FIRST DATA CORP
Form 10-Q
May 15, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ________ to ________

Commission file number 001-11073

FIRST DATA CORPORATION

(Exact name of registrant as specified in its charter)

www.firstdata.com

DELAWARE	**47-0731996**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
6200 SOUTH QUEBEC STREET,	
GREENWOOD VILLAGE, COLORADO	**80111**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (303) 967-8000

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 April 30, 2009**
Common Stock, $0.01 par value per share	1,000 shares

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(in millions)

	Three months ended March 31, 2009	2008
Revenues:		
Transaction and processing service fees:		
Merchant related services [a]	$ 621.5	$ 634.9
Check services	86.5	100.6
Card services [a]	470.4	508.3
Other services	128.4	135.9
Investment income, net	5.8	56.0
Product sales and other [a]	174.0	212.0
Reimbursable debit network fees, postage and other	589.6	478.8
	2,076.2	2,126.5
Expenses:		
Cost of services (exclusive of items shown below)	786.5	756.8
Cost of products sold	63.5	70.9
Selling, general and administrative	254.3	304.3
Reimbursable debit network fees, postage and other	589.6	478.8
Depreciation and amortization	329.5	319.1
Other operating expenses:		
Restructuring, net	25.1	
Litigation and regulatory settlements	(2.7)	
	2,045.8	1,929.9
Operating profit	30.4	196.6
Interest income	3.3	9.0
Interest expense	(448.2)	(517.7)
Other income (expense)	23.3	(43.2)
	(421.6)	(551.9)
Loss before income taxes and equity earnings in affiliates	(391.2)	(355.3)
Income tax benefit	(144.8)	(130.5)
Equity earnings in affiliates	18.5	32.1
Consolidated net loss	(227.9)	(192.7)

Less: Net income attributable to noncontrolling interests	3.4	29.0
Net loss attributable to First Data Corporation	$ (231.3)	$ (221.7)

[a] Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of $21.1 million for the three months ended March 31, 2009 and $53.5 million for the comparable period in 2008.

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED BALANCE SHEETS

(Unaudited)

(in millions, except common stock share amounts)

	March 31, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 422.1	$ 406.3
Accounts receivable, net of allowance for doubtful accounts of $17.1 (2009) and $16.6 (2008)	2,201.4	2,637.2
Settlement assets	7,532.6	7,930.2
Other current assets	461.3	419.8
Total current assets	10,617.4	11,393.5
Property and equipment, net of accumulated depreciation of $299.2 (2009) and $261.1 (2008)	1,092.5	1,087.8
Goodwill	14,753.7	14,861.2
Customer relationships, net of accumulated amortization of $1,116.3 (2009) and $932.1 (2008)	5,790.5	5,987.6
Other intangibles, net of accumulated amortization of $452.7 (2009) and $373.1 (2008)	1,835.5	1,915.6
Investment in affiliates	1,283.0	1,259.6
Long-term settlement assets	463.1	732.7
Other long-term assets	905.2	938.1
Total assets	$ 36,740.9	$ 38,176.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 164.4	$ 186.5
Short-term and current portion of long-term borrowings	460.1	497.3
Settlement obligations	8,031.3	8,680.6
Other current liabilities	1,125.5	1,413.6
Total current liabilities	9,781.3	10,778.0
Long-term borrowings	22,164.1	22,075.2
Long-term deferred tax liabilities	1,534.6	1,648.2
Other long-term liabilities	1,204.5	1,272.4
Total liabilities	34,684.5	35,773.8
Commitments and contingencies (See Note 8)		
First Data Corporation stockholder s equity:		
Common stock, $.01 par value; authorized and issued 1,000 shares (2009 and 2008)		
Additional paid-in capital	7,385.5	7,380.8
Paid-in capital	7,385.5	7,380.8
Accumulated loss	(4,299.3)	(4,068.0)
Accumulated other comprehensive loss	(1,057.7)	(934.9)

Total First Data Corporation stockholder s equity	2,028.5	2,377.9
Noncontrolling interests	27.9	24.4
Total equity	2,056.4	2,402.3
Total liabilities and equity	$ 36,740.9	$ 38,176.1

