FIRST DATA CORP
Form 10-Q
August 14, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from to

Commission file number 001-11073

FIRST DATA CORPORATION

(Exact name of registrant as specified in its charter)

www.firstdata.com

DELAWARE	**47-0731996**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**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

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 x No ¨

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

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

Large accelerated filer ¨	Accelerated filer ¨
Non-accelerated filer x	Smaller reporting company ¨

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

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

Class	**Outstanding at July 31, 2009**
Common Stock, $0.01 par value per share	1,000 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions)

	Three months ended June 30, 2009	Three months ended June 30, 2008	Six months ended June 30, 2009	Six months ended June 30, 2008
Revenues:				
Transaction and processing service fees:				
Merchant related services [a]	$ 709.6	$ 700.9	$ 1,331.1	$ 1,335.8
Check services	84.6	97.1	171.1	197.7
Card services [a]	454.2	506.0	924.6	1,014.3
Other services	123.1	139.7	251.5	275.6
Investment income, net	(1.0)	35.8	4.8	91.8
Product sales and other [a]	206.2	214.0	380.2	426.0
Reimbursable debit network fees, postage and other	631.9	510.8	1,221.5	989.6
	2,208.6	2,204.3	4,284.8	4,330.8
Expenses:				
Cost of services (exclusive of items shown below)	673.1	709.1	1,387.4	1,430.6
Cost of products sold	80.2	83.4	143.7	154.3
Selling, general and administrative	331.2	355.5	657.7	695.1
Reimbursable debit network fees, postage and other	631.9	510.8	1,221.5	989.6
Depreciation and amortization	365.6	338.8	695.1	657.9
Other operating expenses:				
Restructuring, net	8.4	(0.1)	33.5	(0.1)
Litigation and regulatory settlements			(2.7)	
	2,090.4	1,997.5	4,136.2	3,927.4
Operating profit	118.2	206.8	148.6	403.4
Interest income	3.1	6.6	6.4	15.6
Interest expense	(449.6)	(451.1)	(897.8)	(968.8)
Other income (expense)	(3.6)	6.4	19.7	(36.8)
	(450.1)	(438.1)	(871.7)	(990.0)
Loss before income taxes and equity earnings in affiliates	(331.9)	(231.3)	(723.1)	(586.6)
Income tax benefit	(112.8)	(69.4)	(257.6)	(199.9)
Equity earnings in affiliates	25.5	41.6	44.0	73.7

Net loss	(193.6)	(120.3)	(421.5)	(313.0)
Less: Net income attributable to noncontrolling interests	2.3	40.3	5.7	69.3
Net loss attributable to First Data Corporation	$ (195.9)	$ (160.6)	$ (427.2)	$ (382.3)

(a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of $22.4 million and $43.5 million for the three and six months ended June 30, 2009, respectively, and $55.7 million and $109.2 million for the comparable periods in 2008.

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except common stock share amounts)

	June 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 768.0	$ 406.3
Accounts receivable, net of allowance for doubtful accounts of $16.4 (2009) and $16.6 (2008)	2,189.5	2,637.2
Settlement assets	8,490.1	7,930.2
Other current assets	482.6	419.8
Total current assets	11,930.2	11,393.5
Property and equipment, net of accumulated depreciation of $387.5 (2009) and $261.1 (2008)	1,083.0	1,087.8
Goodwill	17,113.5	14,861.2
Customer relationships, net of accumulated amortization of $1,337.2 (2009) and $932.1 (2008)	6,411.7	5,987.6
Other intangibles, net of accumulated amortization of $534.1 (2009) and $373.1 (2008)	2,219.7	1,915.6
Investment in affiliates	1,296.6	1,259.6
Long-term settlement assets	479.4	732.7
Other long-term assets	878.1	938.1
Total assets	$ 41,412.2	$ 38,176.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 174.8	$ 186.5
Short-term and current portion of long-term borrowings	447.1	497.3
Settlement obligations	9,018.8	8,680.6
Other current liabilities	1,218.6	1,413.6
Total current liabilities	10,859.3	10,778.0
Long-term borrowings	22,185.7	22,075.2
Long-term deferred tax liabilities	1,433.4	1,648.2
Other long-term liabilities	1,172.6	1,272.4
Total liabilities	35,651.0	35,773.8
Commitments and contingencies (See Note 7)		
Redeemable noncontrolling interest	193.0	
First Data Corporation stockholder s equity:		
Common stock, $.01 par value; authorized and issued 1,000 shares (2009 and 2008)		

