

FIRST DATA CORP
Form 10-K
March 13, 2008

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

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

www.firstdata.com

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DELAWARE **47-0731996**
(State of incorporation) (I.R.S. Employer 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

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

The aggregate market value of the registrant's voting stock held by non-affiliates is zero. The registrant is privately held. There were 1,000 shares of the registrant's common stock outstanding as of March 1, 2008.

PART I

ITEM 1. BUSINESS

General

First Data Corporation (FDC or the Company) was incorporated in Delaware in 1989, and in 1992 was the subject of an initial public offering in connection with a spin-off from American Express. FDC is a provider of electronic commerce and payment solutions for merchants, financial institutions and card issuers globally and has operations in 37 countries, serving over 5.4 million merchant locations and over 2,000 card issuers and their customers. The Company has acquired domestic and international businesses over the last five years with the most significant acquisition being Concord EFS, Inc. (Concord) in 2004 which included the STAR Network. In 2006, FDC spun-off its Western Union money transfer businesses and, in 2007, FDC was acquired by an entity controlled by affiliates of Kohlberg Kravis Roberts & Co. (KKR). Additional information on the above noted items is presented below.

Merger

On April 1, 2007, the Company entered into an Agreement and Plan of Merger (the Merger Agreement) with New Omaha Holdings L.P., a Delaware limited partnership (Parent), and Omaha Acquisition Corporation, a Delaware corporation and a subsidiary of Parent (Sub). Parent is controlled by affiliates of KKR. On September 24, 2007, under the terms of the Merger Agreement, Sub merged with and into the Company (the merger) with the Company continuing as the surviving corporation and a subsidiary of First Data Holdings, Inc. (Holdings) (formerly know as New Omaha Holdings Corporation), a Delaware corporation and a subsidiary of Parent.

As of the effective time of the merger, each issued and outstanding share of common stock of the Company was cancelled and converted into the right to receive \$34.00 in cash, without interest (other than shares owned by Parent, Sub or Holdings, which were cancelled and given no consideration). Additionally, vesting of FDC stock options, restricted stock awards and restricted stock units was accelerated upon closing of the merger. The transaction resulted in a total purchase price of approximately \$26.5 billion, including acquisition-related costs and excluding assumption of debt.

The merger was financed by a combination of the following: borrowings under the Company s new senior secured credit facilities, new senior unsecured interim loan agreement and new senior subordinated unsecured interim loan agreement, and the equity investment of Holdings. See Note 2 of the Company s Consolidated Financial Statements in this annual report on Form 10-K for detailed discussion of purchase price and transaction costs, and Note 10 for a detailed discussion regarding the tender of previously existing debt as well as the debt issued in conjunction with the merger.

The Company has implemented a 100 day plan to provide strategic direction for the Company under new leadership. The plan includes generating organic growth through improved sales effectiveness and accelerating new product innovations. The plan also captures efficiencies related to the simplification of domestic and international operations and other near term cost saving initiatives as well as certain reductions in personnel. In accordance with this plan and in November 2007, the Company terminated approximately 6% of its worldwide work force.

Spin-off of Western Union

On September 29, 2006, the Company separated its Western Union money transfer business into an independent, publicly traded company through a spin-off of 100% of Western Union to FDC shareholders in a transaction intended to qualify for tax-free treatment (the spin-off) giving the shareholders separate ownership interests in FDC and Western Union. FDC and Western Union are independent and have separate ownership, boards of directors and management.

For more information regarding the spin-off, refer to Note 19 of the Company s Consolidated Financial Statements in Item 8.

Concord Merger

On February 26, 2004, the Company completed its merger with Concord. FDC and Concord each had distinct strengths in product lines and markets that in combination provided financial institutions, retailers and consumers with a broader spectrum of payment options, greater input into the future direction of the electronic payments industry and access to new technologies and global markets. The all-stock transaction resulted in a total purchase price of approximately \$6.9 billion, including acquisition-related costs.

Significant Acquisitions and Dispositions

The Company completed a number of acquisitions during 2007, each of which was acquired for less than \$400 million. Aggregate acquisitions in 2007 were \$866.8 million with the most significant being First Data Polska (formerly POLCARD) for \$331.9 million. Refer to Note 4 of the Company's Consolidated Financial Statements in Item 8 for a complete discussion of the Company's acquisitions and dispositions.

Segments

The Company is organized in three primary segments: Commercial Services, Financial Institution Services and First Data International. In addition, the Company currently operates its official check and money order business, as well as other check processing and payment management services, through its Integrated Payment Systems segment. Upon completion of a strategic review, the Company decided to gradually exit from the official check and money order business. The Company expects the wind-down of the majority of the business to take place by the end of 2008.

Commercial Services

Commercial Services provides merchant and debit network acquiring and processing, check verification, settlement and guarantee, and prepaid card services. The company provides these services to approximately 3.7 million merchant locations across the United States, and processed \$1.5 trillion of payment transaction dollar volume on behalf of U.S. merchants in 2007. Commercial Services facilitates merchants' ability to accept credit, debit and prepaid cards and checks by authorizing and settling merchants' credit, debit, stored-value and loyalty card transactions and check transactions. At the same time, Commercial Services provides merchants with the reliability, security and back-office services that are critical to their business success. Most of this segment's revenue is derived from regional and local merchants. Commercial Services approaches the market through diversified sales channels including equity alliances, revenue sharing alliances and referral arrangements with 130 financial institution partners and arrangements with over 350 non-bank referral partners as well as 163 independent sales organization partners, as of December 31, 2007.

Financial Institution Services

Financial Institution Services provides financial institutions and other third parties with various services, including credit and retail card processing; debit card processing and network services; output services, such as statement and letter printing, embossing and mailing services; and remittance processing services. The credit and retail card processing and debit processing businesses provide services that enable financial institutions and other organizations offering credit cards, debit cards and retail private label cards to consumers and businesses to manage customer accounts. Financial Institution Services also provides services to the U.S. PIN POS debit market through the STAR Network which offers PIN-secured debit acceptance at 2.1 million ATM and retail locations.

First Data International

First Data International provides products and services in international markets that are similar to those offered by the Commercial Services and Financial Institution Services segments in the United States. First Data International has operations in 37 countries, including the U.S., with regional management teams overseeing local operations. The segment operates in four main geographic regions including Europe, Middle East and Africa; Latin America, Canada and Caribbean; Australia and New Zealand; and Asia.

Integrated Payment Systems

The Integrated Payment Systems segment provides official checks and money orders through independent agents, which are typically banks or other financial institutions. The Integrated Payment Systems segment also provides other payment services such as remote deposit, clearing services and payment management services.

