

FIRST DATA CORP  
Form 10-K  
March 10, 2014

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

Washington, D.C. 20549

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**FORM 10-K**

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

**For the fiscal year ended December 31, 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**

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# FIRST DATA CORPORATION

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**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**

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

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

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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

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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.

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, 2014.

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**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 35 countries, serving approximately 6.1 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%.

**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, 2013, respectively. Long-lived assets attributable to domestic and international operations as percentages of FDC's total long-lived assets as of December 31, 2013 were 87% and 13%, 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.

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**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,		
	2013	2012	2011
Segment revenues from external customers	53%	53%	51%
Segment EBITDA	67%	65%	63%
Assets (at December 31)	68%	68%	69%

**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 \$1.7 trillion of payment transaction dollar volume on behalf of U.S. merchants in 2013. 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 1,500 non-bank referral partners, and approximately 600 independent sales organization partners, as of December 31, 2013. 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

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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% (effective October 1, 2011, the cap on certain debit transactions changed to \$.21 per transaction plus 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), 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 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.



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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 two 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.

***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.

**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.

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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,		
	2013	2012	2011
Segment revenues from external customers	20%	20%	20%
Segment EBITDA	25%	25%	26%
Assets (at December 31)	12%	12%	12%

**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, 2013. Financial Services also offers payment management solutions for recurring bill payment and services to improve customer communications, billing, online banking and consumer bill payment. 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, 2013, the Financial Services segment had more than 3,500 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.

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 and voice services.

***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.

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**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.

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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,		
	2013	2012	2011
Segment revenues from external customers	25%	25%	27%
Segment EBITDA	19%	20%	20%
Assets (at December 31)	15%	14%	13%

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 35 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,		
	2013	2012	2011
United Kingdom	17%	17%	18%
Australia	12%	15%	16%
Germany	12%	12%	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.

IPS primarily engages in money transmission services. Historically, the principal IPS business was 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 exited the official check line of business, yet continues to support these outstanding payment instruments until they are presented for payment, or are escheated to local governments. 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.

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 2013, 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, 2013.

## **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, 2013, the Company employed approximately 23,000 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 1,600 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. The Vienna workforce and a portion of the Frankfurt workforce is also 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 has resulted 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 are now 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. Effective October 1, 2011, the Federal Reserve Board capped debit interchange rates

for card issuers operating in the U.S. with assets of \$10 billion or more 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 contain non-exclusivity provisions which 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 became effective for prepaid card and healthcare debit card issuers, with some leeway for prepaid cards issued before that date. However, upon a challenge to the amount of the interchange fee and the non-exclusivity rules by retailers, a federal district court ruled that the interchange fee and the non-exclusivity provisions established by the Federal Reserve Board are invalid as they are inconsistent with the statutory language in the Dodd-Frank Act and has ordered the Federal Reserve Board to issue new rules. The action is currently on appeal in a federal appeals court, and at this time it is unclear whether the current interchange fee cap and non-exclusivity rules issued by the Federal Reserve Board will remain in effect.

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 sponsorees, 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.

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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 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.

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 Conduct Authority ( FCA ). The FCA 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 FCA to carry on an insurance mediation business for the purpose of arranging insurance to its issuer customers' cardholders. As an FCA 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 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 ), the Company's affiliation with FDTC 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 as implemented in each member state of the European Union (however member states have their own 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; and the Personal Information Protection and Electronic Documents Act in Canada. These laws and their implementing regulations restrict certain collection, processing, storage, use, and disclosure of personal information, require notice to individuals of privacy practices, and provide individuals with certain rights to prevent use and disclosure of protected information. These laws also impose requirements for the safeguarding and proper destruction of personal information through the issuance of data security standards or guidelines. Certain federal and state laws impose similar privacy obligations and, in certain circumstances, obligations to notify affected individuals, state officers, the media, and consumer reporting agencies, as well as businesses and governmental agencies that own the information, of security breaches affecting personal information. 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.

**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.

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.



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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.

**Indirect Regulatory Requirements.** A number of the Company's clients are financial institutions that are directly subject to various regulations and compliance obligations issued by the Consumer Financial Protection Bureau, the Office of the Comptroller of the Currency and other agencies responsible for regulating financial institutions. While these regulatory requirements and compliance obligations do not apply directly to the Company, many of these requirements materially affect the services the Company provides to its clients and the Company overall. To remain competitive, the Company expends significant resources to assist its clients in meeting their various compliance obligations, including the cost of updating the Company's systems and services as necessary to allow the Company's clients to comply with applicable laws and regulations, and the cost of dedicating sufficient resources to assist the Company's clients in meeting their new and enhanced oversight and audit requirements established by the Consumer Protection Financial Bureau, the Office of the Comptroller of the Currency and others. The Company expects to expend significant resources on an ongoing basis in an effort to assist its clients in meeting their legal requirements.