Additional paid-in capital	7,390.0	7,380.8
Paid-in capital	7,390.0	7,380.8
Accumulated loss	(4,468.1)	(4,068.0)
Accumulated other comprehensive loss	(826.6)	(934.9)
Total First Data Corporation stockholder s equity	2,095.3	2,377.9
Noncontrolling interests	3,472.9	24.4
Total equity	5,568.2	2,402.3
Total liabilities and equity	$ 41,412.2	$ 38,176.1

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Six months ended June 30, 2009	2008
Cash and cash equivalents at beginning of period	$ 406.3	$ 606.5
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(421.5)	(313.0)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	741.1	761.9
Charges, net, related to other operating expenses and other income (expense)	13.3	36.7
Other non-cash and non-operating items, net	133.5	(30.0)
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	541.2	162.9
Other assets, current and long-term	101.8	188.4
Accounts payable and other liabilities, current and long-term	(295.0)	(225.3)
Income tax accounts	(301.4)	(213.8)
Net cash provided by operating activities	513.0	367.8
CASH FLOWS FROM INVESTING ACTIVITIES		
Current period acquisitions, net of cash acquired	(9.9)	(177.8)
Payments related to other businesses previously acquired	(13.5)	(16.7)
Additions to property and equipment	(89.6)	(122.6)
Proceeds from sale of property and equipment	15.4	
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(73.1)	(77.1)
Proceeds from the sale of marketable securities	0.2	52.4
Other investing activities	5.8	5.0
Net cash used in investing activities	(164.7)	(336.8)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(72.8)	61.0
Principal payments on long-term debt	(98.1)	(97.2)
Contributions from noncontrolling interests	193.0	
Distributions and dividends paid to noncontrolling interests	(6.6)	(71.2)
Purchase of noncontrolling interest		(17.6)
Capital contributed by Parent		104.3
Cash dividends		(0.9)
Net cash provided by (used in) financing activities	15.5	(21.6)
Effect of exchange rate changes on cash and cash equivalents	(2.1)	39.4
Change in cash and cash equivalents	361.7	48.8

Cash and cash equivalents at end of period	$ 768.0	$ 655.3

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

(in millions)

			First Data Corporation Shareholder				
	Total	Comprehensive Income (Loss)	Accumulated Loss	Accumulated Other Comprehensive Income (Loss)	Common Shares	Paid-In Capital	Noncontrolling Interests
Balance, December 31, 2008 (as previously reported)	$ 2,402.3		$ (4,068.0)	$ (934.9)	0.0	$ 7,380.8	$ 24.4
Adjustment resulting from adoption of new accounting principle			27.1	(27.1)			
Acquisitions	4.3						4.3
Contributions	3,444.2						3,444.2
Dividends and distributions paid to noncontrolling interests	(6.6)						(6.6)
Comprehensive loss:							
Net (loss) income	(421.5)	$ (421.5)	(427.2)				5.7
Other comprehensive income (loss), net of taxes:							
Unrealized gains on securities	7.4	7.4		7.4			
Unrealized gains on hedging activities	74.0	74.0		74.0			
Foreign currency translation adjustment	54.9	54.9		54.0			0.9
Other comprehensive income		136.3					
Comprehensive loss		$ (285.2)					
Stock compensation expense and other	9.2					9.2	
Balance, June 30, 2009	$ 5,568.2		$ (4,468.1)	$ (826.6)	0.0	$ 7,390.0	$ 3,472.9

