

FIRST DATA CORP
Form 10-Q
November 08, 2011
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

September 30, 2011 For the quarterly period ended September 30, 2011

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)

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www.firstdata.com

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

5565 GLENRIDGE CONNECTOR, N.E., SUITE 2000,

ATLANTA, GEORGIA
(Address of principal executive offices)

30342
(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 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 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

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

Class	Outstanding at October 31, 2011
Common Stock, \$0.01 par value per share	1,000 shares

Table of Contents

INDEX

	PAGE NUMBER
PART I FINANCIAL INFORMATION	
Item 1	
Financial Statements (unaudited):	
<u>Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010</u>	3
<u>Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010</u>	4
<u>Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010</u>	5
<u>Consolidated Statements of Equity for the nine months ended September 30, 2011 and 2010</u>	6
<u>Consolidated Statements of Comprehensive Income (Loss) for the three and nine months ended September 30, 2011 and 2010</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
Item 2	35
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	
Item 3	52
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	
Item 4	52
<u>Controls and Procedures</u>	
PART II OTHER INFORMATION	
Item 1	53
<u>Legal Proceedings</u>	
Item 1A	53
<u>Risk Factors</u>	
Item 2	53
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	
Item 3	53
<u>Defaults Upon Senior Securities</u>	
Item 4	53
<u>Reserved</u>	
Item 5	53
<u>Other Information</u>	
Item 6	53
<u>Exhibits</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****FIRST DATA CORPORATION****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)**

(in millions)	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Transaction and processing service fees:				
Merchant related services (a)	\$ 925.9	\$ 916.6	\$ 2,698.4	\$ 2,592.8
Check services	83.9	96.9	252.4	285.2
Card services (a)	441.9	432.0	1,310.7	1,296.3
Other services	132.6	123.7	399.2	400.4
Product sales and other (a)	227.7	205.3	642.0	607.6
Reimbursable debit network fees, postage and other	919.8	858.6	2,723.1	2,467.6
	2,731.8	2,633.1	8,025.8	7,649.9
Expenses:				
Cost of services (exclusive of items shown below)	745.7	743.0	2,181.7	2,251.3
Cost of products sold	92.4	98.7	275.7	273.7
Selling, general and administrative	407.7	405.1	1,258.0	1,179.7
Reimbursable debit network fees, postage and other	919.8	858.6	2,723.1	2,467.6
Depreciation and amortization	263.7	354.7	935.3	1,053.4
Other operating expenses:				
Restructuring, net	11.8	32.3	42.8	68.7
Litigation and regulatory settlements	(2.5)		(2.5)	(2.0)
	2,438.6	2,492.4	7,414.1	7,292.4
Operating profit	293.2	140.7	611.7	357.5
Interest income	1.6	2.1	5.4	5.5
Interest expense	(466.7)	(455.8)	(1,371.3)	(1,355.6)
Other income (expense)	95.4	(52.3)	67.7	(19.3)
	(369.7)	(506.0)	(1,298.2)	(1,369.4)
Loss before income taxes and equity earnings in affiliates	(76.5)	(365.3)	(686.5)	(1,011.9)
Income tax (benefit) expense	(18.9)	52.3	(255.0)	(208.2)
Equity earnings in affiliates	47.8	31.2	109.0	86.7
Net loss	(9.8)	(386.4)	(322.5)	(717.0)
Less: Net income attributable to noncontrolling interests	44.1	44.9	124.3	125.6
Net loss attributable to First Data Corporation	\$ (53.9)	\$ (431.3)	\$ (446.8)	\$ (842.6)

- (a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of \$37.1 million and \$109.3 million for the three and nine months ended September 30, 2011, respectively, and \$34.6 million and \$99.3 million for the comparable periods in 2010.