Operating Locations

The Company has domestic and international operations and regional or country offices where sales, customer service and/or administrative personnel are based. The international operations generate revenues from customers located and operating outside of the United States. In the successor period from September 25, 2007 through December 31, 2007 and the predecessor period from January 1, 2007 through September 24, 2007 revenues generated from processing transactions at locations within the United States (domestic) regardless of the segments to which the associated revenues applied, were 78% and 81% of FDC's consolidated revenues, respectively, while revenue generated from processing transactions at locations outside of the United States (international) were 22% and 19%, respectively. Long-lived assets attributable to domestic and international operations as percentages of FDC's total long-lived assets as of December 31, 2007 were 82% and 18%, respectively. No individual foreign country is material to the Company's total revenues or long-lived assets. Further financial information relating to the

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Company's international and domestic revenues and long-lived assets is set forth in Note 17 to the Company's Consolidated Financial Statements in Item 8.

First Data Products and Services Segment Information

Financial information relating to each of the Company's segments is set forth in Note 17 to the Company's Consolidated Financial Statements in Item 8. A discussion of factors potentially affecting the Company's operations is set forth in Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations. The Company does not have any significant customers that account for 10% or more of total consolidated revenues. Refer to the following segment discussions, which address significant customer relationships within each segment.

Commercial Services Segment

The Commercial Services segment is comprised of:

Merchant acquiring and processing services;

Debit network acquiring and processing services;

Check verification, settlement and guarantee services; and

Prepaid card services

Commercial Services revenues from external customers, operating profit, and assets represent the following percentages of FDC's consolidated revenues, total reported segment operating profit, and consolidated assets:

	Successor period from September 25, 2007 through December 31, 2007	Predecessor period from January 1, 2007 through September 24, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Revenue from external customers	51%	52%	54%	54%
Operating profit ^{1,2}	52%	92%	71%	63%
Assets (at December 31) ²	48%		38%	31%

1 Operating profit, as a percentage of total segment and all other and corporate operating profit, for the predecessor period from January 1, 2007 through September 24, 2007 includes accelerated vesting of stock options and restricted stock awards and units and transaction costs related to the merger of \$265.2 million that were recognized in All Other and Corporate. The exclusion of these costs from the calculation would decrease the Commercial Services operating profit percentage shown above by approximately 21 percentage points for the predecessor period from January 1, 2007 through September 24, 2007.

2 Operating profit and assets were impacted by purchase accounting in the successor period from September 25, 2007 through December 31, 2007.

Description of Commercial Services Segment Operations

In the Commercial Services segment, revenues are derived primarily from providing merchant acquiring and processing, debit network acquiring and processing, prepaid services and check verification, settlement and guarantee. Commercial Services businesses facilitate the acceptance of consumer transactions at the point of sale, whether it is a transaction at a physical merchant location, over the internet or at an ATM. A brief explanation of the segment's service and product offerings is presented below.

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Merchant acquiring and processing services

Merchant acquiring services facilitate the merchants' ability to accept credit, debit, stored-value and loyalty cards by authorizing, capturing and settling the merchants' transactions. Acquiring services also provide POS devices and other equipment necessary to capture merchant transactions. A majority of these services are offered to the merchants through joint ventures or other alliance arrangements primarily with financial institutions. The segment's processing services include authorization, transaction capture, settlement, chargeback handling, and internet-based transaction processing. The vast majority of these services pertain to transactions in which consumer payments to merchants are made through a card association (such as Visa or MasterCard), a debit network, or another payment network (such as Discover).

Revenues are generated from:

Discount fees charged to a merchant, net of credit card interchange and assessment fees charged by the bankcard associations or payment networks (Visa, MasterCard or Discover). The discount fee is either a percentage of the credit card transaction or the interchange fee plus a fixed dollar amount;

Processing fees charged to unconsolidated alliances discussed below;

Processing fees charged to merchant acquirers who have outsourced their transaction processing to the Company;

Equity earnings from unconsolidated alliances;

Selling and leasing POS devices; and

Debit network fees.

Commercial Services provides merchant and debit network acquiring and processing, check verification, settlement and guarantee, and prepaid card services to merchants operating in approximately 3.7 million merchant locations across the United States. Commercial Services provides full service merchant processing primarily on Visa and MasterCard transactions and PIN-debit at the point of sale.

Growth in the Commercial Services business is derived from acquiring new merchant relationships, new and enhanced product and service offerings, cross selling products and services into existing relationships, the shift of consumer spending to increased usage of electronic forms of payment and the strength of its alliances with banks and other institutions. The Company's alliance structures take on different forms, including consolidated subsidiaries, equity method investments and revenue sharing arrangements. Under the alliance program, the Company and a bank or other institution form a joint venture, either contractually or through a separate legal entity. Merchant contracts may be contributed to the venture by the Company and/or the bank or institution. New merchant business generally is solicited by the alliance's (and in some cases, the financial institution's) sales force. Each alliance requires successful management of the relationship between the Company and the alliance partner. The Company benefits by providing processing services for the alliance and its merchant customers, while the alliance partner's merchant banking relationship is benefited. Alliance institutions generally provide card association sponsorship, clearing, and settlement services. These institutions typically act as a merchant referral source when the institution has an existing banking or other relationship. The Company provides transaction processing and related functions. Both partners may provide management, sales, marketing, and other administrative services. The alliance strategy could be affected by further consolidation among financial institutions.

The alliance strategy with bank partners provides the Company with broad geographic coverage, regionally and nationally as well as a presence in various industries. The alliance structure allows the Company to be the processor for multiple financial institutions, any one of which may be selected by the merchant as their bank partner. Additionally, bank partners provide brand loyalty and a distribution channel through their branch networks which increases merchant retention.

There are a number of different entities involved in a merchant transaction including the cardholder, card issuer, card association, merchant, merchant acquirer, electronic processor for credit and signature debit transactions, and debit network for PIN-debit transactions. The card issuer is the financial institution that issues credit or debit cards, authorizes transactions after determining whether the cardholder has sufficient available credit or funds for the transaction, and provides funds for the transaction. Some of these functions may be performed by an electronic processor (such as the Financial Institution Services business) on behalf of the issuer. The card association is Visa or MasterCard, a debit network (such as STAR Network) or another payment network (such as Discover) that routes the transactions between the Company and the card issuer. The merchant is a business from which a product or service is purchased by a cardholder. The acquirer (such as the Company or one of its alliances) contracts with merchants to facilitate their acceptance of cards. A merchant acquirer may do its own processing or, more commonly, may outsource those functions to an electronic processor such as the Commercial Services segment. The acquirer/processor serves as an intermediary between the merchant and the card issuer by:

- (1) Obtaining authorization from the card issuer through a card association or debit network;
- (2) Transmitting the transaction to the card issuer through the applicable card association, payment network or debit network; and
- (3) Paying the merchant for the transaction. The Company typically receives the funds from the issuer via the card association, payment network or debit network prior to paying the merchant.