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in millions)

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Net loss	$ (193.6)	$ (120.3)	$ (421.5)	$ (313.0)
Other comprehensive income, net of tax:				
Unrealized gains (losses) on securities	18.6	(8.9)	7.4	(9.6)
Unrealized gains on hedging activities	35.1	169.7	74.0	0.7
Foreign currency translation adjustment	205.8	59.0	54.9	288.9
Total other comprehensive income, net of tax	259.5	219.8	136.3	280.0
Comprehensive income (loss)	65.9	99.5	(285.2)	(33.0)
Less: Comprehensive income attributable to noncontrolling interests	3.6	40.1	6.6	67.2
Comprehensive income (loss) attributable to First Data Corporation	$ 62.3	$ 59.4	$ (291.8)	$ (100.2)

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying Consolidated Financial Statements of First Data Corporation (FDC or the Company) should be read in conjunction with the Company s Annual Report on Form 10-K for the year ended December 31, 2008. Significant accounting policies disclosed therein have not changed.

The accompanying Consolidated Financial Statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company at June 30, 2009, the consolidated results of its operations and comprehensive income (loss) for the three and six months ended June 30, 2009 and 2008, the consolidated cash flows for the six months ended June 30, 2009 and 2008 and the consolidated changes in equity for the six months ended June 30, 2009. Results of operations reported for interim periods are not necessarily indicative of results for the entire year due in part to the seasonality of certain business units.

Use of Estimates

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

Presentation

Effective January 1, 2009, the Company re-aligned the business and began making strategic and operating decisions with regards to assessing performance and allocating resources based on a new segment structure. Results for 2008 have been adjusted to reflect the new structure. Refer to Note 6 for a description of the segments. Other amounts in 2008 have been adjusted to conform to current year presentation, the largest of which was the reclassification of certain expenses from Cost of services to Selling, general, and administrative.

The Company adopted Statement of Financial Accounting Standards (SFAS) No. 160, Noncontrolling Interests in Consolidated Financial Statements (SFAS No. 160), effective January 1, 2009, which requires that earnings attributed to noncontrolling interests be reported as part of consolidated earnings and not as a separate component of income or expense. Although the adoption of FAS 160 did not impact the Company s total provision for income taxes, the Company s effective tax rate calculation has changed as net income attributable to noncontrolling interests is no longer included as a deduction in the determination of pretax loss. The Company s Consolidated Statement of Operations for 2008 has been revised to conform to the presentation requirements of SFAS No. 160. In addition, the presentation of transactions related to noncontrolling interests in the Company s Consolidated Statements of Cash Flows in 2008 has been revised to reclassify such items from Cash Flows from Operating Activities and Cash Flows from Investing Activities to Cash Flows from Financing Activities.

The Company sold its ownership interests in Active Business Services, Ltd (Active), reported within the International segment, in July 2008 and Peace Software (Peace), reported within the Financial Services segment, in October 2008. Revenue and operating profit associated with Active and Peace are excluded from segment results. The International and Financial Services segment revenue and operating profit were adjusted for 2008 to exclude the results of Active and Peace.

Depreciation and amortization presented as a separate line item on the Company s Consolidated Statements of Operations does not include amortization of initial payments for new contracts which is recorded as a contra-revenue within Transaction and processing service fees of $5.4 million and $10.4 million for the three and six months ended June 30, 2009, respectively, and $1.9 million and $3.4 million for the three and six months ended June 30, 2008, respectively. Also not included is amortization related to equity method investments which is netted within the Equity earnings in affiliates line of $18.0 million and $35.6 million for the three and six months ended June 30, 2009, respectively, and $52.8 million and $100.6 million for the three and six months ended June 30, 2008, respectively.