**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. 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. As of December 31, 2013, the Company had \$22.7 billion of total debt. 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 or to obtain or retain other business with 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 Company's senior secured revolving credit facility has \$1,016.2 million in commitments that mature in September 2016. The Company may not be able to refinance its senior secured credit facilities or its other existing indebtedness because of the Company's high levels of debt, debt incurrence restrictions under the Company's 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 credit agreement governing the Company's senior secured credit facilities and the indentures governing the existing senior secured notes, existing senior unsecured notes, existing senior subordinated notes and the senior PIK notes of First Data Holdings Inc. ( Holdings ) 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.

*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, 2013, 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 billion in notional amount. The Company also had a \$750 million fixed to floating swap to preserve the ratio of fixed and floating rate debt that the Company had prior to the April 2011 debt modification and amendment. As a result, as of December 31, 2013, the impact of a 100 basis point increase in interest rates would increase the

Company's annual interest expense by approximately \$1 million. See 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.

***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.

***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.

*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 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.

***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.***

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 applicable to the Company's business 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 of 2010 (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, the Consumer Financial Protection Bureau (CFPB), 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 (the FRB) announced 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. On July 31, 2013, the United States District Court for the District of Columbia instructed the FRB to vacate the interchange fee and network exclusivity restrictions and develop new rules in compliance with the Dodd-Frank Act. The FRB has appealed that decision, the district court has stayed its ruling pending appeal, and the rules remain in effect pending appeal. Within the Retail and Alliance Services segment the Company experienced some transitory benefit under the original rules due mostly to lower debit interchange rates, however, the overall impact of the Dodd-Frank Act on the Company is difficult to estimate until the interchange fee and network exclusivity restrictions are settled through the federal appeals process and the market and regulators have time to react and adjust to any potential new regulations that could be required as an outcome of the judicial process. Separately, additional regulations have been proposed and developed by the newly created CFPB, with respect to consumer financial products and services that impact the Company or its customers. Pursuant to final rules published by the CFPB in the areas of check verification and consumer debt collection, two of the Company's subsidiaries, TeleCheck Services Inc. and TRS Recovery Services, Inc., are subject to CFPB oversight, supervision and examination. As a result of the Dodd-Frank Act, the CFPB was given jurisdictional authority to regulate, supervise, and examine consumer prepaid products and services. The Company has a business focused on the development and delivery of prepaid solutions for customers, but it is unclear how or whether the CFPB will develop a regulatory regime that impacts these solutions. Each of the proposed or potential 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.

*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 cardholder and charged back to the merchants. 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. 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.

*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 unsecured notes, senior subordinated notes, the senior PIK notes of Holdings and the credit agreement governing the 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;
- 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 facilities, 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 securing those facilities. 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, second lien notes, senior unsecured notes and senior subordinated notes.

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

The Company has been an active business acquirer 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

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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.

***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.

***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, results of operations 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 may become subject to exchange control regulations that restrict or prohibit the conversion of its other revenue 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.

For example, in January 2014, the Argentinian peso experienced a large devaluation, which will adversely affect the Company's business and results of operations for 2014. Going forward, additional devaluations could have further adverse impacts on the Company's business and results of operations in Argentina.

***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.***

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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 regard to the Company's technology allegedly 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 product or service or result in a settlement that could be materially adverse 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.***

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 and makes voluntary self disclosures to government or regulatory agencies 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, enter into consent decrees and/or change its business practices, any of which could have a material adverse effect on the Company's revenue and profitability.

***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.

***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.



*The periodic reporting requirements of the SEC will automatically terminate after the end of the year if the Company continues to have less than 300 shareholders. The Company may continue filing with the SEC as a voluntary filer but the information provided in the Company's periodic reports will be subject to limited regulatory oversight which may adversely impact the Company's ability to provide accurate and complete financial reports. In addition, the Company could discontinue filing with the SEC.*

The Company's periodic reporting responsibilities with the SEC will automatically terminate in the event that it has less than 300 shareholders after the end of any year. The Company currently has 1 shareholder. Even if the Company would later file a registration statement that is declared effective during a year and it once again becomes subject to the periodic reporting requirements of the SEC, any of the Company's periodic reporting responsibilities will automatically terminate in the event that it has less than 300 shareholders after the year in which any registration statement that the Company files with the SEC becomes effective. The Company will still be required to provide certain information, including financial information, about it to holders of the Company's indebtedness pursuant to the agreements governing such indebtedness but could discontinue filing periodic reports with the SEC or continue as a voluntary filer with the SEC. If the Company discontinued filing with the SEC or continued as a voluntary filer, the Company's periodic reports will be subject to less oversight and regulatory scrutiny than those subject to the periodic reporting requirements of the SEC which may adversely impact the Company's ability to provide accurate and complete financial reports.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

As of December 31, 2013, the Company and its subsidiaries owned or leased approximately 58 domestic properties and approximately 91 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.
Facilities in the United States				
Retail and Alliance Services	20	815,105	9	1,033,310
Financial Services	14	544,221	7	1,261,987
All Other and Corporate	4	554,724	4	322,664
International Facilities				
	81	931,313	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; Chesapeake, Virginia, and Maitland, Florida. 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, individually or in the aggregate, currently is material to the Company except the matter reported below.

