8 | $ | 9.1 | $ | 2.6 | $ | | $ | 17.5 |
| External revenue | $ | 910.9 | $ | 337.3 | $ | 429.0 | $ | 32.0 | $ | 1,709.2 |
| Depreciation and amortization | $ | 114.1 | $ | 82.5 | $ | 65.0 | $ | 9.4 | $ | 271.0 |
| Segment EBITDA | $ | 410.3 | $ | 162.7 | $ | 126.0 | $ | (71.9) | $ | 627.1 |
| Other operating expenses and other income (expense) excluding divestitures | $ | (16.8) | $ | (3.5) | $ | (7.3) | $ | (18.7) | $ | (46.3) |

| | Three months ended September 30, 2012 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **(in millions)** | | **Retail and Alliance Services** | | **Financial Services** | | **International** | | **All Other and Corporate** | | **Totals** |
| Revenues: | | | | | | | | | | |
| Transaction and processing service fees | $ | 807.6 | $ | 334.5 | $ | 321.9 | $ | 19.3 | $ | 1,483.3 |
| Product sales and other | | 102.6 | | 12.6 | | 95.8 | | 9.1 | | 220.1 |
| Equity earnings in affiliates (a) | | | | | | 9.3 | | | | 9.3 |
| Total segment reporting revenues | $ | 910.2 | $ | 347.1 | $ | 427.0 | $ | 28.4 | $ | 1,712.7 |
| Internal revenue | $ | 5.4 | $ | 7.8 | $ | 2.3 | $ | | $ | 15.5 |
| External revenue | $ | 904.8 | $ | 339.3 | $ | 424.7 | $ | 28.4 | $ | 1,697.2 |
| Depreciation and amortization | $ | 125.5 | $ | 83.6 | $ | 69.9 | $ | 10.4 | $ | 289.4 |
| Segment EBITDA | $ | 409.4 | $ | 149.5 | $ | 119.5 | $ | (69.9) | $ | 608.5 |
| Other operating expenses and other income (expense) excluding divestitures | $ | (21.9) | $ | | $ | (5.4) | $ | (31.9) | $ | (59.2) |

14

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

| | Nine months ended September 30, 2013 | | | | |
|---|---|---|---|---|---|
| **(in millions)** | **Retail and Alliance Services** | **Financial Services** | **International** | **All Other and Corporate** | **Totals** |
| Revenues: | | | | | |
| Transaction and processing service fees | $ 2,414.6 | $ 979.5 | $ 973.0 | $ 57.0 | $ 4,424.1 |
| Product sales and other | 291.7 | 34.7 | 269.5 | 33.5 | 629.4 |
| Equity earnings in affiliates (a) | | | 22.6 | | 22.6 |
| Total segment reporting revenues | $ 2,706.3 | $ 1,014.2 | $ 1,265.1 | $ 90.5 | $ 5,076.1 |
| Internal revenue | $ 16.7 | $ 25.5 | $ 7.5 | $ | $ 49.7 |
| External revenue | $ 2,689.6 | $ 988.7 | $ 1,257.6 | $ 90.5 | $ 5,026.4 |
| Depreciation and amortization | $ 338.2 | $ 245.7 | $ 198.5 | $ 34.7 | $ 817.1 |
| Segment EBITDA | $ 1,193.8 | $ 446.5 | $ 341.6 | $ (201.7) | $ 1,780.2 |
| Other operating expenses and other income (expense) excluding divestitures | $ 10.8 | $ (8.4) | $ 18.1 | $ (89.7) | $ (69.2) |

| | Nine months ended September 30, 2012 | | | | |
|---|---|---|---|---|---|
| **(in millions)** | **Retail and Alliance Services** | **Financial Services** | **International** | **All Other and Corporate** | **Totals** |
| Revenues: | | | | | |
| Transaction and processing service fees | $ 2,363.4 | $ 1,011.4 | $ 952.6 | $ 66.3 | $ 4,393.7 |
| Product sales and other | 308.0 | 30.0 | 276.0 | 30.8 | 644.8 |
| Equity earnings in affiliates (a) | | | 27.9 | | 27.9 |
| Total segment reporting revenues | $ 2,671.4 | $ 1,041.4 | $ 1,256.5 | $ 97.1 | $ 5,066.4 |
| Internal revenue | $ 14.9 | $ 23.4 | $ 6.8 | $ | $ 45.1 |
| External revenue | $ 2,656.5 | $ 1,018.0 | $ 1,249.7 | $ 97.1 | $ 5,021.3 |
| Depreciation and amortization | $ 391.5 | $ 255.5 | $ 213.2 | $ 33.5 | $ 893.7 |
| Segment EBITDA | $ 1,176.6 | $ 457.2 | $ 332.4 | $ (186.0) | $ 1,780.2 |
| Other operating expenses and other income (expense) excluding divestitures | $ (28.8) | $ (5.1) | $ (25.7) | $ (52.4) | $ (112.0) |