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Three months ended March 31, 2009	2008
Cash and cash equivalents at beginning of period	$ 406.3	$ 606.5
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss attributable to First Data Corporation	(231.3)	(221.7)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	352.1	368.4
Charges (gains) related to restructuring, impairments, litigation and regulatory settlements, other and other income (expense)	1.3	43.2
Other non-cash and non-operating items, net	135.7	(4.9)
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	427.0	240.0
Other assets, current and long-term	68.5	142.1
Accounts payable and other liabilities, current and long-term	(368.7)	(133.3)
Income tax accounts	(169.7)	(149.8)
Net cash provided by operating activities	214.9	284.0
CASH FLOWS FROM INVESTING ACTIVITIES		
Current period acquisitions, net of cash acquired	(9.2)	(193.3)
Payments related to other businesses previously acquired	(13.5)	(18.3)
Additions to property and equipment, net	(48.0)	(53.4)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(33.9)	(40.8)
Proceeds from the sale of marketable securities	0.2	52.3
Other investing activities	5.8	(1.5)
Net cash used in investing activities	(98.6)	(255.0)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(41.4)	(15.0)
Principal payments on long-term debt	(48.2)	(44.9)
Capital contributed by Parent		105.1
Net cash (used in) provided by financing activities	(89.6)	45.2
Effect of exchange rate changes on cash and cash equivalents	(10.9)	21.2
Change in cash and cash equivalents	15.8	95.4
Cash and cash equivalents at end of period	$ 422.1	$ 701.9

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Unaudited)

(in millions)

			First Data Corporation Shareholder				
	Total	**Comprehensive Income (Loss)**	**Accumulated Loss**	**Accumulated Other Comprehensive Income (Loss)**	**Common Shares**	**Paid-In Capital**	**Noncontrolling Interests**
Balance, December 31, 2008	$ 2,402.3		$ (4,068.0)	$ (934.9)	0.0	$ 7,380.8	$ 24.4
Acquisitions	4.1						4.1
Dividends paid to noncontrolling interests	(3.6)						(3.6)
Comprehensive loss:							
Net (loss) income	(227.9)	$ (227.9)	(231.3)				3.4
Other comprehensive income (loss), net of taxes:							
Unrealized losses on securities	(11.2)	(11.2)		(11.2)			
Unrealized gains on hedging activities	38.9	38.9		38.9			
Foreign currency translation adjustment	(150.9)	(150.9)		(150.5)			(0.4)
Other comprehensive loss		(123.2)					
Comprehensive loss		$ (351.1)					
Stock compensation expense and other	4.7					4.7	
Balance, March 31, 2009	$ 2,056.4		$ (4,299.3)	$ (1,057.7)	0.0	$ 7,385.5	$ 27.9

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(Unaudited)

(in millions)

	Three months ended March 31, 2009	2008
Consolidated net loss	$ (227.9)	$ (192.7)
Other comprehensive (loss) income, net of tax:		
Unrealized losses on securities	(11.2)	(0.7)
Unrealized gains (losses) on hedging activities	38.9	(169.0)
Foreign currency translation adjustment	(150.9)	229.9
Total other comprehensive (loss) income, net of tax	(123.2)	60.2
Consolidated comprehensive loss	(351.1)	(132.5)
Less: Comprehensive income attributable to noncontrolling interests	3.0	27.1
Comprehensive loss attributable to First Data Corporation	$ (354.1)	$ (159.6)

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1: Basis of Presentation

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

The accompanying Consolidated Financial Statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company at March 31, 2009, the consolidated results of its operations, cash flows and comprehensive income (loss) for the three months ended March 31, 2009 and 2008 and the consolidated changes in equity for the three months ended March 31, 2009. Results of operations reported for interim periods are not necessarily indicative of results for the entire year due in part to the seasonality of certain business units.

Use of Estimates

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

Presentation

Effective January 1, 2009, the Company re-aligned the business and began making strategic and operating decisions with regards to assessing performance and allocating resources based on a new segment structure. Results for 2008 have been adjusted to reflect the new structure. Refer to Note 7 for a description of the segments.