A transaction occurs when a cardholder purchases something from a merchant who has contracted with the Company, an alliance partner or a processing customer. When the merchant swipes the card through the POS terminal (which is often sold or leased, and serviced by the Company), the Company obtains authorization for the transaction from the card issuer through the card association, payment network or debit network, verifying that the cardholder has sufficient credit or adequate funds for the transaction. Once the card issuer approves the transaction, the Company or the alliance acquires the transaction from the merchant and then transmits it to the applicable debit network, payment network or card association, which then routes the transaction information to the card issuer. Upon receipt of the transaction, the card issuer delivers funds to the Company via the card association, payment network or debit network. Generally, the Company funds the merchant after receiving the money from the card association, payment network or debit network. Each participant in the transaction receives compensation for processing the transaction. For example, in a transaction using a Visa or MasterCard for \$100.00 with a merchant discount rate (i.e., fee) of 1.5%, the card issuer will fund the association \$98.50 and bill the cardholder \$100.00 on its monthly statement. The card association will retain assessment fees of \$0.10 and forward \$98.40 to the Company. The Company will retain \$0.40 and pay the merchant \$98.00. The \$1.50 retained by the card issuer is referred to as interchange and it, like assessment fees, is set by the card association. The \$0.40 is the merchant discount and is negotiated between the merchant and the merchant acquirer.

The Company and its alliances, as merchant acquirers, have certain contingent liabilities for the transactions acquired from merchants. This contingent liability arises in the event of a billing dispute between the merchant and a cardholder that is ultimately resolved in the cardholder's favor. In such a case, the transaction is charged back to the merchant and the disputed amount is credited or otherwise refunded to the cardholder. The Company may, however, collect this amount from the card association if the amount was disputed in error. If the Company or the alliance is unable to collect this amount from the merchant, due to the merchant's insolvency or other reasons, the Company or the alliance will bear the loss for the amount of the refund paid to the cardholder. In most cases, this contingent liability situation is unlikely to arise because most products or services are delivered when purchased, and credits are issued on returned items. However, where the product or service is not provided until sometime following the purchase (e.g., airline or cruise ship tickets), the risk is greater. The Company often mitigates its risk by obtaining collateral from merchants considered higher risk because they have a time delay in the delivery of services, operate in industries that experience chargebacks or are less creditworthy.

Debit network acquiring and processing services

Debit network acquiring and processing services include ATM processing, STAR Network access, and acquired debit card transaction processing services such as authorization and settlement for acquirers. In the merchant acquiring process flow described above, STAR Network represents a debit network. The STAR Network represents a telecommunications network which is connected to thousands of financial institutions, merchants, payment processors, ATM processors, and card processors that participate in the network. When one of these participants acquires a STAR Network transaction, it sends the transaction to the network switch, which is operated by the Company, which in turn routes the transaction to the appropriate participant for authorization. STAR Network's fees differ from those presented in the example above in that the debit network charges less for PIN-debit transactions than do the card associations for credit and signature debit since there is substantially less risk involved in the PIN-debit transaction because the transaction is not approved unless there are sufficient funds in the customer's bank account. STAR Network's revenues are earned primarily on a fee-per-transaction basis. In a situation in which a PIN-secured debit transaction uses the Company's debit network and the Company is the acquiring payment processor for the merchant, the Company receives (1) a fee from the merchant for acquiring the transaction and (2) a network acquirer fee from the merchant for accessing the network. There are other possible configurations of transactions that result in the Company receiving multiple fees for a transaction, depending on the role which the Company plays.

Prepaid card services

First Data Prepaid Services develops, implements and manages prepaid stored-value card issuance and processing services (i.e. gift cards) for retailers and others. The full-service stored-value/gift card program offers transaction processing services, card acquisition and customer service for over 200 national brands and several thousand small and mid-tier merchants. During 2006, the Company began providing support to the card issuer in the distribution of a co-branded STAR Network and Visa gift card bearing the retailer's name, as well as the STAR Network Gift Card that is available in certain gift card malls.

In June 2007, the Company announced a strategic partnership with Discover Financial Services to issue Discover Network payroll cards provided by Money Network Financial, LLC, a First Data Company. The Money Network Payroll distribution service enables paperless pay options for employers as an alternative to paper checks for their employees.

Check verification, settlement and guarantee services

Check verification, settlement and guarantee services use the Company's proprietary database system to assist in verifying that a check writer is a reasonable credit risk for a merchant, or to guarantee that approved checks presented to merchants for payment will be collectible. These services include risk management services, which utilize software, information and analysis to assist in deposit, payment, and identity fraud prevention and reduction. Revenues are earned primarily by charging merchant fees for check verification or guarantee services. The majority of the Company's services involve providing check guarantee services for checks received by merchants. Under the guarantee service, when a merchant receives a check in payment for goods and services, the transaction is submitted to and analyzed by the Company. The Company either accepts or declines the check for warranty coverage under its guarantee service. If the Company approves the check for warranty coverage and the merchant accepts the check, the merchant will deposit the check in its bank account. If the check is returned unpaid by the merchant's bank and the returned check meets the requirements for warranty coverage, the Company is required to purchase the check from the merchant at its face value. The Company then owns the purchased check and pursues collection of the check from the check writer. As a result, the Company bears the risk of loss if the Company is unable to collect the returned check from the check writer. The Company earns a fee for each check it guarantees, which generally is determined as a percentage of the check amount.

The Company provides check guarantee and settlement services utilizing the Company's Electronic Check Acceptance service (ECA), which converts a paper check written at the point of sale into an electronic item, enabling funds to be deposited electronically to the merchant's account and deducted electronically from the check writer's account.

Under the verification service, when a merchant receives a check in payment for goods or services, the transaction is submitted to and analyzed by the Company, which will either recommend the merchant accept or decline the check. If the merchant accepts the check, the merchant will deposit the check in its bank account. If the check is returned unpaid by the merchant's bank, the Company is not required to purchase the check from the merchant and the merchant bears all risk of loss on the check. The Company earns a fee for each check submitted for verification, which is generally a fixed amount per check.

