FIRST DATA CORP
Form 10-Q
November 12, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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 October 31, 2010**
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 September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Revenues:				
Transaction and processing service fees:				
Merchant related services [a]	$ 916.6	$ 868.2	$ 2,592.8	$ 2,199.3
Check services	96.9	90.5	285.2	261.6
Card services [a]	432.0	451.9	1,296.3	1,376.5
Other services	123.7	129.2	400.4	380.7
Product sales and other [a]	205.3	183.9	607.6	568.9
Reimbursable debit network fees, postage and other	858.6	719.5	2,467.6	1,941.0
	2,633.1	2,443.2	7,649.9	6,728.0
Expenses:				
Cost of services (exclusive of items shown below)	743.0	757.1	2,251.3	2,144.5
Cost of products sold	98.7	80.9	273.7	224.6
Selling, general and administrative	405.1	377.5	1,179.7	1,035.2
Reimbursable debit network fees, postage and other	858.6	719.5	2,467.6	1,941.0
Depreciation and amortization	354.7	374.8	1,053.4	1,069.9
Other operating expenses:				
Restructuring, net	32.3	10.9	68.7	44.4
Impairments		7.7		7.7
Litigation and regulatory settlements			(2.0)	(2.7)
	2,492.4	2,328.4	7,292.4	6,464.6
Operating profit	140.7	114.8	357.5	263.4
Interest income	2.1	3.2	5.5	9.6
Interest expense	(455.8)	(447.5)	(1,355.6)	(1,345.3)
Other income (expense)	(52.3)	(84.5)	(19.3)	(64.8)
	(506.0)	(528.8)	(1,369.4)	(1,400.5)
Loss before income taxes and equity earnings in affiliates	(365.3)	(414.0)	(1,011.9)	(1,137.1)

Income tax expense (benefit)	52.3	(132.5)	(208.2)	(390.1)
Equity earnings in affiliates	31.2	26.8	86.7	70.8
Net loss	(386.4)	(254.7)	(717.0)	(676.2)
Less: Net income attributable to noncontrolling interests	44.9	35.9	125.6	41.6
Net loss attributable to First Data Corporation	$ (431.3)	$ (290.6)	$ (842.6)	$ (717.8)

(a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of $34.6 million and $99.3 million for the three and nine months ended September 30, 2010, respectively, and $27.1 million and $79.1 million for the comparable periods in 2009.

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED BALANCE SHEETS

(in millions, except common stock share amounts)

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current assets:		
Cash and cash equivalents	$ 442.0	$ 737.0
Accounts receivable, net of allowance for doubtful accounts of $22.2 (2010) and $14.9 (2009)	2,088.1	2,455.5
Settlement assets	6,135.2	6,870.3
Other current assets	427.3	398.8
Total current assets	9,092.6	10,461.6
Property and equipment, net of accumulated depreciation of $637.7 (2010) and $463.7(2009)	966.0	1,051.4
Goodwill	17,417.1	17,475.8
Customer relationships, net of accumulated amortization of $2,291.6 (2010) and $1,723.8 (2009)	5,421.2	6,008.8
Other intangibles, net of accumulated amortization of $928.9 (2010) and $698.3 (2009)	1,994.5	2,121.1
Investment in affiliates	1,224.3	1,291.3
Long-term settlement assets	355.6	480.7
Other long-term assets	792.7	844.7
Total assets	$ 37,264.0	$ 39,735.4
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 196.3	$ 200.7
Short-term and current portion of long-term borrowings	188.3	304.9
Settlement obligations	6,518.5	7,394.7
Other current liabilities	1,154.5	1,554.9
Total current liabilities	8,057.6	9,455.2
Long-term borrowings	22,543.9	22,304.9
Long-term deferred tax liabilities	1,215.1	1,346.4
Other long-term liabilities	1,214.3	1,301.9
Total liabilities	33,030.9	34,408.4
Commitments and contingencies (See Note 7)		
Redeemable noncontrolling interest	27.8	226.9
First Data Corporation stockholder s equity:		
Common stock, $.01 par value; authorized and issued 1,000 shares (2010 and 2009)		
Additional paid-in capital	7,395.2	7,394.3
Paid-in capital	7,395.2	7,394.3

Accumulated loss	(5,984.8)	(5,127.3)
Accumulated other comprehensive loss	(685.0)	(681.7)
Total First Data Corporation stockholder s equity	725.4	1,585.3
Noncontrolling interests	3,479.9	3,514.8
Total equity	4,205.3	5,100.1
Total liabilities and equity	$ 37,264.0	$ 39,735.4

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(in millions)

	Nine months ended September 30, 2010	Nine months ended September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (717.0)	$ (676.2)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1,136.5	1,142.2
Charges related to other operating expenses and other income (expense)	86.0	113.7
Other non-cash and non-operating items, net	241.9	225.0
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	323.0	298.1
Other assets, current and long-term	271.5	176.0
Accounts payable and other liabilities, current and long-term	(522.6)	(255.4)
Income tax accounts	(291.8)	(458.0)
Net cash provided by operating activities	527.5	565.4
CASH FLOWS FROM INVESTING ACTIVITIES		
Current period acquisitions, net of cash acquired	(1.2)	(14.9)
Payments related to other businesses previously acquired	(1.4)	(14.7)
Proceeds from dispositions, net of expenses paid and cash disposed	21.2	6.9
Additions to property and equipment	(157.5)	(137.6)
Proceeds from sale of property and equipment	1.8	23.6
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(121.8)	(125.2)
Other investing activities	18.6	(46.0)
Net cash used in investing activities	(240.3)	(307.9)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	23.4	(79.6)
Debt modification and related financing costs	(24.1)	
Principal payments on long-term debt	(204.6)	(184.7)
Contributions from noncontrolling interests		193.0
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(155.5)	(7.2)
Purchase of noncontrolling interest	(213.3)	
Redemption of Parent s redeemable common stock	(1.0)	
Cash dividends	(14.9)	
Net cash used in financing activities	(590.0)	(78.5)
Effect of exchange rate changes on cash and cash equivalents	7.8	4.9

Change in cash and cash equivalents	(295.0)	183.9
Cash and cash equivalents at beginning of period	737.0	406.3
Cash and cash equivalents at end of period	$ 442.0	$ 590.2

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited)

(in millions)

			First Data Corporation Shareholder				
Nine months ended September 30, 2010	**Total**	**Comprehensive Income (Loss)**	**Accumulated Loss**	**Accumulated Other Comprehensive Income (Loss)**	**Common Shares**	**Paid-In Capital**	**Noncontrolling Interests**
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)					
Adjustment to redemption value of redeemable noncontrolling interests	(7.0)					(7.0)	
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, 2010 is $26.4 million 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.