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

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

Depreciation and amortization presented as a separate line item on the Company s Consolidated Statements of Operations does not include amortization of initial payments for new contracts which is recorded as a contra-revenue within Transaction and processing service fees of $5.0 million and $1.5 million for the three months ended March 31, 2009 and 2008, respectively. Also not included is amortization related to equity method investments which is netted within the Equity earnings in affiliates line of $17.6 million and $47.8 million for the three months ended March 31, 2009 and 2008, respectively.

Revenue Recognition

The Company recognizes revenues from its processing services as such services are performed. Revenue is recorded net of certain costs such as credit and offline debit interchange fees and assessments charged by credit card associations which totaled $2,732.3 million and $1,925.1 million for the three months ended March 31, 2009 and 2008, respectively. Debit network fees related to acquired PIN-based debit transactions are recognized in the Reimbursable debit network fees, postage and other revenue and expense lines of the Consolidated Statements of Operations. The debit network fees related to acquired PIN-debit transactions charged by debit networks totaled $412.6 million and $285.9 million for the three months ended March 31, 2009 and 2008, respectively. Comparability of the dollar amounts disclosed in this paragraph is impacted by the termination of the Chase Paymentech Solutions alliance on November 1, 2008 and the deconsolidation of the Wells Fargo Merchant Services alliance on December 31, 2008. Information regarding these transactions is included in Note 5 to the Consolidated Financial Statements in Item 8 of the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) Financial Accounting Standards (FAS) No. 115-2 and No. 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The position amends the other-than-temporary impairment guidance for debt securities and changes the presentation and disclosure of

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

other-than- temporary impairments on debt and equity securities in the financial statements. The new FSP requires an entity to assess whether it (a) has the intent to sell a debt security or (b) more likely than not will be required to sell a debt security before its anticipated recovery. If either of these conditions are met, and if the security in question has a decline in value, the entity must recognize an other-than-temporary impairment. The new FSP also requires consideration of whether a credit loss exists relative to a debt security and governs the accounting for it. The requirements of this FSP will apply to existing investments held by the Company as of April 1, 2009 and prospectively to new investments after that date. For debt securities held at April 1, 2009, the cumulative effect of initially applying this FSP, if any, may require recognition. The Company is currently evaluating the impact of the FSP 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 March 31, 2009	2008
Investment gains and (losses)	$ (0.4)	$ 22.1
Derivative financial instruments gains and (losses)	6.7	(12.8)
Divestitures, net	(0.5)	
Non-operating foreign currency gains and (losses)	17.5	(52.5)
Other income (expense)	$ 23.3	$ (43.2)

Investment gains and (losses)-Investment gains for the three months ended March 31, 2008 resulted from the sale of MasterCard stock.

Derivative financial instrument gains and (losses)-The net gains and losses for the three months ended March 31, 2009 and 2008 were due most significantly to the mark-to-market adjustments for cross currency swaps and interest rate swaps that are not designated as accounting hedges. The most significant impact resulted from foreign currency exchange rate movements on the cross currency swaps.

Non-operating foreign currency gains and (losses)-The net gains and losses related to the mark-to-market of the Company s intercompany loans and its euro-denominated debt.

Supplemental Cash Flow Information

During the three months ended March 31, 2009 and 2008, the principal amount of the Company s senior unsecured PIK notes increased by $165.2 million and $67.6 million, respectively, resulting from the payment of accrued interest expense.

During the three months ended March 31, 2009 and 2008, the Company entered into capital leases totaling approximately $68 million and $39 million, respectively.

Refer to Note 10 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 $30.0 million and facility closures totaling $0.4 million for the three months ended March 31, 2009. The restructurings resulted in the termination of employees company wide totaling $9.5 million in Retail and Alliance Services, $6.1 million in Financial Services, $10.8 million in International and $3.6 million in All Other and Corporate. The restructurings resulted from the elimination of a select number of management and other positions as part of the Company s cost saving initiatives. Cost saving initiatives are expected to continue into future periods resulting in additional restructuring charges. Partially offsetting the charges are reversals of 2008 restructuring accruals of $5.3 million related to the Company s change in strategy related to global labor sourcing initiatives.

FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following table summarizes the Company s utilization of restructuring accruals, excluding merger related restructuring charges, for the period from January 1, 2009 through March 31, 2009 (in millions):

	Employee Severance	Facility Closure
Remaining accrual at January 1, 2009	$ 11.1	
Expense provision	30.0	$ 0.4
Cash payments and other	(3.6)	(0.1)
Changes in estimates	(5.3)	
Remaining accrual at March 31, 2009	$ 32.2	$ 0.3

Note 4: Business Combinations and Acquisitions and Divestitures

During the first quarter of 2009, the Company acquired one entity, reported within the International segment, and a domestic merchant portfolio. The aggregate cash paid during the three months ended March 31, 2009 for these acquisitions was approximately $8.8 million, net of cash acquired. The aggregate preliminary purchase price allocation for these acquisitions resulted in $9.7 million in identifiable intangible assets which are being amortized over five to six years.

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

Note 5: Borrowings

Senior secured revolving credit facility

The Company has a $2.0 billion senior secured revolving credit facility with a term through the third quarter of 2013. Up to $500 million of the Company s $2.0 billion senior secured revolving credit facility is available for letters of credit, of which $39.4 million and $39.7 million of letters of credit were issued under the facility as of March 31, 2009 and December 31, 2008, respectively. The amounts outstanding against this facility were $135.0 million and $18.0 million as of March 31, 2009 and December 31, 2008, respectively.

Since an affiliate of Lehman Brothers Holdings Inc. filed for bankruptcy in September 2008, it has not funded its $230.6 million commitment under the Company s senior secured revolving credit facility and there is no assurance they will participate in any future funding requests or that the Company could obtain replacement loan commitments from other banks. The Company is monitoring the financial stability of other financial institutions that have made commitments under the revolving credit facility, none of which represent more than approximately 15% of the remaining capacity. As of March 31, 2009, $1.6 billion remained available under this facility after considering the amount outstanding above, the letters of credit issued under the facility, and the commitment that is no longer being funded noted above.

Other short-term borrowings

The Company had approximately $464 million and $609 million available under short-term lines of credit and other arrangements with foreign banks and joint venture partners to fund settlement activity, as of March 31, 2009 and December 31, 2008, respectively. Certain of these arrangements are uncommitted (approximately $95 million and $226 million, respectively) but, as of the periods presented, the Company had some borrowings outstanding against them. These arrangements are primarily associated with First Data Deutschland, Cashcard Australia, Ltd., the joint venture with Allied Irish Banks p.l.c., First Data Polska and the Merchant Solutions joint venture and are in various functional currencies, the most significant of which are the euro, Australian dollar and Polish zloty. The amounts outstanding against these arrangements were $124.4 million and $295.0 million as of March 31, 2009 and December 31, 2008, respectively.

Senior secured term loan facility

The terms of the Company s senior secured term loan facility require the Company to pay equal quarterly installments in aggregate annual amounts equal to 1% of the original principal amount. During the three months ended March 31, 2009 and 2008, the Company paid $32.2 million and $31.9 million, respectively, of principal payments on the senior secured term loan facility in accordance with this provision ($29.8 million and $29.4 million, respectively, related to the U.S. dollar denominated loan and $2.4 million and $2.5 million, respectively, related to the euro denominated loan).

Senior unsecured PIK notes

The terms of the Company s senior unsecured PIK (Payment In-Kind) notes require that interest on the notes up to and including September 20, 2011 be paid entirely by increasing the principal amount of the notes or by issuing senior unsecured PIK notes. During the three months ended March 31, 2009 and 2008, the Company increased the principal amount of these notes by $165.2 million and $67.6 million, respectively, in accordance with this provision.

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Note 6: Derivative Financial Instruments

Concentration of credit risk

The Company maintains cash and cash equivalents, investment securities and certain hedging instruments (for specified purposes) with various financial institutions. The Company limits its concentration of these financial instruments with any one institution, and periodically reviews the credit standings of these institutions. The Company has a large and diverse customer base across various industries, thereby minimizing the credit risk of any one customer to the Company s accounts receivable amounts. In addition, each of the Company s business units perform ongoing credit evaluations on customers that expose the Company to significant financial risk because of their financial condition.