*ATM Fee Antitrust Litigation*

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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 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 the plaintiffs' petition for a *writ of certiorari*.

**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, 2014, and no equity securities of the Company are authorized for issuance under any equity compensation plan.

In 2013, the Company paid three dividends totaling \$28 million. In 2012, the Company paid four dividends totaling \$6.7 million. The senior secured revolving credit facility, senior secured term loan facility, and the indentures governing the senior secured notes, senior unsecured 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 included in Item 7 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.

Amounts below include acquisitions since the date acquired.

(in millions)	Year ended December 31,				
	2013	2012	2011	2010	2009
<b>Statement of operations data:</b>					
Revenues	\$ 10,808.9	\$ 10,680.3	\$ 10,713.6	\$ 10,380.4	\$ 9,313.8
Operating expenses (a)	\$ 9,630.3	\$ 9,578.3	\$ 9,728.2	\$ 9,782.2	\$ 8,869.3
Other operating expenses (b)	\$ 56.0	\$ 28.2	\$ 43.9	\$ 81.5	\$ 289.7
Interest expense	\$ (1,880.7)	\$ (1,897.8)	\$ (1,833.1)	\$ (1,796.6)	\$ (1,796.4)
Net loss	\$ (692.1)	\$ (527.3)	\$ (336.1)	\$ (846.9)	\$ (1,014.6)
Net loss attributable to First Data Corporation	\$ (869.1)	\$ (700.9)	\$ (516.1)	\$ (1,021.8)	\$ (1,086.4)
Depreciation and amortization (c)	\$ 1,211.9	\$ 1,330.9	\$ 1,344.2	\$ 1,526.0	\$ 1,553.8
<b>Balance sheet data (at year-end):</b>					
Total assets	\$ 35,239.8	\$ 37,899.0	\$ 40,276.3	\$ 37,544.1	\$ 39,735.4
	\$ 7,557.0	\$ 9,228.1	\$ 10,839.3	\$ 7,059.1	\$ 7,351.0

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Total current and long-term  
settlement assets

Total liabilities	\$	33,477.9	\$	35,205.2	\$	36,800.9	\$	33,456.1	\$	34,408.4
Settlement obligations	\$	7,553.4	\$	9,226.3	\$	10,837.8	\$	7,058.9	\$	7,394.7
Long-term borrowings	\$	22,556.8	\$	22,528.9	\$	22,521.7	\$	22,438.8	\$	22,304.9
Other long-term liabilities (d)	\$	1,303.1	\$	1,331.4	\$	1,459.0	\$	2,153.3	\$	2,648.3
Redeemable noncontrolling interest	\$	69.1	\$	67.4	\$	67.4	\$	28.1	\$	226.9
Total equity	\$	1,692.8	\$	2,626.4	\$	3,408.0	\$	4,059.9	\$	5,100.1

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(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; Litigation and regulatory settlements; and Other as applicable to the periods presented.

(c) 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.

(d) 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 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, the Federal Reserve Board capped debit interchange rates for card issuers operating in the U.S. with assets of \$10 billion or more at the sum of \$0.21 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 \$0.01 per transaction in debit interchange for fraud prevention costs. In addition, the new regulations contain non-exclusivity provisions which 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 became effective for prepaid card and healthcare debit card issuers, with some leeway for prepaid cards issued before that date. However, upon a challenge to the amount of the interchange fee and the non-exclusivity rules by retailers, a federal district court ruled that the interchange fee and the non-exclusivity provisions established by the Federal Reserve Board are invalid and inconsistent with the statutory language in the Dodd-Frank Act and has ordered the Federal Reserve Board to issue new rules. The action is currently on appeal in a federal appeals court, and at this time it is unclear whether the current interchange fee cap and non-exclusivity rules issued by the Federal Reserve Board will remain in effect.

The Company's consolidated and segment results benefited in 2012 compared to 2011 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



**FIRST DATA CORPORATION**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND**

**RESULTS OF OPERATIONS (Continued)**

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 2013 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 Vision*PLUS* 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, 2013 compared to the year ended December 31, 2012 as well as for the year ended December 31, 2012 compared to the year ended December 31, 2011. 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.**