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			First Data Corporation Shareholder				
Nine months ended September 30, 2009	Total	Comprehensive Income (Loss)	Accumulated Loss	Accumulated Other Comprehensive Income (Loss)	Common Shares	Paid-In Capital	Noncontrolling Interests
Balance, December 31, 2008	$ 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	(7.2)						(7.2)
Comprehensive loss:							
Net (loss) income [(a)]	(678.2)	$ (678.2)	(717.8)				39.6
Other comprehensive income (loss), net of taxes:							
Unrealized gains on securities	10.0	10.0		10.0			
Unrealized gains on hedging activities	72.8	72.8		72.8			
Foreign currency translation adjustment	211.8	211.8		209.1			2.7
Pension liability adjustment	(45.0)	(45.0)		(45.0)			
Other comprehensive income		249.6					
Comprehensive loss		$ (428.6)					
Stock compensation expense and other	13.9					13.9	
Balance, September 30, 2009	$ 5,428.9		$ (4,758.7)	$ (715.1)	0.0	$ 7,394.7	$ 3,508.0

(a) The total net loss presented in the Consolidated Statements of Equity for the nine months ended September 30, 2009 is $2.0 million 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.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Unaudited)

(in millions)

	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net loss [(a)]	$ (394.5)	$ (256.7)	$ (743.4)	$ (678.2)
Other comprehensive income (loss), net of tax:				
Unrealized gains on securities	4.2	2.6	10.2	10.0
Unrealized gains (losses) on hedging activities	15.9	(1.2)	45.5	72.8
Foreign currency translation adjustment	212.7	156.9	(60.7)	211.8
Pension liability adjustment	(0.9)	(45.0)	1.3	(45.0)
Total other comprehensive income (loss), net of tax	231.9	113.3	(3.7)	249.6
Comprehensive loss	(162.6)	(143.4)	(747.1)	(428.6)
Less: Comprehensive income attributable to noncontrolling interests	45.0	35.7	98.8	42.3
Comprehensive loss attributable to First Data Corporation	$ (207.6)	$ (179.1)	$ (845.9)	$ (470.9)

(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 $8.1 million and $26.4 million for the three and nine months ended September 30, 2010, respectively, and $2.0 million for the three and nine months ended September 30, 2009.

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

NOTES TO THE 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, 2009. 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 September 30, 2010, the consolidated results of its operations and comprehensive income (loss) for the three and nine months ended September 30, 2010 and 2009, the consolidated cash flows for the nine months ended September 30, 2010 and 2009 and the consolidated changes in equity for the nine months ended September 30, 2010 and 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, 2010, the Integrated Payment Systems operating segment is being reported within All Other and Corporate. Results for 2009 have been adjusted to reflect the change. Results for 2009 also have been adjusted to reflect the impact of purchase accounting adjustments completed in December 2009 resulting from the final valuation of intangible assets associated with the Banc of America Merchant Services alliance. Other amounts in 2009 have also been adjusted to conform to current year presentation.

The Company sold a merchant acquiring business in Canada as well as a debit and credit card issuing and acquiring processing business in Austria, both reported within the International segment, in November 2009 and August 2009, respectively. The results of divested businesses are excluded from segment results. The International segment performance measures have been adjusted for 2009 to exclude the results of divested businesses.

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2010**	**2009**	**2010**	**2009**
Amortization of initial payments for new contracts	$ 9.8	$ 7.7	$ 28.5	$ 18.1
Amortization related to equity method investments	$ 18.2	$ 18.6	$ 54.6	$ 54.2

Revenue Recognition

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2010**	**2009**	**2010**	**2009**
Interchange fees and assessments	$ 4,532.3	$ 4,229.6	$ 13,067.7	$ 9,975.4
Debit network fees	$ 713.6	$ 565.3	$ 2,027.1	$ 1,448.7

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Comparability of the dollar amounts disclosed above is impacted by the formation of the Banc of America Merchant Services alliance on June 26, 2009. Information regarding the Banc of America Merchant Services transaction is included in Note 4 to the Consolidated Financial Statements in Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Income Taxes

On August 10, 2010, H.R. 1586 was signed into law. This legislation included a tax change that adversely affects the Company s ability to utilize foreign tax credits recorded on the Company s balance sheet. As a result, the Company recorded a valuation allowance against foreign tax credits of approximately $178 million during the three months ended September 30, 2010.

New Accounting Guidance

In October 2009, the FASB revised its guidance on Revenue Recognition for Multiple-Deliverable Revenue Arrangements. The amendments in this update enable companies to separately account for multiple revenue-generating activities (deliverables) that they perform for their customers. Existing U.S. GAAP requires a company to use vendor-specific objective evidence (VSOE) or third-party evidence of selling price to separate deliverables in a multiple-deliverable arrangement. The update does allow for the use of an estimated selling price if neither VSOE nor third-party evidence is available. The update requires additional disclosures of information about an entity s multiple-deliverable arrangements. The requirements of the update apply prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, although early adoption is permitted. The Company adopted the new guidance on January 1, 2010 and has no arrangements for which this adoption will have a material impact on its financial position and results of operations.

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 September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Investment gains	$ 0.5	$ 1.6	$ 2.3	$ 0.9
Derivative financial instruments losses	(31.3)	(47.8)	(58.1)	(54.7)
Divestitures, net	(1.3)	(19.6)	18.7	(20.5)
Non-operating foreign currency (losses) and gains	(20.2)	(18.7)	17.8	4.0
Other				5.5
Other income (expense)	$ (52.3)	$ (84.5)	$ (19.3)	$ (64.8)

Supplemental Cash Flow Information

During the nine months ended September 30, 2010 and 2009, the principal amount of the Company s senior PIK (Payment In-Kind) notes increased $362.5 million and $333.0 million, respectively, resulting from the payment of accrued interest expense.

During the nine months ended September 30, 2010 and 2009, the Company entered into capital leases totaling approximately $50 million and $101 million, respectively.

In March 2009, the remaining balance of the Company s 9.875% senior unsecured cash-pay term loan bridge loans due 2015 that was not previously exchanged was exchanged for senior notes. There was no expenditure, other than professional fees incurred in connection with the Exchange Offering itself, or receipt of cash associated with this exchange.

On June 26, 2009, the Company entered into an alliance with Bank of America N.A. and Rockmount Investments, LLC (Rockmount) as discussed in Note 4 to the Consolidated Financial Statements in Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2009. The Company s and Bank of America N.A. s direct contributions to the alliance consisted of non-cash assets and liabilities.

On August 10, 2009, the Company launched a registered exchange offer to exchange aggregate principal amounts of $3.2 billion of its 10.55% senior PIK notes, $2.5 billion of its 11.25% senior subordinated notes and $1.6 billion of its 9.875% senior notes (which constituted all such notes outstanding at that date) for publicly tradable notes having substantially identical terms and guarantees,

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

except that the exchange notes are freely tradable. Substantially all of the notes were exchanged effective September 9, 2009. There was no expenditure, other than professional fees incurred in connection with the Registration Statement itself, or receipt of cash associated with this exchange.

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

Note 3: Restructuring

Restructuring charges and reversal of restructuring accruals

The Company recorded restructuring charges comprised of severance totaling $33.4 million and $76.8 million for the three and nine months ended September 30, 2010, respectively. The Company also recorded charges related to facility closures totaling $0.5 million for the nine months ended September 30, 2010.

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

		Pretax Benefit (Charge)				
Three months ended September 30, 2010	**Approximate Number of Employees**	**Retail and Alliance Services**	**Financial Services**	**International**	**All Other and Corporate**	**Totals**
Restructuring charges	360	$ (12.2)	$ (3.7)	$ (8.9)	$ (8.6)	$ (33.4)
Restructuring accrual reversal		0.4	0.1	0.3	0.3	1.1
Total pretax charge, net of reversals		$ (11.8)	$ (3.6)	$ (8.6)	$ (8.3)	$ (32.3)

Nine months ended September 30, 2010	**Approximate Number of Employees**	**Retail and Alliance Services**	**Financial Services**	**International**	**All Other and Corporate**	**Totals**
Restructuring charges	1,080	$ (18.9)	$ (10.8)	$ (21.6)	$ (26.0)	$ (77.3)
Restructuring accrual reversal		0.7	0.8	4.5	2.6	8.6
Total pretax charge, net of reversals		$ (18.2)	$ (10.0)	$ (17.1)	$ (23.4)	$ (68.7)

The first quarter 2010 restructurings resulted from the Company aligning the business with strategic objectives as well as domestic site consolidations. The second and third quarter 2010 restructurings resulted from actions similar to the first quarter as well as the termination of certain management positions across the organization including the reorganization of executive officers. Similar initiatives are expected to occur in future periods resulting in additional restructuring charges. Partially offsetting the charges were reversals of excess 2008 and 2009 restructuring accruals as well as reversals resulting from the refinement of 2010 estimates.