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. The risks managed by using derivative instruments are interest rate risk and foreign exchange risk.

Interest rate swaps are entered into to manage interest rate risk associated with the Company s variable-rate borrowings. Cross currency swaps for various foreign currencies are entered into to manage foreign exchange risk associated with the Company s initial investments in certain foreign subsidiaries or certain intercompany loans to foreign subsidiaries. Forward contracts on various foreign currencies are entered into to manage foreign exchange risk associated with the Company s forecasted foreign currency denominated sales or purchases.

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 entered into 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 and Other long-term liabilities captions in the Consolidated Balance Sheets at their fair values. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS No. 133), the Company designated interest rate swaps as cash flow hedges of forecasted interest rate payments related to its variable rate debt and certain of the cross currency swaps as a foreign currency hedge of its net investment in a foreign subsidiary. Other cross currency swaps and forward contracts on various foreign currencies did not qualify or have not been designated as accounting hedges and do not receive hedge accounting treatment.

As of March 31, 2009, 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) and foreign exchange rates (forecasted transactions denominated in foreign currency), (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. Not all of these derivatives qualify for hedge accounting as discussed in more detail below.

With respect to derivative instruments that are afforded hedge accounting pursuant to SFAS No. 133, 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 Other Comprehensive Income/Loss (OCI) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The effective portion of changes in the fair value of a net investment hedge is recorded as part of the cumulative translation adjustment in OCI. Any ineffectiveness 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 transaction 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.

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FIRST DATA CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Credit Risk

The Company is monitoring the financial stability of its derivative counterparties. Certain of these counterparties have received support from the federal government in light of current 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.

DERIVATIVES NOT QUALIFYING FOR HEDGE ACCOUNTING

At March 31, 2009, the Company had certain derivative instruments that function as economic hedges but were not designated to qualify for hedge accounting. Such instruments included foreign currency forward contracts to hedge forecasted foreign currency sales and purchases, 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 and a foreign exchange rate collar to hedge foreign currency exposure related to an outsourcing contract with a foreign vendor.

During the first quarter of 2009, one of the cash flow hedges of interest payments on the 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 will discontinue prospective hedge accounting for the affected derivatives. While the derivatives no longer qualify for hedge accounting, the derivatives continue to be effective economically in eliminating the variability in interest rate payments on the corresponding portion of the variable rate debt.

As of March 31, 2009, the notional amounts of the foreign currency forward contracts were 5.0 million Canadian dollars ($4.1 million). The notional amount of the foreign exchange rate collar was 91.5 million Philippine pesos ($1.9 million). If the Philippine Peso to U.S. Dollar exchange rate fluctuates by more than +/- 8% from the reference rate, then a net payment is made or received based on the $1.9 million notional amount. The Company is also a party to a reverse collar for a $950,000 notional amount which effectively reduces the notional amount of the Philippine Peso collar to $950,000 when the exchange rate fluctuates by more than +/- 13%. The terms of the foreign exchange rate collar and the related reverse collar were specifically designed to match the foreign exchange exposure from the underlying vendor agreement. The notional amount of the cross-currency swaps was 91.1 million euro (approximately $123.2 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 March 31, 2009, the Company had a cross currency swap that was designated as a hedge of net investments in foreign operations. Since the existing derivative instrument was not at zero fair value at the time of designation, the hedging relationship creates some ineffectiveness which is recognized immediately in the Consolidated Statements of Operations. The effective portion of the change in fair value of the cross currency swap is recognized in the Consolidated Statement of Changes in Equity. As of March 31, 2009, the aggregate notional amount of the cross currency swap was 115.0 million Australian dollars (approximately $80.7 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.