Commercial Services Segment Competition

The Company's Commercial Services business competes with several service providers and financial institutions that provide these services to their merchant customers. In many cases, the merchant alliances also compete against each other for the same business. The Company's check guarantee and verification products compete principally with the products of two other national companies. The Company also faces significant competition from regional and national operators of debit networks. The Company's prepaid card services compete with other payment processing companies as well as card associations and payment networks such as Visa and American Express.

The most significant competitive factors relate to price, brand, strength of financial institution partnership, breadth of features and functionality, scalability and servicing capability. The Commercial Services segment is further impacted by large merchant and large bank consolidation, card association business model expansion, and the expansion of new payment methods and devices.

In both the Commercial Services and Financial Institution Services segments, the card associations and payment networks Visa, MasterCard and Discover are increasingly offering products and services that compete with the Company's products and services.

Commercial Services Seasonality

Commercial Services' revenues and earnings are impacted by the volume of consumer usage of credit cards, debit cards, gift cards and checks written at the point of sale. Commercial Services experiences increased POS activity during the traditional holiday shopping period in the fourth quarter, the back-to-school buying period in the third quarter, and around other nationally recognized holidays.

Commercial Services Geographic Mix and Revenues

Revenues from external customers for the Commercial Services segment are substantially all earned in the United States. Merchant revenues outside of the United States are managed and reported by the Company's First Data International segment. Within the United States, revenues from external customers are spread across the country since Commercial Services has alliance partners across geographic regions and a large percentage of its transactions occur at national merchants.

Commercial Services Significant Customers

The Commercial Services segment does not have any individually significant customers; however, the Company has two significant merchant alliance relationships with financial institutions of which one is accounted for under the equity method of accounting and the other is consolidated. The alliance accounted for under the equity method, Chase Paymentech, meets the significant subsidiary test provided in SEC Regulation S-X Rule 1-02(w) in that the Company's equity earnings of this alliance exceeded 20% of the Company's consolidated income from continuing operations before income taxes in the predecessor period. Chase Paymentech may not meet the significant subsidiary test in 2008. In accordance with SEC Regulation S-X Rule 3-09, the financial statements of Chase Paymentech are filed with this annual report on Form 10-K as part of Item 15(c). In the event of a termination of these significant alliance relationships, the Company has certain rights to receive a portion of the applicable merchant portfolios. With the receipt of the Company's portion (its ownership interest) of an alliance's merchant portfolios upon termination, the Company's consolidated revenues would increase or decrease depending upon if the alliance was previously consolidated, however, there would not be a material impact on consolidated earnings. Potential risks if the alliance is terminated include the potential loss of certain processing volume over time, the loss of JPMorgan branch referrals, the loss of access to the JPMorgan brand, and post-termination competition by Chase.

Financial Institution Services Segment

The Financial Institution Services segment is comprised of:

- (1) Credit and retail card processing services;
- (2) Debit card processing and network services;
- (3) Output services; and

(4) Remittance and other processing services.

Financial Institution Services revenues from external customers, operating profit, and assets represent the following percentages of FDC's consolidated revenues, total reported segment operating profit and consolidated assets:

	Successor period from September 25, 2007 through December 31, 2007	Predecessor period from January 1, 2007 through September 24, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Revenue from external customers	23%	25%	25%	28%
Operating profit ^{1,2}	27%	32%	24%	27%
Assets (at December 31) ²	11%		7%	7%

1 Operating profit, as a percentage of total segment and all other and corporate operating profit, for the predecessor period from January 1, 2007 through September 24, 2007 includes accelerated vesting of stock options and restricted stock awards and units and transaction costs related to the merger of \$265.2 million that were recognized in All Other and Corporate. The exclusion of these costs from the calculation would decrease Financial Institution Services operating profit percentage shown above by approximately 8 percentage points for the predecessor period from January 1, 2007 through September 24, 2007.

2 Operating profit and assets were impacted by purchase accounting in the successor period from September 25, 2007 through December 31, 2007.

Description of Financial Institution Services Segment Operations

Financial Institution Services provides financial institutions and other third parties with various services including credit and retail card processing; debit card processing and network services; output services, such as statement and letter printing, embossing and mailing services; and remittance and other processing services. Revenue and profit growth in these businesses is derived from growing the core business, expanding product offerings, and improving the overall cost structure. Growing the core business comes primarily from an increase in debit and credit card usage, growth from existing clients and sales to new clients and the related account conversions.

Growth from expanded product offerings is driven by the development or acquisition of new products as well as expansion into adjacent markets. The Company will enter adjacent markets where it can leverage its existing infrastructure and core competencies around high volume transaction processing and management of customer account information.

The Company has relationships and many long-term customer contracts with card issuers providing credit and retail card processing, output services for printing and embossing items, as well as debit card processing services and the STAR Network. These contracts generally require a notice period prior to the end of the contract if a client chooses not to renew and some contracts may allow for early termination upon the occurrence of certain events such as a change in control. The termination fees paid upon the occurrence of such events are designed primarily to cover balance sheet exposure related to items such as capitalized conversion costs or signing bonuses associated with the contract; and in some cases, may cover a portion of lost future revenue and profit. Although these contracts may be terminated upon certain occurrences, the contracts provide the segment with a steady revenue stream since a vast majority of the contracts are honored through the contracted expiration date.

Credit and retail card issuing and processing services

Credit and retail card issuing and processing services provide outsourcing services to financial institutions and other issuers of cards, such as consumer finance companies. Financial institution clients include a wide variety of banks, savings and loan associations, group service providers and credit unions. Services provided include, among other things, account maintenance, transaction authorizing and posting, fraud and risk management services and settlement.

The Company provides a full array of services throughout the period of each card's use, starting from the moment a card-issuing client processes an application for a card. The basic services may include processing the card application, initiating service for the cardholder, processing each card transaction for the issuing retailer or financial institution and accumulating the card's transactions. The Company's fraud management services monitor the unauthorized use of cards which have been reported to be lost, stolen, or which exceed credit limits. The Company's fraud detection systems help identify fraudulent transactions by monitoring each cardholder's purchasing patterns and flagging unusual purchases.

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Other services provided include customized communications to cardholders, information verification associated with granting credit, debt collection, and customer service.

Revenues for credit and retail card issuing and processing services are derived from fees payable under contracts that depend primarily on the number of cardholder accounts on file. More revenue is derived from active accounts (those accounts on file that had a balance or any monetary posting or authorization activity during the month) than inactive accounts.

Debit issuing and processing services

The Company provides STAR Network access as well as ATM/debit and signature debit card processing services, such as transaction routing, authorization, card embossing and settlement for issuers. When a merchant acquirer acquires a STAR Network transaction, it sends the transaction to the network switch, which in turn routes the transaction to the appropriate financial institution for authorization. To be routed through the STAR Network switch, a transaction must be initiated with a card participating in the STAR Network at an ATM or POS terminal also participating in the STAR Network.