The following table summarizes the Company s utilization of restructuring accruals for the period from January 1, 2010 through September 30, 2010 (in millions):

	Employee Severance	Facility Closure
Remaining accrual at January 1, 2010	$ 58.5	$ 0.2
Expense provision	76.8	0.5
Cash payments and other	(71.8)	(0.3)
Changes in estimates	(8.5)	(0.1)
Remaining accrual at September 30, 2010	$ 55.0	$ 0.3

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Company recorded restructuring charges comprised of severance totaling $11.3 million and $51.5 million for the three and nine months ended September 30, 2009, respectively. The Company also recorded charges related to facility closures totaling $0.4 million during the first quarter of 2009.

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

		Pretax Benefit (Charge)				
Three months ended September 30, 2009	Approximate Number of Employees	Retail and Alliance Services	Financial Services	International	All Other and Corporate	Totals
Restructuring charges	190	$ (2.5)	$ (1.4)	$ (5.2)	$ (2.2)	$ (11.3)
Restructuring accrual reversal		0.1		0.2	0.1	0.4
Total pretax charge, net of reversals		$ (2.4)	$ (1.4)	$ (5.0)	$ (2.1)	$ (10.9)

Nine months ended September 30, 2009	Approximate Number of Employees	Retail and Alliance Services	Financial Services	International	All Other and Corporate	Totals
Restructuring charges	950	$ (12.3)	$ (9.9)	$ (20.9)	$ (8.8)	$ (51.9)
Restructuring accrual reversal		3.9	1.7	1.7	0.2	7.5
Total pretax charge, net of reversals		$ (8.4)	$ (8.2)	$ (19.2)	$ (8.6)	$ (44.4)

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The restructurings in the first quarter of 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 and third quarter 2009 restructurings resulted from similar actions as in the first quarter in the International segment and domestic restructurings resulted from site consolidations and the elimination of certain information technology positions. The Company incurred additional charges throughout 2009 and in 2010 related to these initiatives. Partially offsetting the charges were reversals of 2009 and 2008 restructuring accruals related to the Company s change in strategy related to global labor sourcing initiatives as well as reversals resulting from the refinement of previously recorded estimates.

Note 4: Borrowings

Senior secured credit facilities

On August 10, 2010, FDC amended its senior secured credit facilities to, among other things:

(i) allow for FDC to incur additional secured indebtedness or additional unsecured indebtedness so long as (a) 100% of the net cash proceeds is used to repay FDC s term loans or is offered on a pro rata basis to FDC s term loan lenders of a particular class or classes in exchange for a like amount of term loans of such class or classes (and the term loans so exchanged are cancelled) or (b) if such indebtedness is secured by a lien junior to the liens securing the obligations under FDC s senior secured credit facilities, the aggregate principal amount shall not exceed $3,500,000,000 at any time and the net cash proceeds of such indebtedness shall be used to redeem or repay FDC s senior or senior subordinated notes or (c) the amount available to be borrowed under the uncommitted incremental facilities is reduced by an amount equal to the aggregate principal amount of such indebtedness;

(ii) exclude from the calculation of consolidated senior secured debt (and hence from the maintenance covenant) certain indebtedness secured by a lien ranking junior to the liens securing FDC s obligations under its senior secured credit facilities; and

(iii) subject to the requirement to make such offers on a pro rata basis to all lenders within a particular class of loans, allow FDC to agree with individual lenders to extend the maturity of their term loans or revolving commitments, and for FDC to pay increased interest rates or otherwise modify the terms of their loans or revolving commitments in connection with such an extension.

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The amendment became effective, including the changes to the credit agreement described above, on August 20, 2010 following FDC s issuance of $510.0 million in new notes and using the net cash proceeds therefrom to prepay a like amount of FDC s secured term loans. Refer to the Senior secured notes section below. The Company recorded $26.8 million in fees in conjunction with the debt modification. The fees were recorded as a discount on the senior secured term loans and will be amortized to interest expense over the remaining life of the loans.

Senior secured revolving credit facility

FDC s senior secured revolving credit facility currently has commitments from nondefaulting financial institutions to provide $1,769.4 million of credit. Up to $500 million of FDC s senior secured revolving credit facility is available for letters of credit, of which $51.6 million and $39.6 million of letters of credit were issued under the facility as of September 30, 2010 and December 31, 2009, respectively. FDC had $20.0 million outstanding against this facility as of September 30, 2010 and no amount outstanding as of December 31, 2009. As of September 30, 2010, $1,697.8 million remained available under this facility after considering the amount outstanding and the letters of credit issued under the facility.

Senior secured term loan facility

The terms of FDC s senior secured term loan facility require FDC to pay equal quarterly installments in aggregate annual amounts equal to 1% of the original principal amount. During the three and nine months ended September 30, 2010, FDC paid $32.1 million and $96.2 million, respectively, of principal payments on the senior secured term loan facility in accordance with this provision ($29.8 million and $89.3 million, respectively, related to the U.S. dollar denominated loan and $2.3 million and $6.9 million, respectively, related to the euro denominated loan for the three and nine months ended September 30, 2010). During the three and nine months ended September 30, 2009, FDC paid $32.3 million and $96.7 million, respectively, of principal payments on the senior secured term loan facility in accordance with this provision ($29.8 million and $89.3 million, respectively, related to the U.S. dollar denominated loan and $2.5 million and $7.4 million, respectively, related to the euro denominated loan for the three and nine months ended September 30, 2009).

In August 2010, in conjunction with the debt modification noted above, $489.7 million of the Company s proceeds from the issuance of the senior notes described below were used to prepay a portion of the principal balances and satisfy the above described future quarterly principal payments of the Company s senior secured term loans. As a result of the prepayment, the Company has satisfied the quarterly principal payments related to these loans until September 2014.

Senior secured notes

On August 20, 2010, FDC issued $510.0 million of 8.875% senior secured notes due August 15, 2020. Interest on the notes is payable on February 15 and August 15 of each year, commencing on February 15, 2011. The proceeds from this issuance, net of discount and underwriting fees of $17.8 million, were $492.2 million, of which $489.7 million was used to prepay a portion of the senior secured term loans in accordance with the terms of FDC s senior secured credit facilities as described above with the remainder used to pay costs associated with the issuance.

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

The notes are guaranteed by substantially all domestic, wholly-owned subsidiaries of FDC. The notes are equally and ratably secured on a first-priority basis with all existing and future obligations of FDC under any existing and future first lien obligations by all of the assets of FDC and its subsidiary guarantors that secure the senior secured credit facility, subject to permitted liens. The notes rank equal in right of payment with all existing and future senior indebtedness of FDC but are effectively senior to all of FDC and guarantor subsidiaries unsecured indebtedness to the extent of the value of the collateral and are senior in right of payment to any subordinated indebtedness of FDC. The notes are effectively subordinated to any obligations secured by liens permitted under the indenture for the notes and structurally subordinated to any existing and future indebtedness and liabilities of non-guarantor subsidiaries, including all foreign subsidiaries.