Cash Flow Hedges

As of March 31, 2009, the Company had interest rate swaps which were designated as cash flow hedges of the variability in the interest payments on $7.5 billion of the approximate $12.6 billion variable rate senior secured term loan due to changes in the LIBOR interest rate. The Company also had basis rate swaps that modify the variable rates on $6.0 billion of the $7.5 billion interest rate

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swaps and that lower the fixed interest rates on those interest rate swaps. The basis swaps pay interest at rates equal to three-month-LIBOR and receive interest at rates equal to one-month-LIBOR plus a fixed spread. One basis swap with a notional amount of $2.0 billion expires on June 24, 2009 and all other basis swaps with a combined notional amount of $4.0 billion expire on September 24, 2010. The Company pays interest on $6.0 billion principal amount of its senior secured term loan facility based on one-month-LIBOR interest rate index to match the terms of the basis swaps. Ineffectiveness associated with these hedges is recognized immediately in the Consolidated Statements of Operations. During the first quarter of 2009, those interest rate swaps not also subject to basis rate swaps with a notional amount of $1.5 billion ceased to qualify for hedge accounting as discussed above.

At March 31, 2009, the maximum length of time over which the Company is hedging its exposure is approximately 3.5 years. The effective portion of changes in fair value of the cash flow hedges is recorded temporarily in the Consolidated Statement of Changes in Equity as a component of OCI and then recognized in the Consolidated Statements of Operations in the same period or periods during which the payment of variable interest associated with the floating rate debt is recorded in earnings. Any ineffective portions of changes in fair value are recognized in the Consolidated Statements of Operations during the period of change. The Company follows the hypothetical derivative method to measure hedge ineffectiveness. A $1.8 million loss associated with ineffectiveness was recognized in earnings during the three months ended March 31, 2009 related to the cash flow hedges mostly due to the hedges being off-market at the time of designation. The amount of losses in OCI as of March 31, 2009 related to the hedged transactions that is expected to be reclassified into the Consolidated Statements of Operations during the remainder of 2009 is approximately $75 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

The estimated fair value of derivative financial instruments is modeled in Bloomberg software using the Bloomberg reported market data based on mid-market prices and the actual terms of the derivative contracts. The fair value incorporates the Company s own creditworthiness as well as the creditworthiness of the counterparties. While the Company believes its estimates result in a reasonable reflection of the fair value of these instruments, the estimated values may not be representative of actual values that could have been realized as of March 31, 2009 or that will be realized in the future.

Fair Value of Derivative Instruments in the Consolidated Balance Sheets

	As of March 31, 2009			
	Derivative Assets		Derivative Liabilities	
(in millions)	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location
Derivatives designated as hedging instruments under SFAS 133				
Interest rate contracts			$ (410.2)	Other long-term liabilities and other current liabilities
Foreign exchange contracts	$ 11.3	Other long-term assets		
Total derivatives designated as hedging instruments under SFAS 133	11.3		(410.2)	
Derivatives not designated as hedging instruments under SFAS 133				

Interest rate contracts			(119.5)	Other long-term liabilities and other current liabilities
Foreign exchange contracts	7.6	Other long-term assets	(1.3)	Other long-term liabilities
Total derivatives not designated as hedging instruments under SFAS 133	7.6		(120.8)	
Total Derivatives	$ 18.9		$ (531.0)	

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Fair Value of Derivative Instruments in the Consolidated Balance Sheets

	As of December 31, 2008			
	Derivative Assets		Derivative Liabilities	
(in millions)	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location
Derivatives designated as hedging instruments under SFAS 133				
Interest rate contracts			$ (598.8)	Other long-term liabilities and other current liabilities
Foreign exchange contracts	$ 8.9	Other long-term assets		
Total derivatives designated as hedging instruments under SFAS 133	8.9		(598.8)	
Derivatives not designated as hedging instruments under SFAS 133				
Foreign exchange contracts	2.8	Other long-term assets	(2.5)	Other long-term liabilities
Total derivatives not designated as hedging instruments under SFAS 133	2.8		(2.5)	
Total Derivatives	$ 11.7		$ (601.3)	

The Effect of Derivative Instruments on the Consolidated Statements of Operations

For the three months ended March 31, 2009

(in millions, pretax) Derivatives in SFAS 133 cash flow hedging relationships	Amount of Gain or (Loss) Recognized in OCI on Derivative (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative (Ineffective Portion)
Interest rate contracts	$ 37.2	$ (25.0)	Interest Expense	$ (1.8)	Other income (expense)
Derivatives in SFAS 133 net investment hedging relationships					
Foreign exchange contracts	$ 2.4			$ (0.1)	Other income (expense)