Revenue related to the STAR Network and debit card issuing and processing services is derived from fees payable under contracts but are driven more by monetary transactions processed rather than by accounts on file. The Company provides services which are driven by client transactions and are separately priced and negotiated with clients. In a situation in which a PIN-secured debit transaction uses the Company's debit network and the Company is the debit card processor for the financial institution, the Company receives (1) a fee from the card issuing financial institution for running the transaction through the network switch, and (2) a fee from the card issuer for obtaining the authorization. There are other possible configurations of transactions that result in the Company receiving multiple fees for a transaction, depending on the role which the Company plays.

Output services

Output services consist of statement and letter printing, embossing and mailing services. Services are provided to organizations that process accounts on the Company's platform as described above and for clients that process accounts on alternative platforms. The Company provides these services primarily through in-house facilities.

Revenues for output services are derived primarily on a per piece basis and consist of fees for the production and materials related to finished products. The mailing services drives a majority of the segment's and the Company's postage revenue.

Remittance processing

The remittance processing business processes mail-in payments for third party organizations. Revenues for remittance processing services are derived primarily on a per transaction basis and consist of fees for processing consumer payments.

Financial Institution Services Pipeline

During 2007, the Company converted approximately 26 million accounts to its system. The pipeline at December 31, 2007 was approximately 15 million accounts, which are primarily retail accounts. The Company expects to convert approximately 8 million of these accounts in 2008.

Financial Institution Services Segment Competition

The Company's Financial Institution Services segment competes with several other third-party card processors and debit networks in the United States, as well as financial institutions that possess in-house operations to manage card issuance and maintenance.

The most significant competitive factors are price, system performance and reliability, breadth of features and functionality, disaster recovery capabilities and business continuity preparedness, data security, scalability, and flexibility of infrastructure and servicing capability. The Financial Institution Services business is further impacted by financial institution consolidation.

In both the Commercial Services and Financial Institution Services segments, the card associations and payment networks Visa, MasterCard and Discover are increasingly offering products and services that compete with the Company's products and services.

Financial Institution Services Seasonality

A large portion of Financial Institution Services results of operations are driven by the number of accounts on file, both active and inactive, which are affected by the traditional holiday season in the fourth quarter. Debit processing and STAR Network revenues and earnings are impacted by the volume of consumer usage of debit cards and increased POS activity during the traditional holiday shopping period in the fourth quarter, the back-to-school buying period in the third quarter, and around other nationally recognized holidays.

Financial Institution Services Geographic Mix and Revenues

Revenues from external customers for the Financial Institution Services segment are substantially all earned in the United States. Card issuing revenues outside of the United States are reported by the Company's First Data International segment. Within the United States, revenues from external customers are geographically dispersed throughout the country.

Financial Institution Services Significant Customers

During 2007, the Company had a significant relationship with two clients whose revenues represented approximately 17% and 10%, respectively, of the Financial Institution Services segment revenue for the successor period September 25, 2007 through December 31, 2007. The same two clients represented approximately 16% and 11%, respectively, of Financial Institution Services segment revenue for the predecessor period from January 1, 2007 through September 24, 2007.

First Data International

The First Data International segment is comprised of:

Debit, credit, retail and prepaid card processing;

Merchant acquiring and processing;

ATM and POS processing, driving, acquiring and switching services; and

Card processing software.

First Data International revenues from external customers, operating profit, and assets represent the following percentages of FDC's consolidated revenues, total reported segment operating profit and consolidated assets:

	Successor period from September 25, 2007 through December 31, 2007	Predecessor period from January 1, 2007 through September 24, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Revenue from external customers	22%	19%	17%	13%
Operating profit ^{1,2}	25%	13%	10%	8%
Assets ²	13%		10%	7%

1 Operating profit, as a percentage of total segment and all other and corporate operating profit, for the predecessor period from January 1, 2007 through September 24, 2007 includes accelerated vesting of stock options and restricted stock awards and units and transaction costs related to the merger of \$265.2 million that were recognized in All Other and Corporate. The exclusion of these costs from the calculation would decrease First Data International's operating profit percentage shown above by approximately 3 percentage points for the predecessor period from January 1, 2007 through September 24, 2007.

2 Operating profit and assets were impacted by purchase accounting in the successor period from September 25, 2007 through December 31, 2007.

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The First Data International segment operates in four geographic regions: EMEA includes Europe, Middle East and Africa and provides card issuing processing, merchant acquiring and processing, and ATM and POS processing, driving, acquiring and switching services across the region; LAC includes Latin America, Canada and Caribbean countries and provides merchant acquiring and processing, card issuing processing, software licensing and debit switching services; ANZ includes Australia and New Zealand and provides merchant acquiring, processing and switching services, managed service card processing and owns and operates an ATM network in Australia; and Asia includes China and North and South Asian countries and mainly provides merchant POS transaction switching services, software licensing, card issuing processing services, host processing services and merchant acquiring and processing.

The merchant acquiring and card issuing services provided by the First Data International segment are similar in nature to the services described above in the Commercial Services and Financial Institution Services segments other than it includes substantially all the services provided outside of the United States. For a description of the First Data International segment's merchant acquiring and card issuing businesses refer to the Commercial Services and Financial Institution Services segment descriptions provided above.

Card processing software

The Company has historically licensed its VisionPLUS credit card transaction processing software to international financial institutions, retailers and third party processors. Additionally, the Company uses this software as a platform to provide processing services to international financial institutions and over the next two years plans to convert substantially its entire international card processing services to the VisionPLUS platform. The Company also generates revenue from custom programming services for certain customers and from software licensing and maintenance fees from its VisionPLUS software.

First Data International Pipeline

The pipeline at December 31, 2007 was approximately 2.1 million accounts the majority of which are retail. The Company expects to convert these accounts in 2008.

First Data International Segment Competition and Seasonality

Competition and seasonality within the First Data International segment is similar to that of the Commercial Services and Financial Institution Services segments for the respective product and service offerings and also includes third-party software providers. See discussions above. A noted difference from the U.S. operations is that there are more and smaller competitors because of the First Data International segment's global span.