Other short-term borrowings

FDC had approximately $525 million and $565 million available under short-term lines of credit and other arrangements with foreign banks and alliance partners primarily to fund settlement activity as of September 30, 2010 and December 31, 2009, respectively. These arrangements are primarily associated with international operations and are in various functional currencies, the most significant of which are the euro, Australian dollar and Polish zloty. Certain of these arrangements are uncommitted (approximately $134 million and $186 million) but FDC had $101.2 million and $100.1 million of borrowings outstanding against them as of September 30, 2010 and December 31, 2009, respectively. The total amounts outstanding against short-term lines of credit and other arrangements were $113.6 million and $109.2 million as of September 30, 2010 and December 31, 2009, respectively.

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Senior PIK notes due 2015

The terms of FDC s senior PIK notes due 2015 require that interest on the notes up to and including September 30, 2011 be paid entirely by increasing the principal amount of the outstanding notes or by issuing senior PIK notes. During the three months ended September 30, 2010 and 2009, the Company increased the principal amount of these notes by $185.9 million and $167.8 million, respectively, in accordance with this provision. During the nine months ended September 30, 2010 and 2009, the Company increased the principal amount of these notes by $362.5 million and $333.0 million, respectively.

Other

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

Note 5: Segment Information

For a detailed discussion of the Company s principles regarding its operating segments refer to Note 16 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Effective January 1, 2010, the Integrated Payment Systems operating segment is being reported within All Other and Corporate. Results for 2009 have been adjusted to reflect the change. Results for 2009 also have been adjusted to reflect the impact of purchase accounting adjustments completed in December 2009 resulting from the final valuation of intangible assets associated with the Banc of America Merchant Services alliance. Other amounts in 2009 have also been adjusted to conform to current year presentation.

The following tables present the Company s operating segment results for the three and nine months ended September 30, 2010 and 2009:

Three months ended September 30, 2010 (in millions)	**Retail and Alliance Services**	**Financial Services**	**International**	**All Other and Corporate**	**Totals**
Revenues:					
Transaction and processing service fees	$ 752.1	$ 342.6	$ 305.6	$ 24.3	$ 1,424.6
Product sales and other	99.0	11.1	89.0	8.5	207.6
Equity earnings in affiliates [(a)]			7.9		7.9
Total segment reporting revenues	$ 851.1	$ 353.7	$ 402.5	$ 32.8	$ 1,640.1
Internal revenue	$ 4.5	$ 8.7	$ 1.9	$	$ 15.1
External revenue	846.6	345.0	400.6	32.8	1,625.0
Depreciation and amortization	168.4	88.9	72.1	17.1	346.5
Segment EBITDA	355.6	144.3	82.3	(56.2)	526.0
Other operating expenses and other income (expense) excluding divestitures	(49.5)	(3.6)	(8.3)	(21.9)	(83.3)

Three months ended September 30, 2009 (in millions)	**Retail and Alliance Services**	**Financial Services**	**International**	**All Other and Corporate**	**Totals**

Revenues:					
Transaction and processing service fees	$ 707.6	$ 333.2	$ 307.7	$ 52.2	$ 1,400.7
Product sales and other	89.1	6.1	86.9	1.0	183.1
Equity earnings in affiliates [(a)]			9.5		9.5
Total segment reporting revenues	$ 796.7	$ 339.3	$ 404.1	$ 53.2	$ 1,593.3
Internal revenue	$ 3.6	$ 8.3	$ 1.6	$ 0.4	$ 13.9
External revenue	793.1	331.0	402.5	52.8	1,579.4
Depreciation and amortization	192.2	80.5	71.5	20.4	364.6
Segment EBITDA	304.4	148.2	99.1	(27.1)	524.6
Other operating expenses and other income (expense) excluding divestitures	(2.0)	(1.3)	(13.0)	(67.1)	(83.4)

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Nine months ended September 30, 2010 **(in millions)**	**Retail and Alliance Services**	**Financial Services**	**International**	**All Other and Corporate**	**Totals**
Revenues:					
Transaction and processing service fees	$ 2,153.9	$ 1,022.4	$ 904.3	$ 99.3	$ 4,179.9
Product sales and other	288.1	28.8	255.3	41.3	613.5
Equity earnings in affiliates [(a)]			21.7		21.7
Total segment reporting revenues	$ 2,442.0	$ 1,051.2	$ 1,181.3	$ 140.6	$ 4,815.1
Internal revenue	$ 13.5	$ 26.7	$ 6.1	$	$ 46.3
External revenue	2,428.5	1,024.5	1,175.2	140.6	4,768.8
Depreciation and amortization	505.6	264.8	214.4	42.0	1,026.8
Segment EBITDA	949.8	412.0	233.4	(132.0)	1,463.2
Other operating expenses and other income (expense) excluding divestitures	(36.7)	(8.0)	(16.4)	(43.6)	(104.7)

Nine months ended September 30, 2009 **(in millions)**	**Retail and Alliance Services**	**Financial Services**	**International**	**All Other and Corporate**	**Totals**
Revenues:					
Transaction and processing service fees	$ 1,989.0	$ 1,038.3	$ 865.9	$ 158.3	$ 4,051.5
Product sales and other	254.3	51.6	232.5	23.5	561.9
Equity earnings in affiliates [(a)]			21.9		21.9
Total segment reporting revenues	$ 2,243.3	$ 1,089.9	$ 1,120.3	$ 181.8	$ 4,635.3
Internal revenue	$ 12.1	$ 25.2	$ 4.3	$ 0.8	$ 42.4
External revenue	2,231.2	1,064.7	1,116.0	181.0	4,592.9
Depreciation and amortization	565.5	269.4	200.9	53.9	1,089.7
Segment EBITDA	895.2	497.3	276.3	(84.1)	1,584.7
Other operating expenses and other income (expense) excluding divestitures	(8.1)	(8.1)	(22.2)	(55.1)	(93.5)

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

(in millions)	**Three months ended September 30, 2010**	**Three months ended September 30, 2009**	**Nine months ended September 30, 2010**	**Nine months ended September 30, 2009**
Revenues:				
Total reported segments	$ 1,607.3	$ 1,540.1	$ 4,674.5	$ 4,453.5
All Other and Corporate	32.8	53.2	140.6	181.8
Adjustment to reconcile to Adjusted revenue:				
Official check and money order revenues [(b)]	(1.3)	5.4	(15.9)	4.8
Eliminations [(c)]	(15.1)	(13.9)	(46.3)	(42.4)

Adjusted Revenue	1,623.7	1,584.8	4,752.9	4,597.7
Adjustment to reconcile to Consolidated revenues:				
Divested businesses		21.2		68.4
Adjustments for non-wholly-owned entities [(d)]	56.5	53.1	166.6	(57.3)
Official check and money order revenues [(b)]	1.3	(5.4)	15.9	(4.8)
Independent Sales Organization commission expense	93.0	70.0	246.9	183.0
Reimbursable debit network fees, postage and other	858.6	719.5	2,467.6	1,941.0
Consolidated revenues	$ 2,633.1	$ 2,443.2	$ 7,649.9	$ 6,728.0

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(Unaudited)