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

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

| **(in millions)** | **Three months ended September 30, 2013** | **2012** | **Nine months ended September 30, 2013** | **2012** |
|---|---|---|---|---|
| Segment Revenues: | | | | |
| Total reported segments | $ 1,694.7 | $ 1,684.3 | $ 4,985.6 | $ 4,969.3 |
| All Other and Corporate | 32.0 | 28.4 | 90.5 | 97.1 |
| Adjustment to reconcile to Adjusted revenue: | | | | |
| Official check and money order revenues (b) | (0.8) | (2.3) | (3.2) | (11.9) |
| Eliminations of intersegment revenues | (17.5) | (15.5) | (49.7) | (45.1) |
| Adjusted revenue | 1,708.4 | 1,694.9 | 5,023.2 | 5,009.4 |
| Adjustments to reconcile to Consolidated revenues: | | | | |
| Adjustments for non-wholly-owned entities (c) | 3.0 | 11.8 | 26.3 | 48.5 |
| Official check and money order revenues (b) | 0.8 | 2.3 | 3.2 | 11.9 |
| ISO commission expense | 123.5 | 120.6 | 362.6 | 355.7 |
| Reimbursable debit network fees, postage and other | 876.4 | 844.4 | 2,596.5 | 2,498.0 |
| Consolidated revenues | $ 2,712.1 | $ 2,674.0 | $ 8,011.8 | $ 7,923.5 |
| Segment EBITDA: | | | | |
| Total reported segments | $ 699.0 | $ 678.4 | $ 1,981.9 | $ 1,966.2 |
| All Other and Corporate | (71.9) | (69.9) | (201.7) | (186.0) |
| Adjusted EBITDA | 627.1 | 608.5 | 1,780.2 | 1,780.2 |
| Adjustments to reconcile to Net loss attributable to First Data Corporation : | | | | |
| Adjustments for non-wholly-owned entities (c) | 0.5 | 4.1 | 3.2 | 3.8 |
| Depreciation and amortization | (271.3) | (293.5) | (818.2) | (897.1) |
| Interest expense | (469.0) | (488.6) | (1,410.2) | (1,430.4) |
| Interest income | 2.7 | 2.1 | 8.0 | 6.3 |
| Other items (d) | (49.8) | (70.8) | (86.4) | (137.1) |
| Income tax (expense) benefit | (28.6) | 69.4 | (101.7) | 252.3 |
| Stock-based compensation | (5.5) | (3.4) | (36.1) | (10.4) |
| Official check and money order EBITDA (b) | 0.4 | 1.4 | 1.9 | 6.2 |
| Costs of alliance conversions | (17.8) | (22.8) | (59.1) | (56.5) |
| KKR related items | (8.3) | (8.4) | (24.4) | (25.2) |
| Debt issuance costs | 0.1 | (10.0) | (3.2) | (14.0) |
| Net loss attributable to First Data Corporation | $ (219.5) | $ (212.0) | $ (746.0) | $ (521.9) |

(a) Excludes equity losses that were recorded in expense and the amortization related to the excess of the investment balance over the Company s proportionate share of the investee s net book value for the International segment.

(b) Represents an adjustment to exclude the official check and money order businesses from revenue and EBITDA due to the Company s wind down of these businesses.

(c) Represents the net adjustment to reflect First Data s proportionate share of alliance revenue and EBITDA within the Retail and Alliance Services segment, equity earnings in affiliates included in International segment revenue and amortization related to equity method investments not included in segment EBITDA.

(d) Includes restructuring, certain retention bonuses, litigation and regulatory settlements, and impairments as applicable to the periods presented and Other income (expense) as presented in the Consolidated Statements of Operations.

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

Segment assets are as follows:

| (in millions) | As of September 30, 2013 | As of December 31, 2012 |
|---|---|---|
| Assets: | | |
| Retail and Alliance Services | $ 25,607.6 | $ 25,885.7 |
| Financial Services | 4,192.3 | 4,477.1 |
| International | 5,061.4 | 5,305.7 |
| All Other and Corporate | 1,982.4 | 2,230.5 |
| Consolidated | $ 36,843.7 | $ 37,899.0 |

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (in millions) | 2013 | 2012 | 2013 | 2012 |
| Depreciation and amortization: | | | | |
| Total reported segments | $ 261.6 | $ 279.0 | $ 782.4 | $ 860.2 |
| All Other and Corporate | 9.4 | 10.4 | 34.7 | 33.5 |
| | 271.0 | 289.4 | 817.1 | 893.7 |
| Adjustments to reconcile to consolidated depreciation and amortization: | | | | |
| Adjustments for non-wholly-owned entities | 20.0 | 25.5 | 60.3 | 76.7 |
| Amortization of initial payments for new contracts | 10.4 | 12.0 | 30.7 | 33.7 |
| Total consolidated depreciation and amortization | $ 301.4 | $ 326.9 | $ 908.1 | $ 1,004.1 |