First Data International Geographic Mix

The following countries accounted for more than 10% of the segment's revenues from external customers for the years ended December 31, 2007, 2006 and 2005, respectively:

	Successor period from September 25, 2007 through December 31, 2007	Predecessor period from January 1, 2007 through September 24, 2007	Year ended December 31, 2006	Year ended December 31, 2005
United Kingdom	22%	23%	23%	31%
Germany	18%	19%	18%	16%
Australia	13%	12%	15%	20%

No other individual foreign country accounted for more than 9% of the segment's revenues from external customers for the years ended December 31, 2007, 2006 and 2005, respectively. No individual foreign country was material to the Company's consolidated revenues. Revenue by geographic region as a percentage of the total First Data International segment revenue is as follows:

	Successor period from September 25, 2007 through December 31, 2007	Predecessor period from January 1, 2007 through September 24, 2007	Year ended December 31, 2006	Year ended December 31, 2005
EMEA	61%	60%	62%	61%
LAC	17%	18%	16%	16%
ANZ	12%	13%	17%	20%
Asia	6%	6%	5%	1%

The remaining portion of First Data International's revenue is associated with businesses that do not operate on a geographic basis. The ANZ region included South Asia in 2006 and 2005.

First Data International Significant Customers

No individual customer makes up more than 10% of the First Data International segment revenue.

Integrated Payment Systems

The Integrated Payment Systems segment is comprised of:

(1) Official check and money order issuance; and

(2) Check processing and payment management services.

Integrated Payment Systems revenues from external customers excluding an adjustment to reflect segment revenue on a pretax equivalent basis, operating profit, and assets represent the following percentages of FDC's consolidated revenues, total reported segment operating profit and consolidated assets:

	Successor Period from September 25, 2007 through December 31, 2007	Predecessor Period from January 1, 2007 through September 24, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Revenue from external customers	0%	(1)%	(2)%	0%
Operating profit ^{1,2}	9%	3%	1%	8%
Assets ²	25%		42%	42%

1 Operating profit, as a percentage of total segment and all other and corporate operating profit, for the predecessor period from January 1, 2007 through September 24, 2007 includes accelerated vesting of stock options and restricted stock awards and units and transaction costs related to the merger of \$265.2 million that were recognized in All Other and Corporate. The exclusion of these costs from the calculation would decrease Integrated Payment System's operating profit percentage shown above by approximately 1 percentage point for the predecessor period from January 1, 2007 through September 24, 2007.

2 Operating profit and assets were impacted by purchase accounting in the successor period from September 25, 2007 through December 31, 2007.

Upon completion of a strategic review of the Company's official check and money order operations in the first quarter of 2007, the Company decided to gradually exit this line of business. The Company expects the wind-down of the majority of the business to take place in 2008. During 2007, the Company repositioned its investment portfolio associated with this business from long-term municipal bonds to short-term investments, the majority of which were short-term, tax-exempt variable rate demand notes at December 31, 2007. In January 2008, the portfolio was further repositioned from these short-term, tax-exempt variable rate demand notes to mostly short-term taxable investments, the majority of which were in commercial paper and bank certificates of deposits.

Official checks and money orders

The Company issues official checks, which are sold primarily through financial institutions, and money orders, which are sold at financial institutions or retail store fronts. Official checks serve as an alternative to a bank's own disbursement items such as cashiers or bank checks and money orders primarily serve as a disbursement option for un-banked customers.

The Company's official check and money order services generate revenue primarily through the ability to invest funds pending settlement. The Company invests these funds in investments to minimize its exposure to credit risks. These investments primarily were in tax-exempt variable rate demand notes in 2007 but were replaced with mostly short-term taxable investments in January of 2008 as noted above as well as some long-term auction-rate securities.

An official check transaction is initiated when a consumer procures an official check from one of the Company's agents, typically a financial institution. The agent generally is required to remit the funds collected from the consumer to the Company the same day or the following day.

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The Company pays its agents commissions based on short-term variable interest rates and the balance of outstanding official checks attributable to the individual agent. The Company nets the commissions paid to agents against the revenues it earns from its investments.

Check processing and payment management services

Check processing represents capture and processing of inbound and outbound checks, including image based services, and payment management services represents remote deposit, clearing services and processing which occur in various forms such as checks, ACH, wire transfer and stored value cards.

Integrated Payment Systems Competition

The Company's official check and money order businesses compete with one other third party check issuer, financial institutions processing their own in-house check products and postal money orders.

Integrated Payment Systems Significant Customers

No individual customer makes up more than 10% of the Integrated Payment Systems segment revenue.

All Other and Corporate

The remainder of the Company's business units are grouped in the All Other and Corporate category, which includes EFS Transportation Services Inc. (EFSTS), FDGS Holdings, LP (FDGS), Teleservices, First Data Voice Services, First Data Solutions and corporate operations.

EFSTS provides payment processing, settlement and specialized reporting services for transportation companies and owns and operates ATMs at truck stops. EFSTS is a closed loop payment processing system for transportation companies in the United States and Canada. Its products offer transportation drivers a convenient way to purchase fuel, access cash and pay for repairs while on the road. Transportation companies use the processing system to manage their business daily through the internet or real time via a direct connection to a host.

FDGS is focused on identifying, developing, commercializing and operating payment systems and related technologies in the government sector. For instance, FDGS provides electronic tax payment processing services for the Electronic Federal Tax Payment System (EFTPS).

Teleservices is a provider of voice-center services to the telecommunications and financial services industries. Teleservices operates two voice operations centers in the United States that provide a full range of high-volume, inbound telephone operator services, including customer support, directory assistance and multilingual customer service.

First Data Voice Services offers customized toll-free telephone interactive voice services that gather, process and distribute information for client needs for both promotional and long-term projects. Revenues from these services consist of fees paid by clients, which generally are based on call volume, duration and the number of transactions.

First Data Solutions serves financial institutions and debt and collection agencies by helping them locate, verify and identify individuals and businesses.

Corporate operations include administrative and shared service functions such as the executive group, legal, tax, treasury, internal audit, accounting, human resources, information technology and procurement. Costs incurred by corporate that are directly related to a segment are allocated to the respective segment. Shared service costs are allocated to the segments primarily based on a relative percentage of total segment revenue. Administrative costs are retained by Corporate.

All Other and Corporate Competition

The operations within All Other and Corporate have various competitors. Any single competitor would not have a material impact on the Company.

All Other and Corporate Significant Customers

All Other and Corporate has a significant customer relationship with one customer that represents approximately 14% and 19% of All Other and Corporate's revenue from external customers for the successor period from September 25, 2007 through December 31, 2007 and the predecessor period from January 1, 2007 through September 24, 2007, respectively.