(in millions)	Three months ended September 30, 2010	Three months ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Segment EBITDA:				
Total reported segments	$ 582.2	$ 551.7	$ 1,595.2	$ 1,668.8
All Other and Corporate	(56.2)	(27.1)	(132.0)	(84.1)
Adjusted EBITDA	526.0	524.6	1,463.2	1,584.7
Adjustments to reconcile to Loss before income taxes and equity earnings in affiliates :				
Divested businesses	(0.3)	15.5	1.1	38.8
Adjustments for non-wholly-owned entities [d]	22.0	16.7	65.2	(57.6)
Depreciation and amortization	(354.7)	(374.8)	(1,053.4)	(1,069.9)
Interest expense	(455.8)	(447.5)	(1,355.6)	(1,345.3)
Interest income	2.1	3.2	5.5	9.6
Other items [e]	(84.6)	(103.1)	(86.0)	(114.2)
Stock based compensation	(2.8)	(4.7)	(9.3)	(13.8)
Official check and money order EBITDA [b]	(1.8)	(10.5)	5.8	(21.1)
Cost of data center, technology and savings initiatives	(7.9)	(26.3)	(27.4)	(127.5)
KKR merger related items	(7.5)	(7.1)	(21.0)	(20.6)
Eliminations				(0.2)
Loss before income taxes and equity earnings in affiliates	$ (365.3)	$ (414.0)	$ (1,011.9)	$ (1,137.1)

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

(b) Represents adjustments for the official check and money order businesses which are excluded from Adjusted revenue and Adjusted EBITDA due to the Company s wind down of these businesses.

(c) Represents elimination of intersegment revenue.

(d) Represent the reversal of the proportionate consolidation adjustments made to the Retail and Alliance Services segment revenue or segment EBITDA and equity earnings included in the International segment revenue or segment EBITDA. Also includes the add back of net income attributable to noncontrolling interests excluded from International segment EBITDA.

(e) Includes Other operating expenses and Other income (expense) as presented on the Consolidated Statements of Operations.

Segment assets are as follows (in millions):

	September 30, 2010	December 31, 2009
Assets:		
Retail and Alliance Services	$ 24,041.4	$ 25,377.3
Financial Services	5,045.2	5,238.8
International	5,350.6	5,841.5
All Other and Corporate	2,826.8	3,277.8

Consolidated	$ 37,264.0	$ 39,735.4

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(Unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Depreciation and Amortization:				
Total reported segments	$ 329.4	$ 344.2	$ 984.8	$ 1,035.8
All Other and Corporate	17.1	20.4	42.0	53.9
	346.5	364.6	1,026.8	1,089.7
Adjustments to reconcile to consolidated depreciation and amortization:				
Divested businesses		2.5		8.7
Adjustments for non-wholly-owned entities	26.4	26.3	81.2	25.7
Amortization of initial payments for new contracts	9.8	7.7	28.5	18.1
Total consolidated depreciation and amortization	$ 382.7	$ 401.1	$ 1,136.5	$ 1,142.2

Note 6: Redeemable Noncontrolling Interests

For a detailed discussion of the Banc of America Merchant Services, LLC (BAMS) transaction as well as the Company s redeemable noncontrolling interests, refer to Notes 4 and 13 to the Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

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

The following table presents a summary of the redeemable noncontrolling interests activity for the nine months ended September 30, 2010 (in millions):

Balance at December 31, 2009	$ 226.9
Distributions	(19.3)
Share of income	26.4
Purchase of noncontrolling interests	(213.3)
Adjustment to redemption value of redeemable noncontrolling interest	7.0

Other	0.1
Balance at September 30, 2010	$ 27.8

The following table presents the effects of changes in FDC s ownership interest in its BAMS alliance on FDC s equity (in millions):

	Nine months ended September 30, 2010
Net loss attributable to FDC	$ (842.6)
Transfers from noncontrolling interest:	
Decrease in FDC s paid-in capital for loss recognized from purchase of noncontrolling interest	(2.5)
Transfers from noncontrolling interest	(2.5)
Change in net loss attributable to FDC and transfers from noncontrolling interest	$ (845.1)

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Note 7: Commitments and Contingencies

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

Legal

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

On August 3, 2007, Concord EFS, Inc. filed a motion for summary judgment seeking to dismiss plaintiffs *per se* claims, arguing that there are procompetitive justifications for the ATM interchange. On March 24, 2008, the Court entered an order granting the defendants motions for partial summary judgment, finding that the claims raised in this case would need to be addressed under a Rule of Reason analysis. On February 2, 2009, the Plaintiffs filed a Second Amended Complaint, which was dismissed by the Court on September 4, 2009. On October 16, 2009, the Plaintiffs filed a Third Amended Complaint. On June 21, 2010, the Court granted dismissal of such complaint as to the single-brand aftermarket derivative theory and ordered the parties to brief a summary judgment regarding Plaintiffs alternative all ATM networks relevant market theory claim. On September 16, 2010, the Court entered an order granting the defendants motion for summary judgment, dismissing all of the claims against the defendants except for the claims for equitable relief and later, on September 17, 2010, granted final judgment dismissing the case to allow plaintiffs to pursue an appeal. On October 14, 2010, the plaintiffs appealed the summary judgment.

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

Other

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

Note 8: Employee Benefit Plans

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2010**	**2009**	**2010**	**2009**
Service costs	$ 0.8	$ 1.0	$ 2.4	$ 4.8

Interest costs	10.0	10.1	29.8	27.8
Expected return on plan assets	(10.1)	(9.5)	(30.1)	(26.0)
Amortization	0.6	(0.2)	1.7	1.5
Net periodic benefit expense	$ 1.3	$ 1.4	$ 3.8	$ 8.1

The Company estimates pension plan contributions for 2010 to be approximately $33 million. During the nine months ended September 30, 2010, approximately $24 million was contributed to the United Kingdom plan and no contributions were made to the U.S. plan.

Note 9: Stock Compensation Plans

Total stock-based compensation expense recognized in the Selling, general and administrative line item of the Consolidated Statements of Operations resulting from stock options, non-vested restricted stock awards and non-vested restricted stock units are as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2010**	**2009**	**2010**	**2009**
Total stock-based compensation expense (pretax)	$ 4.4	$ 4.7	$ 10.9	$ 13.8

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Stock Options

In May 2010, the Company modified the terms of time based options and performance based options outstanding under the stock incentive plan established by First Data Holdings, Inc. (Holdings), which owns 100% of FDC s equity interests, for management employees of FDC (stock plan). The modifications only affected active employees as of the modification date. The exercise price on previously granted time based options was reduced from $5 to $3. The Company is continuing to recognize expense on these options based on the original grant date fair value amortized over the remaining original vesting schedule. Due to the nature of the call rights associated with the time based options, subsequent to the modification, which expire 180 days after certain employment termination events or the latter of September 24, 2012 or a qualified public offering, the incremental stock option fair value from the change in exercise price will only be recognized upon such events. Prior to the modifications, the call rights expired 180 days after certain employment termination events or the earlier of September 24, 2012 or a change in control. In addition, outstanding performance based options were cancelled and reissued. The reissued performance based options have an exercise price of $3 and a tiered vesting schedule that provides for vesting of 25%, 75% or 100% of the options if the Company achieves certain EBITDA targets in any fiscal year between January 1, 2010 and December 31, 2013. The performance based options have call rights similar to the time based options described above. Due to the call rights, the Company will only recognize expense on the performance based options upon a qualified public offering or certain employment termination events. In conjunction with the above noted modifications, stock plan participants also received a cash bonus payment in the second quarter of 2010 totaling $7.8 million.

During the nine months ended September 30, 2010 additional time based and performance based options were granted under the stock plan. The time based options granted vest equally over a three to five year period and performance based options vest based upon the Company achieving the EBITDA targets discussed above. The options granted have call rights similar to those described above and, as a result, the Company will only recognize expense on these options upon a qualified public offering or certain employment termination events.