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS

(in millions, except common stock share amounts)	As of September 30, 2011 (Unaudited)	As of December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 402.4	\$ 509.5
Accounts receivable, net of allowance for doubtful accounts of \$23.0 (2011) and \$20.3 (2010)	1,895.9	2,169.6
Settlement assets	6,734.1	6,694.0
Other current assets	411.8	413.4
Total current assets	9,444.2	9,786.5
Property and equipment, net of accumulated depreciation of \$816.9 (2011) and \$691.6 (2010)	932.1	952.0
Goodwill	17,298.2	17,296.9
Customer relationships, net of accumulated amortization of \$3,059.9 (2011) and \$2,490.5 (2010)	4,670.0	5,223.7
Other intangibles, net of accumulated amortization of \$1,232.5 (2011) and \$975.8 (2010)	1,919.1	1,931.0
Investment in affiliates	1,170.9	1,208.2
Long-term settlement assets	212.7	365.1
Other long-term assets	893.6	780.7
Total assets	\$ 36,540.8	\$ 37,544.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 193.1	\$ 180.9
Short-term and current portion of long-term borrowings	249.6	270.5
Settlement obligations	6,950.5	7,058.9
Other current liabilities	1,417.0	1,353.7
Total current liabilities	8,810.2	8,864.0
Long-term borrowings	22,553.4	22,438.8
Long-term deferred tax liabilities	819.6	1,013.7
Other long-term liabilities	761.5	1,139.6
Total liabilities	32,944.7	33,456.1
Commitments and contingencies (See Note 7)		
Redeemable noncontrolling interest	45.9	28.1
First Data Corporation stockholder's equity:		
Common stock, \$.01 par value; authorized and issued 1,000 shares (2011 and 2010)		
Additional paid-in capital	7,390.4	7,395.1
Paid-in capital	7,390.4	7,395.1
Accumulated loss	(6,610.7)	(6,163.9)
Accumulated other comprehensive loss	(594.2)	(636.9)
Total First Data Corporation stockholder's equity	185.5	594.3

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Noncontrolling interests		3,364.7		3,465.6
Total equity		3,550.2		4,059.9
Total liabilities and equity		\$ 36,540.8		\$ 37,544.1

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Nine months ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (322.5)	\$ (717.0)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1,004.3	1,136.5
Charges related to other operating expenses and other income (expense)	(24.9)	86.0
Other non-cash and non-operating items, net	38.2	241.9
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	230.7	323.0
Other assets, current and long-term	148.8	271.5
Accounts payable and other liabilities, current and long-term	(235.4)	(522.6)
Income tax accounts	(300.3)	(291.8)
Net cash provided by operating activities	538.9	527.5
CASH FLOWS FROM INVESTING ACTIVITIES		
Current period acquisitions	(19.9)	(1.2)
Payments related to other businesses previously acquired	3.2	(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed	1.7	21.2
Additions to property and equipment	(143.7)	(157.5)
Proceeds from sale of property and equipment	17.7	1.8
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(150.1)	(121.8)
Other investing activities	(0.7)	18.6
Net cash used in investing activities	(291.8)	(240.3)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(24.7)	23.4
Debt modifications and related financing costs	(39.7)	(24.1)
Principal payments on long-term debt	(53.2)	(204.6)
Proceeds from sale-leaseback transactions	7.3	
Contributions from noncontrolling interests	0.8	
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(228.0)	(155.5)
Purchase of noncontrolling interest		(213.3)
Redemption of Parent's redeemable common stock	(0.3)	(1.0)
Cash dividends		(14.9)
Net cash used in financing activities	(337.8)	(590.0)
Effect of exchange rate changes on cash and cash equivalents	(16.4)	7.8
Change in cash and cash equivalents	(107.1)	(295.0)
Cash and cash equivalents at beginning of period	509.5	737.0

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Cash and cash equivalents at end of period