Trademarks and Patents

The Company owns many trademarks, patents and other intellectual property that are important to its future success. The only intellectual property right which is individually material to the Company is the STAR Network trade name within the Commercial Services and Financial Institution segments. Financial institutions and merchants associate the STAR Network trade name with quality and reliable debit network processing services. Loss of the proprietary use of the STAR Network trade name or a diminution in the perceived quality associated with that name could harm the Company's growth in the debit network business. Also important,

but not individually material, is the VisionPLUS trademark and software mostly utilized in the First Data International segment. VisionPLUS is recognized internationally as a quality software product and card processing system. The software is important to the Company's international expansion.

Most of the segments' services and products utilize proprietary software that is updated to meet customer needs and remain competitive. The Company has programs to protect its proprietary software and patents as it seeks to offer distinctive services and products to customers which differentiate it from competitors. The patent protection associated with the Company's systems and software expires at different times over the next one to 20 years.

Employees and Labor

At December 31, 2007, the Company employed approximately 27,000 employees, approximately 96% of which were full-time employees. One of the Company's wholly owned subsidiaries has approximately 2,200 employees in the United Kingdom, about 20% of whom are members of Unite trade union (formerly Amicus trade union). Employees of the Company's subsidiaries in Vienna, Austria; Frankfurt, Germany; Nürnberg, Germany; and Stuttgart, Germany are also represented by local works councils and a portion of the Frankfurt workforce is covered by a union contract. Employees in certain other countries are also covered by the terms of industry-specific national collective agreements. The majority of the Company's employees are not otherwise represented by any labor organization in the United States. The Company believes that its relations with its employees and the labor organizations identified above are in good standing.

Available Information

FDC's principal executive offices are located at 6200 S. Quebec Street, Greenwood Village, CO 80111, telephone (303) 967-8000. The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports are available free of charge to shareholders and other interested parties through the "About" portion of the Company's web site, www.firstdata.com, as soon as reasonably practical after they are filed with the Securities and Exchange Commission (SEC). The SEC maintains a web site, www.sec.gov, which contains reports and other information filed electronically with the SEC by the Company. The Company's Audit Committee Charter, Compensation and Benefits Committee Charter, Nominating and Governance Committee Charter, and Code of Conduct for Senior Financial Officers are available without charge through the "About", "Governance" portion of the Company's web site, listed above, or by writing to the attention of Investor Relations at the address listed above.

Executive Officers of the Company

See Item 10 of this Form 10-K.

Government Regulations

Various aspects of our service areas are subject to U.S. federal, state and local regulation, as well as regulation outside the United States. Failure to comply with regulations may result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of service, and/or the imposition of civil and criminal penalties, including fines. Certain of our services also are subject to rules promulgated by various payment networks, such as Visa, MasterCard and Discover, as more fully described below.

Banking Regulation

First Data Loan Company, Canada (FDLCC), through which we conduct some of our merchant acquiring activities in Canada, is a Canadian loan company subject to regulation, examination and oversight by the Office of the Superintendent of Financial Institutions and to various provincial registration and licensing requirements. First Data Trust Company, LLC (FDTC), engages in trust activities previously conducted by the trust department of a former banking subsidiary of the Company. FDTC is subject to regulation, examination and oversight by the Division of Banking of the Colorado Department of Regulatory Agencies. These financial institution subsidiaries are also subject to various national and local banking and consumer protection laws and regulations that apply to the activities they conduct. Since FDTC is not a bank under the Bank Holding Company Act of 1956, as amended (BHCA), and FDLCC does not operate any banking offices in the United States or do business in the United States, except such business as may be incidental to its activities outside the United States, our affiliation with FDTC and FDLCC does not cause us to be regulated as a bank holding company or financial holding company under the BHCA.

Because a number of our subsidiary businesses, including card issuer processing, merchant processing and STAR Network businesses, provide data processing services for financial institutions, they are subject to examination by the Federal Financial Institutions Examination Council, an interagency body comprised of the federal bank and thrift regulators and the National Credit Union Association.

FDR Limited (FDRL) in the United Kingdom holds a license from the Financial Services Authority (FSA). The FSA is the licensing and regulatory authority for all U.K. financial services, including banking, but FDRL 's license is limited to acting as an insurance intermediary in connection with selling card payment protection insurance to its issuer customers' cardholders.

TeleCheck Payment Systems Limited in Australia holds an Australian Financial Services License under Chapter 7 of the Corporations Act, which regulates the provision of a broad range of financial services in Australia. The license, issued by the Australian Securities and Investments Commission, entitles the Australian operations of TeleCheck to deal in and provide general financial product advice about its check guarantee and check verification product (which falls within the definition of a risk management product under the legislation). The License and the Act requires that TeleCheck 's Australian operations issue product documents that comply with specific content requirements and follow prescribed procedures failing which penalties apply.

First Data Slovakia is registered with the National Bank of Slovakia as an authorized participant to the Slovak payment system.

First Data Polska S.A. is regulated as a settlement agent by the National Bank of Poland.

Association and Network Rules

FDLCC is a member of MasterCard International, Inc. in Canada and subject to MasterCard rules. First Data Cono Sur, S.A. is a member of MasterCard in Argentina and Uruguay and subject to MasterCard rules. First Data Resources, LLC., First Data Merchant Services Corporation, FDRL, First Data Deutschland, First Data Hellas, First Data Latvia, First Data Lithuania, First Data Slovakia, First Data Austria, First Data Resources Australia Limited (FDRA), BWA Merchant Services Pty Limited (BWAMS), Omnipay, Limited, First Data Acquisition Corp., First Data Merchant Services Mexico, S. de R.L. de C.V., AIB Merchant Services, European Merchant Services, BNL Positivity, Merchant Solutions Private Limited, Merchant Solutions Pte Limited, Merchant Solutions Sdn Bhd and STAR Network are registered with Visa and/or MasterCard as service providers for member institutions. In those situations where we are serving as service providers to member institutions, we are not an acquirer under Visa 's and MasterCard 's rules. Two STAR Network entities, Star Networks, Inc. and Star Processing Inc., are also processor level members of numerous debit and electronic benefits transaction (EBT) networks in connection with processing services and other services they provide to their customers. As such, we are subject to applicable card association and network rules, which could subject us to a variety of fines or penalties that may be levied by the card associations or networks for certain acts and/or omissions by us, our sponsorees, acquirer customers, processing customers and/or merchants. We mitigate this risk by maintaining an extensive card association and network compliance function. We are also subject to network operating rules promulgated by the National Automated Clearing House Association relating to payment transactions processed by us using the Automated Clearing House Network and to various state laws regarding such operations, including laws pertaining to EBT.