Subsequent Event

On August 10, 2009, the Company launched a registered exchange offer to exchange any and all of its outstanding unregistered unsecured 9 $^{7}/8$% Senior Cash-Pay Notes due 2015, its outstanding unregistered unsecured 10 $^{11}/20$% Senior PIK Notes due 2015 and its outstanding unregistered unsecured 11 $^{1}/4$% Senior Subordinated Notes due 2016 for publicly tradable notes having substantially identical terms and guarantees, except that the exchange notes will be freely tradable. The exchange offer expires on September 4, 2009, unless extended.

The Company evaluated subsequent events through August 13, 2009, the date the financial statements were issued.

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Revenue Recognition

The Company recognizes revenues from its processing services as such services are performed. Revenue is recorded net of certain costs such as credit and offline debit interchange fees and assessments charged by credit card associations which totaled $3,013.5 million and $2,164.1 million for the three months ended June 30, 2009 and 2008, respectively and $5,745.8 million and $4,089.2 million for the comparable six-month periods. Debit network fees related to acquired PIN-based debit transactions are recognized in the Reimbursable debit network fees, postage and other revenue and expense lines of the Consolidated Statements of Operations. The debit network fees related to acquired PIN-debit transactions charged by debit networks totaled $470.8 million and $327.2 million for the three months ended June 30, 2009 and 2008, respectively and $883.4 million and $613.1 million for the comparable six-month periods. Comparability of the dollar amounts disclosed in this paragraph is impacted by the termination of the Chase Paymentech Solutions alliance on November 1, 2008 and the deconsolidation of the Wells Fargo Merchant Services alliance on December 31, 2008. Information regarding these transactions is included in Note 5 to the Consolidated Financial Statements in Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Note 2: Supplemental Financial Information

Supplemental Statement of Operations Information

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

(in millions)	Three months ended June 30, 2009	2008
Investment losses	$ (0.3)	$
Derivative financial instruments (losses) and gains	(13.6)	9.4
Divestitures, net	(0.4)	
Non-operating foreign currency gains and (losses)	5.2	(3.0)
Other	5.5	
Other income (expense)	$ (3.6)	$ 6.4

(in millions)	Six months ended June 30, 2009	2008
Investment (losses) and gains	$ (0.7)	$ 22.1
Derivative financial instruments losses	(6.9)	(3.4)
Divestitures, net	(0.9)	
Non-operating foreign currency gains and (losses)	22.7	(55.5)
Other	5.5	
Other income (expense)	$ 19.7	$ (36.8)

Supplemental Cash Flow Information

On June 26, 2009, the Company entered into a joint venture with Bank of America, N.A. (BofA) as discussed in Note 4 below. The Company s and BofA s direct contributions to the alliance consisted of non-cash assets and liabilities.

During the six months ended June 30, 2009 and 2008, the principal amount of the Company s senior unsecured PIK notes increased by $165.2 million and $123.7 million, respectively, resulting from the payment of accrued interest expense.

During the six months ended June 30, 2009 and 2008, the Company entered into capital leases totaling approximately $85 million and $47 million, respectively.

Refer to Note 9 for information concerning the Company s stock-based compensation plans.

Note 3: Restructuring

Restructuring charges and reversal of restructuring accruals

The Company recorded restructuring charges comprised of severance totaling $10.2 million and $40.2 million for the three and six months ended June 30, 2009, respectively. The Company also recorded charges related to facility closures totaling $0.4 million during first quarter 2009. The restructurings resulted in the termination of employees company wide totaling $0.3 million and $9.8 million in Retail and Alliance Services, $2.4 million and $8.5 million in Financial Services, $4.9 million and $15.7 million in International and $2.6 million and $6.2 million in All Other and Corporate for the three and six months ended June 30, 2009,

FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

respectively. The restructurings in the first quarter 2009 resulted from the elimination of a select number of management and other positions as part of the Company s cost saving initiatives. The second quarter 2009 restructurings resulted from similar actions as in the first quarter in the International segment while domestic restructurings resulted from site consolidations and the elimination of certain information technology positions. Cost savings initiatives are expected to continue into future periods resulting in additional restructuring charges. Partially offsetting the charges were reversals of 2009 and 2008 restructuring accruals of $1.8 million and $7.1 million during the three and six months ended June 30, 2009, respectively, related to the Company s change in strategy related to global labor sourcing initiatives as well as refining previously recorded estimates.