As of September 30, 2010 there was approximately $111 million of total unrecognized compensation expense, net of estimated forfeitures, related to non-vested stock options. Approximately $35 million will be recognized over a weighted-average period of approximately 3.2 years while approximately $76 million will only be recognized upon a qualified public offering or certain termination events.

The fair value of Holdings stock options granted for the nine months ended September 30, 2010 were estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions (excluding the effect of stock plan modifications):

		Nine months ended September 30, 2010
Risk-free interest rate		3.22%
Dividend yield		
Volatility		51.67%
Expected term (in years)		7
Fair value of stock	$	3
Fair value of options	$	2

A summary of Holdings stock option activity for the nine months ended September 30, 2010 is as follows (options in millions):

	2010		
	Options		Weighted-Average Exercise Price
Outstanding at January 1	67.1	$	5
Granted [(a)]	42.5	$	3

Cancelled / Forfeited [(a)]	(43.2)	$	5
Outstanding at September 30	66.4	$	3

(a) The number of options granted and cancelled/forfeited includes performance based options cancelled and reissued in connection with the stock plan modifications discussed above.

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Restricted Stock Awards and Restricted Stock Units

Restricted stock awards were granted under the stock plan during the nine months ended September 30, 2010. The restrictions on the awards granted in May 2010 will lapse upon a qualified public offering, a change in control or certain employment termination or liquidity events. As such, the Company is not recognizing expense on awards granted subsequent to the modifications described above. The Company is continuing to recognize expense on the restricted stock awards granted prior to May 2010 based on the original grant date fair value amortized over the remaining original vesting schedule. As of September 30, 2010 there was approximately $26 million of total unrecognized compensation expense, net of estimated forfeitures, related to restricted stock. Approximately $2 million will be recognized over a weighted-average period of approximately 2.7 years while approximately $24 million will only be recognized upon a qualified public offering or certain termination events. A summary of Holdings restricted stock award and restricted stock unit activity for the nine months ended September 30, 2010 is as follows (awards/units in millions):

	2010 Awards/Units	Weighted-Average Grant-Date Fair Value
Non-vested at January 1	1.5	$ 5
Granted	7.8	$ 3
Cancelled / Forfeited	(0.9)	$ 4
Non-vested at September 30	8.4	$ 3

Note 10: Investment Securities

The majority of the Company s investment securities are a component of the Company s settlement assets and represent the investment of funds received by FDC from the sale of payment instruments (official checks and financial institution money orders) by authorized agents. The Company s investment securities included in current settlement assets primarily include discounted commercial paper, time deposits and corporate bonds. The Company s long-term settlement assets are comprised primarily of student loan auction rate securities (SLARS). Realized gains and losses on investments classified as settlement assets are recorded in the Product sales and other line item of the Consolidated Statements of Operations. The Company carried other investments including equity securities and shares of a money market fund which are carried at fair value and included in the Other current assets and Other long-term assets line items of the Consolidated Balance Sheets. Realized gains and losses on these investments are recorded in the Other income (expense) line item of the Consolidated Statements of Operations described in Note 2.

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The principal components of the Company s investment securities are as follows (in millions):

	Cost (a)	Gross Unrealized Gain	Gross Unrealized (Loss) excluding OTTI (b)	OTTI Recognized in OCI (b)(c)	Fair Value (d)
September 30, 2010					
Student loan auction rate securities	$ 372.8		$ (27.9)	$	$ 344.9
Corporate bonds	50.2	$ 0.2			50.4
Time deposits	30.0				30.0
Discounted commercial paper	20.0				20.0
Other securities:					
Cost method investments	24.6				24.6
Other	0.6	0.1			0.7
Total other	25.2	0.1			25.3
Totals	$ 498.2	$ 0.3	$ (27.9)	$	$ 470.6
December 31, 2009					
Student loan auction rate securities	$ 494.4		$ (29.8)	$ (14.9)	$ 449.7
Corporate bonds	270.7	$ 0.7			271.4
Other securities:					
Cost method investments	25.1				25.1
Other	15.8	0.2			16.0
Total other	40.9	0.2			41.1
Totals	$ 806.0	$ 0.9	$ (29.8)	$ (14.9)	$ 762.2

(a) Represents amortized cost for debt securities.
(b) OTTI refers to other-than-temporary impairments.
(c) Represents the fair value adjustment for debt securities excluding that attributable to credit losses.
(d) Represents cost for cost method investments.

The following table presents the gross unrealized losses and fair value of the Company s investments with unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in millions):

September 30, 2010	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	More than 12 months Fair Value	More than 12 months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Student loan auction rate securities			$ 344.9	$ (27.9)	$ 344.9	$ (27.9)
Corporate bonds[(a)]	$ 10.6				$ 10.6	

December 31, 2009	Less than 12 months Fair Value	Less than 12 months Unrealized Losses	More than 12 months Fair Value	More than 12 months Unrealized Losses	Total Fair Value	Total Unrealized Losses
Student loan auction rate securities			$ 449.7	$ (44.7)	$ 449.7	$ (44.7)

(a) Unrealized losses less than 12 months are less than $50,000.

As of September 30, 2010, the Company s unrealized losses related to the following:

Student loan auction rate securities - The unrealized losses resulted from securities that have decreased in fair value to below their amortized cost primarily due to the current inability to redeem at par value resulting from the failure of the auction mechanisms. The Company believes that the SLARS currently held will recover all of their principal value by their maturity date due to the following:

the securities are comprised primarily of senior tranches;

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the securities are predominantly backed by collateral that is 97%-98% guaranteed by Federal Family Education Loan Program (FFELP) with subordinated tranches covering the non-guaranteed portion;

the securities have loan to collateral value ratios of 100% or greater for all securities;

the securities have above investment grade credit ratings with the majority of securities rated at A3 and A- or higher by Moody s and Standard and Poor s, respectively.

The Company does not currently intend to sell the SLARS and does not consider it more likely than not that it will be required to sell the SLARS before the recovery of their amortized cost basis and accordingly no credit losses have been recorded. This determination was based on management s expectation as to when certain related settlement liabilities will need to be funded and the Company s ability to use its revolving credit facility in the event the settlement liabilities need to be funded before the SLARS are liquid.

During the third quarter of 2010, the Company received proceeds of $85.3 million for its entire holdings in the NextStudent SLARS as a result of the liquidation through public sale of the underlying collateral of the securities. The Company realized a loss of $2.8 million on the liquidation in addition to an other-than-temporary impairment of $0.3 million recognized during the first quarter of 2010.

All of the above investments, with the exception of cost method investments, are classified as available-for-sale. The Company uses specific identification to determine the cost of a security sold and the amount of gains and losses reclassified out of other comprehensive income (OCI) into the Consolidated Statements of Operations. Unrealized gains and losses on investments carried at fair value were included as a separate component of OCI, net of any related tax effects.

The following table presents additional information regarding available-for-sale securities (in millions):

	For the three months ended September 30,		For the nine months ended September 30,	
	2010	2009	2010	2009
Proceeds from sales[a]	$ 113.1	$ 34.0	$ 134.3	$ 52.4
Gross realized gains included in earnings as a result of sales[a]	$ 1.2	$	$ 6.2	$ 0.1
Gross realized (losses) included in earnings as a result of sales[a]	$ (3.3)	$ (0.6)	$ (3.6)	$ (0.7)
Net unrealized gains or (losses) included in OCI, net of tax	$ 6.6	$ 2.3	$ 12.4	$ 9.7
Net gains or (losses) reclassified out of OCI into earnings	$ 2.4	$ (0.3)	$ 2.2	$ (0.3)

(a) Includes activity resulting from sales, redemptions, liquidations and related matters. Gains and losses are recorded in the Product sales and other or Other income (expense) line items of the Consolidated Statements of Operations.