\$ 402.4 \$ 442.0

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

Nine months ended September 30, 2011	First Data Corporation Shareholder						
	Total	Comprehensive Income (Loss)	Accumulated Loss	Comprehensive Other Income (Loss)	Common Shares	Paid-In Capital	Noncontrolling Interests
(in millions)							
Balance, December 31, 2010	\$ 4,059.9		\$ (6,163.9)	\$ (636.9)	0.0	\$ 7,395.1	\$ 3,465.6
Dividends and distributions paid to noncontrolling interests	(204.3)						(204.3)
Contributions from noncontrolling interests	0.8						0.8
Comprehensive loss:							
Net (loss) income (a)	(345.2)	\$ (345.2)	(446.8)				101.6
Other comprehensive income, net of taxes:							
Unrealized losses on securities	(2.4)	(2.4)		(2.4)			
Unrealized gains on hedging activities	75.3	75.3		75.3			
Foreign currency translation adjustment	(29.6)	(29.6)		(30.6)			1.0
Pension liability adjustment	0.4	0.4		0.4			
Other comprehensive income		43.7					
Comprehensive loss		\$ (301.5)					
Adjustment to redemption value of redeemable noncontrolling interest	(18.9)					(18.9)	
Stock compensation expense and other	14.2					14.2	
Balance, September 30, 2011	\$ 3,550.2		\$ (6,610.7)	\$ (594.2)	0.0	\$ 7,390.4	\$ 3,364.7
Nine months ended September 30, 2010							
(in millions)							
Balance, December 31, 2009	\$ 5,100.1		\$ (5,127.3)	\$ (681.7)	0.0	\$ 7,394.3	\$ 3,514.8
Dividends and distributions paid to noncontrolling interests	(136.2)						(136.2)
Purchase of noncontrolling interest						(2.5)	2.5
Comprehensive loss:							
Net (loss) income (a)	(743.4)	\$ (743.4)	(842.6)				99.2
Other comprehensive loss, net of taxes:							
Unrealized gains on securities	10.2	10.2		10.2			
Unrealized gains on hedging activities	45.5	45.5		45.5			
Foreign currency translation adjustment	(60.7)	(60.7)		(60.3)			(0.4)
Pension liability adjustment	1.3	1.3		1.3			
Other comprehensive loss		(3.7)					
Comprehensive loss		\$ (747.1)					
	(7.0)					(7.0)	

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Adjustment to redemption value of redeemable noncontrolling interests							
Stock compensation expense and other	10.4					10.4	
Cash dividends paid by First Data Corporation to Parent	(14.9)	(14.9)					
Balance, September 30, 2010	\$ 4,205.3	\$ (5,984.8)	\$ (685.0)	0.0	\$ 7,395.2	\$ 3,479.9	

- (a) The total net loss presented in the Consolidated Statements of Equity for the nine months ended September 30, 2011 and 2010 is \$22.7 million and \$26.4 million, respectively, greater than the amount presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interests not included in equity.

See Notes to Consolidated Financial Statements.

Table of Contents**FIRST DATA CORPORATION****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(Unaudited)**

(in millions)	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	2011	2010	2011	2010
Net loss (a)	\$ (17.2)	\$ (394.5)	\$ (345.2)	\$ (743.4)
Other comprehensive (loss) income, net of tax:				
Unrealized (losses) gains on securities	(3.0)	4.2	(2.4)	10.2
Unrealized gains on hedging activities	28.5	15.9	75.3	45.5
Foreign currency translation adjustment	(192.6)	212.7	(29.6)	(60.7)
Pension liability adjustment	0.4	(0.9)	0.4	1.3
Total other comprehensive (loss) income, net of tax	(166.7)	231.9	43.7	(3.7)
Comprehensive loss	(183.9)	(162.6)	(301.5)	(747.1)
Less: Comprehensive income attributable to noncontrolling interests	28.1	45.0	102.6	98.8
Comprehensive loss attributable to First Data Corporation	\$ (212.0)	\$ (207.6)	\$ (404.1)	\$ (845.9)

- (a) The net loss presented in the Consolidated Statements of Comprehensive Income (Loss) is greater than the amounts presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interests not included in equity which totaled \$7.4 million and \$22.7 million for the three and nine months ended September 30, 2011, respectively and \$8.1 million and \$26.4 million for the three and nine months ended September 30, 2010, respectively.

See Notes to Consolidated Financial Statements.

Table of Contents

FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

The accompanying Consolidated Financial Statements of First Data Corporation ("FDC" or the "Company") should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2010. Significant accounting policies disclosed therein have not changed.

The accompanying Consolidated Financial Statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company as of September 30, 2011, the consolidated results of its operations and comprehensive income (loss) for the three and nine months ended September 30, 2011 and 2010 and the consolidated cash flows and changes in equity for the nine months ended September 30, 2011 and 2010. 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

In the third quarter of 2011, the Company recorded a net \$55.4 million pretax (\$31.5 million after tax) benefit in the Consolidated Statement of Operations to correct cumulative depreciation and amortization errors related to purchase accounting associated with the Company's 2007 merger with an affiliate of Kohlberg Kravis Roberts & Co. The corrections impacted amortization of initial payments for new contracts within Transaction and processing service fees (\$1.6 million contra-revenue), Costs of services (\$10.2 million expense), Depreciation and amortization (\$54.5 million benefit) and amortization of equity method investments within Equity earnings in affiliates (\$12.7 millio