The following table summarizes the Company s utilization of restructuring accruals, excluding merger related restructuring charges, for the period from January 1, 2009 through June 30, 2009 (in millions):

	Employee Severance	Facility Closure
Remaining accrual at January 1, 2009	$ 11.1	
Expense provision	40.2	$ 0.4
Cash payments and other	(15.7)	(0.1)
Changes in estimates	(7.1)	
Remaining accrual at June 30, 2009	$ 28.5	$ 0.3

Note 4: Business Combinations and Acquisitions and Divestitures

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

The Company owns a 48.45% direct voting interest in BAMS and BofA owns a 46.55% direct voting interest. The remaining stake in BAMS is a 5% non-voting interest held by Rockmount. The Company owns a 40% non-controlling interest in Rockmount. The Company s 48.45% direct voting interest in BAMS, together with its control of the management committee, which governs BAMS, provides the Company with a controlling financial interest in BAMS under the applicable accounting standards and rules and thus BAMS is consolidated by the Company and reported in its Retail and Alliance Services segment. BofA s 46.55% interest in BAMS is presented as a noncontrolling interest component of total equity.

BofA s and the Company s contributions to the newly formed company were principally comprised of merchant acquiring contract rights and relationships and sales forces. The Company s contribution was most significantly comprised of assets received upon the November 1, 2008 termination of the Chase Paymentech Solutions alliance, though certain other assets were included as well. Rockmount s contribution was in the form of cash totaling $321.7 million of which $128.7 million represents the cash contributed to Rockmount by the Company for its 40% investment noted above.

Rockmount may, at the sole option of the third-party owning a controlling interest in Rockmount, require that BAMS redeem Rockmount s interest in BAMS. This option is available during a specified period of time after each of the fourth quarter of 2009 and the first and second quarters of 2010, and upon certain conditions, additional periods thereafter. Rockmount s interest would be redeemed by BAMS for an amount of cash based on Rockmount s capital account balance in BAMS immediately prior to the redemption subject to an additional adjustment to be paid or received by the Company and BofA based on the level of BAMS revenues for the trailing 12 month periods ending at the end of the fiscal quarter immediately prior to the exercise or extension of the option. Since Rockmount has the ability to put its interests to BAMS (a consolidated subsidiary of the Company), the Company has classified the 3% non-voting interest attributable to the third-party investor as Redeemable noncontrolling interest in the Consolidated Balance Sheet rather than as Equity. The 2% non-voting interest attributable to the Company is included with the Company s direct voting interest in balances attributable to the Company in the Consolidated Financial Statements.

The formation of BAMS was accounted for by the Company as a sale of a noncontrolling interest in a subsidiary and a purchase business combination. For the quarter ended June 30, 2009, the Company has not recorded a gain or loss on the transaction due to the preliminary nature of the valuations and allocation of the Company s assets to BAMS. Additionally, the assets comprising the most significant portion of the Company s contribution were recently adjusted to fair value in the fourth quarter 2008 in connection with the November 1, 2008 termination of the Chase Paymentech Solutions alliance. Upon finalization of such valuations and allocations, the Company may record a gain or loss through adjustments to additional paid-in capital and noncontrolling interest. The Company does not currently anticipate such adjustments to be material.

FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The assets contributed to BAMS by the Company continue to be recorded at the Company s carrying basis, which for the majority of assets was established effective November 1, 2008 as described immediately above net of applicable amortization expense subsequently recognized, and the assets contributed by BofA were recorded at their estimated fair value. The fair value of the BofA contribution to BAMS was determined by estimating the BAMS enterprise value and attributing the appropriate portion of that value to such contribution. To estimate the enterprise value, the Company weighted the results of a discounted cash flow analysis, an analysis of guideline public companies, and an analysis of guideline merged and acquired companies. Each analysis was dependent on a number of significant management assumptions regarding the expected future financial results of BAMS as well as the identification of appropriate guideline companies or transactions. Additionally, the discounted cash flow analysis was dependent on an estimate of an appropriate discount rate. The Company relied in part upon a third party valuation firm in determining the enterprise value of BAMS. The value attributed to the net tangible and identifiable intangible assets contributed by BofA was based on their estimated fair values. The preliminary purchase price allocation resulted in identifiable intangible assets of $1,200 million, which will be amortized over a range preliminarily estimated to be 10 to 20 years, and goodwill of $2,244 million. The Company analyzed the values assigned to similar intangible assets in previous purchase price allocations as well as the values estimated for similar assets during previous impairment tests. For each intangible asset, the Company selected an appropriate multiple of revenue and applied it to the expected future revenue attributable to the asset to estimate its fair value. The Company will perform a valuation of these identifiable intangible assets which will result in an adjustment to the above allocation as well as the amortization periods.

During the first quarter of 2009, the Company acquired one entity, reported within the International segment, and a domestic merchant portfolio.

The aggregate cash paid during the six months ended June 30, 2009 for these acquisitions was approximately $9.1 million, net of cash acquired. The aggregate preliminary purchase price allocation for these acquisitions resulted in $810.0 million in identifiable intangible assets which are being amortized over five to 10 years, trade names of $400.0 million being amortized over 20 years and goodwill of $2,244.2 million.

The pro forma impact of all 2009 acquisitions on net income was not material.

Note 5: Borrowings

Senior secured revolving credit facility

The Company has a $2.0 billion senior secured revolving credit facility with a term through the third quarter of 2013. Up to $500 million of the Company s $2.0 billion senior secured revolving credit facility is available for letters of credit, of which $39.5 million and $39.7 million of letters of credit were issued under the facility as of June 30, 2009 and December 31, 2008, respectively. The amounts outstanding against this facility were $95.0 million and $18.0 million as of June 30, 2009 and December 31, 2008, respectively.

Since an affiliate of Lehman Brothers Holdings Inc. filed for bankruptcy in September 2008, it has not funded amounts related to its $230.6 million commitment under the Company s senior secured revolving credit facility and there is no assurance they will participate in any future funding requests or that the Company could obtain replacement loan commitments from other banks. The Company is monitoring the financial stability of other financial institutions that have made commitments under the revolving credit facility, none of which represent more than approximately 15% of the remaining capacity. As of June 30, 2009, $1.6 billion remained available under this facility after considering the amount outstanding above, the letters of credit issued under the facility, and the commitment that is no longer being funded noted above.

Other short-term borrowings

The Company had approximately $519 million and $656 million available under short-term lines of credit and other arrangements with foreign banks and joint venture partners to fund settlement activity, as of June 30, 2009 and December 31, 2008, respectively. Certain of these arrangements are uncommitted (approximately $124 million and $273 million, respectively) but, as of the periods presented, the Company had some borrowings outstanding against them. These arrangements are primarily associated with First Data Deutschland, Cashcard Australia, Ltd., the joint venture with Allied Irish Banks p.l.c., First Data Polska and the Merchant Solutions joint venture and are in various functional currencies, the most significant of which are the euro, Australian dollar and Polish zloty. The amounts outstanding against these arrangements were $102.4 million and $257.3 million as of June 30, 2009 and December 31, 2008, respectively.