The following table presents maturity information for the Company s investments in debt securities at September 30, 2010 (in millions):

	Fair Value
Due within one year	$ 60.2
Due after one year through five years	10.6
Due after five years through 10 years	29.4

Due after 10 years		315.7
Total debt securities	$	415.9

The Company also maintained investments in non-marketable securities, held for strategic purposes (collectively referred to as cost method investments) which are carried at cost and included in Other long-term assets in the Company s Consolidated Balance Sheets. These investments are evaluated for impairment upon an indicator of impairment such as events or changes in circumstances that may have a significant adverse effect on the fair value of the investment. As of September 30, 2010 there were no indicators of impairment. Where there are no indicators of impairment present, the Company estimates the fair value for the cost method investments only if it is practicable to do so. As of September 30, 2010, it was deemed impracticable to estimate the fair value on $19.2 million of cost method assets due to the lack of sufficient data upon which to develop a valuation model and the excessive costs of obtaining an independent valuation in relation to the size of the investments. Realized pretax gains and losses associated with these investments are recognized in the Other income (expense) line item of the Consolidated Statements of Operations described in Note 2.

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Note 11: Derivative Financial Instruments

Risk Management Objectives and Strategies

The Company is exposed to various financial and market risks, including those related to changes in interest rates and foreign currency exchange rates, that exist as part of its ongoing business operations. The Company utilizes certain derivative financial instruments to enhance its ability to manage these risks.

As of September 30, 2010, the Company uses derivative instruments to mitigate (i) cash flow risks with respect to changes in interest rates (forecasted interest payments on variable rate debt), (ii) to protect the initial net investment in certain foreign subsidiaries and/or affiliates with respect to changes in foreign currency exchange rates and (iii) to protect the Company from foreign currency exposure related to an outsourcing contract with a foreign vendor.

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

The Company s policy is to minimize its cash flow and net investment exposures related to adverse changes in interest rates and foreign currency exchange rates. The Company s objective is to engage in risk management strategies that provide adequate downside protection.

Accounting for Derivative Instruments and Hedging Activities

The Company recognizes all derivatives in the Other long-term assets , Other current liabilities and Other long-term liabilities captions in the Consolidated Balance Sheets at their fair values. The Company has designated certain of its interest rate swaps as cash flow hedges of forecasted interest rate payments related to its variable rate debt and certain of its cross currency swaps as a foreign currency hedge of its net investment in a foreign subsidiary. Other interest rate swaps, cross currency swaps and forward contracts on various foreign currencies no longer qualify or have not been designated as accounting hedges and do not receive hedge accounting treatment.

With respect to derivative instruments that are afforded hedge accounting, the effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recorded in OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Changes in the fair value of a net investment hedge that qualifies for hedge accounting are recorded as part of the cumulative translation adjustment in OCI. Any ineffectiveness associated with the aforementioned cash flow hedges is recorded immediately in the Consolidated Statements of Operations.

The Company formally documents all relationships between hedging instruments and the underlying hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions and net investment hedges to the underlying investment in a foreign subsidiary or affiliate. The Company formally assesses, both at inception of the hedge and on an ongoing basis, whether the hedge is highly effective in offsetting changes in cash flows or foreign currency exposure of the underlying hedged items. The Company also performs an assessment of the probability of the forecasted transactions on a periodic basis. If it is determined that a derivative ceases to be highly effective during the term of the hedge or if the forecasted transaction is no longer probable, the Company will discontinue hedge accounting prospectively for such derivative.

Credit Risk

The Company is monitoring the financial stability of its derivative counterparties. Certain of these counterparties received support from the federal government in the recent past due to difficult financial conditions. Although these counterparties remain highly-rated (in the A category or higher), their ability to satisfy their commitments may be dependent on receiving continued support from the federal government**.** The credit risk inherent in these agreements represents the possibility that a loss may occur from the nonperformance of a counterparty to the agreements. The Company performs a review at inception of the hedge, as circumstances warrant, and at least on a quarterly basis of the credit risk of these counterparties. The Company also monitors the concentration of its contracts with individual counterparties. The Company s exposures are in liquid currencies (primarily in U.S. dollars, euros and Australian dollars), so there is minimal risk that appropriate derivatives to maintain the hedging program would not be available in the future.

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DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING

At September 30, 2010, the Company had certain derivative instruments that functioned as economic hedges but no longer qualify or were not designated to qualify for hedge accounting. Such instruments included a cross-currency swap to hedge foreign currency exposure from an intercompany loan, cross-currency swaps to hedge an investment in a foreign subsidiary from fluctuations in foreign currency exchange rates, a foreign exchange rate collar to hedge foreign currency exposure related to an outsourcing contract with a foreign vendor, and interest rate swaps to hedge the interest payments on variable rate debt from fluctuations in interest rates.

During the first quarter of 2009, one of the cash flow hedges of interest payments on the Company s variable rate debt previously designated to qualify for hedge accounting ceased to be highly effective. As such, the Company did not apply hedge accounting to the discontinued hedge during the first quarter of 2009 and discontinued prospective hedge accounting for the affected derivatives with a notional balance of $1.5 billion. During the second quarter of 2009, the Company made an election with respect to the duration of the variable LIBOR interest rate payments it was hedging which was inconsistent with the original hedge strategy documented in the accounting designation. Accordingly, the Company had to de-designate the affected interest rate swaps, with $2.0 billion notional amount, from receiving hedge accounting. The Company was able to re-designate prospectively an interest rate swap with a notional amount of $500 million to continue to receive hedge accounting treatment; however, the other interest rate swaps with $1.5 billion notional amount no longer met the criteria to qualify for hedge accounting primarily due to the significant off-market value of the swaps and will not be receiving hedge accounting treatment prospectively.

During the second quarter of 2010, two interest rate swaps with a total notional balance of $1.0 billion and one basis rate swap with a notional balance of $1.0 billion ceased to be highly effective. As such, the Company did not apply hedge accounting to the discontinued hedges during the second quarter of 2010 and discontinued prospective hedge accounting for the affected derivatives. The amount carried in OCI as of the date of de-designation has been reclassified into earnings in the same period during which the forecasted transaction affected earnings. The amount reclassified in the second quarter and third quarter of 2010 from OCI to the Other income (expense) line of the Consolidated Statements of Operations was $4.6 million and $4.6 million, respectively, through the expiration date of the swaps in September 2010.

While the derivatives noted above no longer qualified for hedge accounting, they continued to be effective economically in eliminating the variability in interest rate payments on the corresponding portion of the Company s variable rate debt.

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

As of September 30, 2010, the notional amount of the foreign exchange rate collar was approximately 83.4 million Philippine pesos ($1.9 million). The notional amount of the cross-currency swaps was 91.1 million euro (approximately $122.6 million). The notional amount of the interest rate swaps that no longer qualify for hedge accounting was $1.5 billion.

The periodic change in the mark-to-market of the derivative instruments not designated as accounting hedges is recorded immediately in the Consolidated Statements of Operations. For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Operations, see the tabular information presented below.

DERIVATIVES THAT QUALIFY FOR HEDGE ACCOUNTING

Hedge of a Net Investment in a Foreign Operation

As of September 30, 2010, the Company had a cross currency swap that was designated as a hedge of net investments in foreign operations with an aggregate notional amount of 115.0 million Australian dollars (approximately $110.5 million).