**Note 6: Redeemable Noncontrolling Interest**

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

| (in millions) | 2013 | 2012 |
|---|---|---|
| Balance as of January 1, | $ 67.4 | $ 67.4 |
| Distributions | (26.0) | (27.4) |

| | | | | |
|---|---|---|---|---|
| Share of income | | 24.6 | | 26.6 |
| Adjustment to redemption value of redeemable noncontrolling interest | | 2.0 | | |
| Other | | (0.1) | | |
| Balance as of September 30, | $ | 67.9 | $ | 66.6 |

**Note 7: Commitments and Contingencies**

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

**Legal**

On July 2, 2004, a class action complaint was filed against the Company, its subsidiary Concord EFS, Inc., and various financial institutions. Plaintiffs claim that the defendants violated antitrust laws by conspiring to artificially inflate foreign ATM fees that were ultimately charged to ATM cardholders. Plaintiffs seek a declaratory judgment, injunctive relief, compensatory damages, attorneys fees, costs and such other relief as the nature of the case may require or as may seem just and proper to the court. Similar suits were filed and served in July, August and October 2004 (referred to collectively as the ATM Fee Antitrust Litigation ). The Court granted judgment in favor of the defendants, dismissing the case on

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

September 17, 2010. On October 14, 2010, the plaintiffs appealed the summary judgment. On July 12, 2012, the United States Court of Appeals for the Ninth Circuit affirmed the Northern District Court of California s dismissal of all the claims against the defendants. On July 26, 2012, the plaintiffs petitioned the Ninth Circuit for rehearing en banc and on March 13, 2013, the United States Court of Appeals for the Ninth Circuit issued an order denying the plaintiffs petition for rehearing. On July 11, 2013, the plaintiffs filed a petition for a *writ of certiorari* with the United States Supreme Court and on October 7, 2013, the United States Supreme Court denied such *writ of certiorari*.

There are asserted claims against the Company where an unfavorable outcome is considered to be reasonably possible. These claims can generally be categorized in the following areas: (1) patent infringement which results from claims that the Company is using technology that has been patented by another party; (2) merchant matters often associated with alleged processing errors or disclosure issues and claims that one of the subsidiaries of the Company has violated a federal or state requirement regarding credit reporting or collection in connection with its check verification guarantee, and collection activities; and (3) other matters which may include issues such as employment. The Company s estimates of the possible ranges of losses in excess of any amounts accrued are $0 to $40 million for patent infringement, $0 to $45 million for merchant matters and $0 to $5 million for other matters, resulting in a total estimated range of possible losses of $0 to $90 million for all of the matters described above.

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

**Other**

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

**Note 8: Employee Benefit Plans**

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

| (in millions) | Three months ended September 30, 2013 | 2012 | Nine months ended September 30, 2013 | 2012 |
|---|---|---|---|---|
| Service costs | $ 0.6 | $ 0.7 | $ 1.9 | $ 2.1 |
| Interest costs | 9.3 | 9.3 | 28.0 | 27.8 |
| Expected return on plan assets | (10.9) | (11.1) | (32.8) | (33.4) |
| Amortization | 0.9 | 0.4 | 2.7 | 1.3 |
| Net periodic benefit expense (income) | $ (0.1) | $ (0.7) | $ (0.2) | $ (2.2) |

The Company estimates pension plan contributions for 2013 to be approximately $36 million. During the nine months ended September 30, 2013, approximately $22 million was contributed to the United Kingdom plan and approximately $7 million was contributed to the U.S. plan.

**Note 9: Stock Compensation Plans**

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

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

Table of Contents

**FIRST DATA CORPORATION**

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

**(Unaudited)**

Under certain circumstances, the Company redeems common stock held by its employees on behalf of its Parent Company First Data Holding Inc. ( Holdings ).

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

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| **(in millions)** | **2013** | **2012** | **2013** | **2012** |
| Total stock-based compensation expense (pretax) | $ 5.5 | $ 3.6 | $ 37.1 | $ 10.9 |

During the nine months ended September 30, 2013, approximately $20 million of stock-based compensation expense was recognized as a result of granting an executive officer shares of common stock of Holdings and fully vested restricted stock units.

**Stock Options**

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

As of September 30, 2013 there was approximately $178 million of total unrecognized compensation expense related to non-vested stock options. Approximately $3 million will be recognized over a period of approximately one year while approximately $175 million will only be recognized upon the occurrence of certain liquidity or employment termination events.