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(Unaudited)

Senior secured term loan facility

The terms of the Company s senior secured term loan facility require the Company to pay equal quarterly installments in aggregate annual amounts equal to 1% of the original principal amount. During the three and six months ended June 30, 2009 and 2008, the Company paid $32.2 million and $64.4 million and $32.0 million and $63.9 million, respectively, of principal payments on the senior secured term loan facility in accordance with this provision ($29.7 million and $59.5 million, respectively, related to the U.S. dollar denominated loan and $2.5 million and $4.9 million, respectively, related to the euro denominated loan for the three and six months ended June 30, 2009 and $29.5 million and $58.9 million, respectively, related to the U.S. dollar denominated loan and $2.5 million and $5.0 million, respectively, related to the euro denominated loan for the three and six months ended June 30, 2008).

Senior unsecured PIK notes

The terms of the Company s senior unsecured PIK (Payment In-Kind) notes require that interest on the notes up to and including September 30, 2011 be paid entirely by increasing the principal amount of the notes or by issuing senior unsecured PIK notes. During the six months ended June 30, 2009, the Company increased the principal amount of these notes by $165.2 million in accordance with this provision. The principal amount was not increased during the three months ended June 30, 2009. During the three and six months ended June 30, 2008, the Company increased the principal amount of these notes by $56.1 million and $123.7 million, respectively.

Note 6: Segment Information

For a detailed discussion of the Company s principles regarding its operating segments refer to Note 17 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

As discussed in Note 1, the Company began operating under a new segment structure effective January 1, 2009. Segment results for the three and six months ended June 30, 2008 have been revised to reflect the new structure. The most significant changes were check verification, settlement and guarantee services moving from the Financial Services segment into the Retail and Alliance Services segment as well as the Prepaid Services segment moving into the Retail and Alliance Services segment. A summary of the new segments follows:

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. Retail and Alliance Services also provides point-of-sale (POS) solutions and other equipment necessary to capture merchant transactions. 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, or another payment network (such as Discover). In addition, Retail and Alliance Services provides check verification, settlement and guarantee services and a wide range of open and closed loop stored-value products and processing services. The segment s largest components of revenue consist of discount fees charged to merchants, processing fees charged to unconsolidated alliances, equity earnings from unconsolidated alliances, selling and leasing of POS devices, fees for check verification, settlement and guarantee services and debit network fees.

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. The segment s largest components of revenue consist of fees for account management, transaction authorization and posting, and network switching as well as reimbursable postage.

The International segment is comprised of businesses that provide the following services outside of the U.S.: credit, retail, debit and prepaid card processing; merchant acquiring and processing; ATM and POS processing, driving, acquiring and switching services; and card processing software. The largest components of the segment s revenue are fees for facilitating the merchants 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.

The Integrated Payment Systems (IPS) segment is principally comprised of operations which deal in the issuance of official checks which are sold by agents that are financial institutions and the issuance of money orders which are sold by agents that are financial institutions and retail businesses. Official checks serve as an alternative to a bank s own items such as cashiers or bank checks. Money orders serve as a disbursement option for a consumer or business. Revenue is

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

principally earned on invested funds which are pending settlement. The official check and money order businesses are conducted by a subsidiary of the Company, Integrated Payment Systems Inc., which is licensed to offer payment instrument and money transmitter services that fall under state and federal regulations. This segment is in the process of winding down its official check and money order businesses. IPS also offers payment processing services, and such other services will continue after the wind down of the official check and money order businesses.

Although the segments have changed, a detailed discussion regarding the businesses that comprise the Company s segments, the strategies of the Company and the businesses within the segments, business trends affecting the Company and certain risks inherent in the Company s business is included in Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

The following table presents the Company s operating segment results for the three and six months ended June 30, 2009 and 2008:

Three months ended June 30, 2009 **(in millions)**	**Retail and Alliance Services**	**Financial Services**	**International**	**Integrated Payment Systems**	**All Other and Corporate**	**Totals**
Revenues:						