For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Statements of Operations, see the tabular information presented below.

Cash Flow Hedges

As of September 30, 2010, the Company had interest rate swaps which were designated as cash flow hedges of the variability in the interest payments on $3.5 billion of the approximate $12.0 billion variable rate senior secured term loan. The Company also had two basis rate swaps, which expired during the third quarter of 2010, that modified the variable rates on $3.0 billion of the $3.5 billion interest rate swaps and that lowered the fixed interest rates on those interest rate swaps. The basis swaps paid interest at rates equal to three-month-LIBOR and received interest at rates equal to one-month-LIBOR plus a fixed spread.

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At September 30, 2010, the maximum length of time over which the Company is hedging its exposure is approximately 2.0 years. The Company follows the hypothetical derivative method to measure hedge ineffectiveness which resulted mostly from the hedges being off-market at the time of designation. Ineffectiveness associated with these hedges is recognized immediately in the Consolidated Statements of Operations. The amount of losses in OCI related to the hedged transactions as of September 30, 2010 that is expected to be reclassified into the Consolidated Statements of Operations within the next 12 months is approximately $75.9 million.

For information on the location and amounts of derivative fair values in the Consolidated Balance Sheets and derivative gains and losses in the Consolidated Balance Sheets or in the Consolidated Statements of Operations, see the tabular information presented below.

FAIR VALUE OF DERIVATIVE INSTRUMENTS

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

	As of September 30, 2010	
(in millions)	Assets[a]	Liabilities[b]
Derivatives designated as hedging instruments		
Interest rate contracts		$ (290.0)
Foreign exchange contracts		(16.1)
Total derivatives designated as hedging instruments		(306.1)
Derivatives not designated as hedging instruments		
Interest rate contracts		(120.8)
Foreign exchange contracts	$ 6.1	(1.5)
Total derivatives not designated as hedging instruments	6.1	(122.3)
Total derivatives	$ 6.1	$ (428.4)

	As of December 31, 2009	
(in millions)	Assets[a]	Liabilities[b]
Derivatives designated as hedging instruments		
Interest rate contracts		$ (304.4)
Foreign exchange contracts		(10.0)
Total derivatives designated as hedging instruments		(314.4)
Derivatives not designated as hedging instruments		
Interest rate contracts		(153.5)
Foreign exchange contracts	$ 1.2	(3.6)

Total derivatives not designated as hedging instruments	1.2	(157.1)
Total derivatives	$ 1.2	$ (471.5)

(a) Derivative assets are included in the Other long-term assets line of the Consolidated Balance Sheets.
(b) Derivative liabilities are included in the Other current liabilities and Other long-term liabilities lines of the Consolidated Balance Sheets.

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The Effect of Derivative Instruments on the Consolidated Statements of Operations

(in millions, pretax)	For the three months ended September 30, 2010 Interest Rate Contracts	For the three months ended September 30, 2010 Foreign Exchange Contracts	For the three months ended September 30, 2009 Interest Rate Contracts	For the three months ended September 30, 2009 Foreign Exchange Contracts
Derivatives in cash flow hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)	$ (14.3)		$ (41.4)	
Amount of gain or (loss) reclassified from accumulated OCI into income [a]	$ (43.1)		$ (39.5)	
Amount of gain or (loss) recognized in income (ineffective portion) [b]	$ (1.6)		$ (3.0)	
Derivatives in net investment hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)		$ (12.2)		$ (6.6)
Amount of gain or (loss) recognized in income (ineffective portion) [b]				$ 0.8
Derivatives not designated as hedging instruments				
Amount of gain or (loss) recognized in income [b]	$ (17.7)	$ (12.0)	$ (40.3)	$ (5.3)

(a) Gain (loss) is recognized in the Interest expense line of the Statements of Operations.

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

(in millions, pretax)	For the nine months ended September 30, 2010 Interest Rate Contracts	For the nine months ended September 30, 2010 Foreign Exchange Contracts	For the nine months ended September 30, 2009 Interest Rate Contracts	For the nine months ended September 30, 2009 Foreign Exchange Contracts
Derivatives in cash flow hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)	$ (50.5)		$ 24.2	
Amount of gain or (loss) reclassified from accumulated OCI into income[a]	$ (126.7)		$ (91.9)	
Amount of gain or (loss) recognized in income (ineffective portion)[b]	$ (5.1)		$ (6.8)	
Derivatives in net investment hedging relationships:				
Amount of gain or (loss) recognized in OCI (effective portion)		$ (8.1)		$ (18.9)
Amount of gain or (loss) recognized in income (ineffective portion)[b]		$ 0.5		$ 0.7
Derivatives not designated as hedging instruments				
Amount of gain or (loss) recognized in income [b]	$ (60.5)	$ 7.0	$ (42.2)	$ (6.4)

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

ACCUMULATED DERIVATIVE GAINS AND LOSSES

The following table summarizes activity in other comprehensive income for the nine months ended September 30, 2010 related to derivative instruments classified as cash flow hedges and net investment hedges held by the Company (in millions, after tax):

		Nine months ended September 30, 2010
Accumulated loss included in other comprehensive income (loss) at beginning of the period	$	(242.3)
Less: Reclassifications into earnings from other comprehensive income (loss)		79.4
		(162.9)
Net losses in fair value of derivatives [a]		(39.0)
Accumulated loss included in other comprehensive income (loss) at end of the period	$	(201.9)

(a) Gains and losses are included in unrealized (losses) gains on hedging activities and in foreign currency translation adjustment on the Consolidated Statements of Equity.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 12: Fair Value Measurement

Fair value of financial instruments

Carrying amounts for certain of FDC s financial instruments (cash and cash equivalents and short-term borrowings) approximate fair value due to their short maturities. Accordingly, these instruments are not presented in the following table. The following table provides the estimated fair values of the remaining financial instruments (in millions):

September 30, 2010	Carrying Value	Fair Value (a)
Financial instruments:		
Settlement assets:		
Short-term investment securities	$ 89.8	$ 89.8
Long-term investment securities	$ 355.6	$ 355.6
Other long-term assets:		
Long-term investment securities	$ 0.6	$ 0.6
Derivative financial instruments	$ 6.1	$ 6.1
Cost method investments	$ 24.6	$ 24.6
Other current liabilities:		
Derivative financial instruments	$ 4.4	$ 4.4
Long-term borrowings:		
Long-term borrowings	$ 22,543.9	$ 19,062.6
Other long-term liabilities:		
Derivative financial instruments	$ 424.0	$ 424.0

(a) Represents cost for cost method investments. Refer to Note 10 of these Consolidated Financial Statements for a more detailed discussion of cost method investments.

The estimated fair values of investment securities and derivative financial instruments are described below. Refer to Notes 10 and 11 of these Consolidated Financial Statements for additional information regarding the Company s investment securities and derivative financial instruments, respectively.

The estimated fair market value of long-term borrowings were primarily based on market trading prices. For additional information regarding the Company s borrowings, refer to Note 4 of these Consolidated Financial Statements as well as to Note 9 of the Company s Consolidated Financial Statements in Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Concentration of credit risk

The Company s investment securities are diversified across multiple issuers within its investment portfolio (investment securities plus cash and cash equivalents). In addition to investment securities, the Company maintains other financial instruments with various financial institutions. The Company has no single issuer representing more than 18% of the total carrying value of the investment portfolio and limits its derivative financial instruments credit risk by maintaining contracts with counterparties rating A or higher. The Company periodically reviews the credit standings of these institutions.

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Assets and liabilities measured at fair value on a recurring basis

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