Derivatives not designated as hedging instruments under SFAS 133	**Amount of Gain or (Loss) Recognized in Income on Derivative**	**Location of Gain or (Loss) recognized in Income on Derivative**
Interest rate contracts	$ 2.9	Other income (expense)
Foreign exchange contracts	$ 5.7	Other income (expense)

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ACCUMULATED DERIVATIVE GAINS AND LOSSES

The following table summarizes activity in other comprehensive loss for the three months ended March 31, 2009 related to derivative instruments classified as cash flow hedges and net investment hedges held by the Company (in millions, after tax):

	Three months ended March 31, 2009	
Accumulated loss included in other comprehensive loss at beginning of the period	$	(339.6)
Less: Reclassifications into earnings from other comprehensive loss		15.7
		(323.9)
Gains in fair value of derivatives [(a)]		25.6
Accumulated loss included in other comprehensive loss at end of the period	$	(298.3)

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

Note 7: Segment Information

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

As discussed in Note 1, the Company began operating under a new segment structure effective January 1, 2009. Segment results for the three months ended March 31, 2008 have been revised to reflect the new structure. A summary of the new segments follows:

The Retail and Alliance Services segment is comprised of businesses that provide services which facilitate the merchants ability to accept credit, debit, stored-value and loyalty cards and checks. The segment s merchant processing and acquiring services include authorization, transaction capture, settlement, chargeback handling and internet-based transaction processing. Retail and Alliance Services also provides point-of-sale (POS) solutions and other equipment necessary to capture merchant transactions. A majority of these services pertain to transactions in which consumer payments to merchants are made through a card association (such as Visa or MasterCard), a debit network, or another payment network (such as Discover). In addition, Retail and Alliance Services provides check verification, settlement and guarantee services and a wide range of open and closed loop stored-value products and processing services. The segment s largest components of revenue consist of discount fees charged to merchants, processing fees charged to unconsolidated alliances, equity earnings from unconsolidated alliances, selling and leasing of POS devices, fees for check verification, settlement and guarantee services and debit network fees.

The Financial Services segment provides issuer card and network solutions and payment management solutions for recurring bill payments. Financial Services also offers services to improve customer communications, billing, online banking and consumer bill payment. Issuer card and network solutions includes credit, retail and debit card processing, debit network services (including the STAR Network) and output services for financial institutions and other organizations offering credit cards, debit cards and retail private label cards to consumers and businesses to manage customer accounts. The segment s largest components of revenue consist of fees for account management, transaction authorization and posting, and network switching as well as reimbursable postage.

The International segment is comprised of businesses that provide the following services outside of the U.S.: credit, retail, debit and prepaid card processing; merchant acquiring and processing; ATM and POS processing, driving, acquiring and switching services; and card processing software. The largest components of the segment s revenue are fees for facilitating the merchants ability to accept credit, retail and debit cards by authorizing, capturing, and settling merchants credit, retail, debit, stored-value and loyalty card transactions as well as for transaction authorization and posting, network switching and account management.

The Integrated Payment Systems (IPS) segment is principally comprised of operations which deal in the issuance of official checks which are sold by agents that are financial institutions and the issuance of money orders which are sold by agents that are financial institutions and retail businesses. Official checks serve as an alternative to a bank s own items such as cashiers or bank checks. Money orders serve as a disbursement option for a consumer or business. Revenue is principally earned on invested funds which are pending settlement. The official check and money order businesses are conducted by a subsidiary of the Company, Integrated Payment Systems Inc., which is licensed to offer payment services that fall under state and federal regulations. This segment is in the process of winding down its official check and money order businesses. IPS also offers other payment services in its capacity as a licensed entity, and such other services will continue after the wind down of the official check and money order businesses.

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

The following table presents the Company s operating segment results for the three months ended March 31, 2009 and 2008:

Three months ended March 31, 2009 **(in millions)**	**Retail and Alliance Services**	**Financial Services**	**International**	**Integrated Payment Systems**