Cashcard Australia Limited (Cashcard) is a member of the Australian Consumer Electronic Clearing System (CECS), which is a debit payment system regulated by network operating rules established and administered by Australian Payments Clearing Association Limited and which facilitates the clearing and settlement of ATM and Electronic Funds Transfer at Point of Sale (EFTPOS) payments in Australia. The network operating rules impose a variety of sanctions, including suspension or termination of membership and fines for non-compliance. Cashcard also operates its own network of members, regulated by rules promulgated by Cashcard, which facilitates access to CECS for Cashcard 's member institutions. To enable Cashcard to settle in CECS direct with banks and financial institutions, Cashcard maintains an Exchange Settlement Account (ESA) which is supervised by the Reserve Bank of Australia through its delegate, the Australian Prudential Regulatory Authority (APRA), and which requires Cashcard to adhere to conditions imposed by APRA, such as maintaining a minimum balance in the ESA.

Our subsidiary in Germany, TeleCash GmbH & Co. KG (TeleCash), is certified and regulated as a processor for domestic German debit card transactions by the Zentraler Kreditausschuss (ZKA), the German banking association. Failure to comply with the technical requirements set forth by the ZKA may result in suspension or termination of services.

Credit Reporting and Debt Collections Regulations

TeleCheck Services Inc. (TeleCheck) is subject to the Federal Fair Credit Reporting Act (FCRA) and various similar state laws based on TeleCheck's maintenance of a database containing the check-writing histories of consumers and the use of that information in connection with its check verification and guarantee services.

The collection business within TeleCheck is subject to the Fair Debt Collection Practices Act and various similar state laws. FDRL has a license under the Consumer Credit Act to enable it to undertake collections activity on behalf of its card issuing customers through calls and letters to the debtors. First Data Deutschland and TeleCash in Germany each hold a license under the German Legal Services Act to undertake collections activities on behalf of its card issuing customers as well as against their own debtors.

TeleCheck may become subject to further regulation in the future as legislatures, both federal and state, enact additional legislation aimed at regulating the collection, storage and use of data and databases regarding consumers. In particular, legislation reducing or eliminating access to and use of information on drivers licenses, requiring blocking of access to credit reports or scores, mandating score or scoring methodology disclosure and proscribing the maintenance or use of consumer databases, including a consumer's rights to affect the usable content of databases, could reduce the effectiveness of TeleCheck's risk management tools or otherwise increase its costs of doing business. Such legislation could also affect the business of First Data Solutions, which provides access to non-FCRA data for identity verification and fraud-prevention purposes, by imposing new regulatory requirements or restricting the availability and completeness of consumer data.

In Australia, FDRA and BWA Merchant Services Pty. Ltd. are subject to the Privacy Act with respect to obtaining credit reports. No license is required but the Act regulates the persons to whom credit reports can be provided by credit reporting agencies and the uses and disclosures that can be made of the information contained in credit reports obtained about consumers.

Payment Instrument Licensing and Regulation

We are subject to various U.S. federal, state and foreign laws and regulations governing the sale of payment instruments, such as official checks and money orders.

In the United States, most states license issuers of payment instruments. Many states exercise authority over the operations of our services related to the sale of payment instruments and, as part of this authority, subject us to periodic examinations. Many states require, among other things, that proceeds from the sales of such instruments be invested in high-quality marketable securities prior to the settlement of the transactions. Such licensing laws also may cover matters such as regulatory approval of consumer forms, consumer disclosures and the filing of periodic reports by the licensee, and require the licensee to demonstrate and maintain levels of net worth. Many states also require issuers of payment instruments and their agents to comply with federal and/or state anti-money laundering laws and regulations. Our payment instrument businesses also are subject to regulation by the United States, including anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (collectively, the BSA). In addition, certain economic and trade sanctions programs that are administered by the Treasury Department's Office of Foreign Assets Control (OFAC) prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations. The BSA, among other things, requires the issuers and sellers of money orders and official checks to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity, and to maintain transaction records.

Similar anti-money laundering and counter terrorist financing and proceeds of crime laws apply to movements of currency and payments through electronic transactions and to dealings with persons specified in lists maintained by the country equivalents to the OFAC lists in several other countries and require specific data retention obligations to be observed by intermediaries in the payment process. Our businesses in those jurisdictions are subject to those data retention obligations.

We have developed and are enhancing global compliance programs to monitor and address legal and regulatory requirements and developments.

Government agencies both inside and outside the United States may impose new or additional rules on sales of payment instruments, including regulations which (i) impose additional identification, reporting or recordkeeping requirements; (ii) limit the entities capable of providing the sale of payment instruments; and (iii) require additional consumer disclosures.

Escheat Regulations

We are subject to unclaimed or abandoned property (escheat) laws in the United States and abroad which require us to turn over to certain government authorities the property of others held by us that has been unclaimed for a specified period of time such as, in the Integrated Payment Systems segment, payment instruments that have not been presented for payment or, in the Commercial Services segment, account balances that cannot be returned to a merchant following discontinuation of its relationship with us. A number of our subsidiaries hold property subject to escheat laws and we have an ongoing program to comply with those laws. We are subject to audit by the states with regard to our escheatment practices.

Privacy and Information Security Regulations

Each of our segments provides services that may be subject to various state, federal and foreign privacy laws and regulations. Relevant federal privacy laws include the Gramm-Leach-Bliley Act, which applies directly to a broad range of financial institutions and indirectly to companies that provide services to financial institutions, and the Health Insurance Portability and Accountability Act, which applies directly to certain healthcare-related businesses and indirectly to companies that provide services to such businesses. Relevant foreign privacy laws include Directive 95/46 EC of the European Parliament and of the Council of 24 October 1995, as such directive is implemented in each member state of the European Union (however each member state has its own privacy laws which in some cases may be more restrictive than the Directive and impose additional duties on companies regarding handling/transfer of personal data); the Australian Privacy Act of 1988; and the Personal Information Protection and Electronic Documents Act in Canada. Each of these laws restricts the collection, processing, storage, use and disclosure of personal information, requires notice to individuals of privacy practices and provides individuals with certain rights to prevent use and disclosure of protected information. These laws also impose requirements for safeguarding personal information through the issuance of data security standards or guidelines. Certain state laws impose similar privacy obligations as well as, in certain circumstances, obligations to provide notification to affected individuals, state officers and consumer reporting agencies, as well as businesses and governmental agencies that own data, of security breaches of computer databases that contain personal information.

Other

In the European Union, Directive 2007/60 EG, the Payment Services Directive, was released by the European Parliament and by the Council on November 13th, 2007, setting a framework for future regulation of bodies and corporations such as the national central banks, financial institutions, e-money institutes and payment institutions. The Payment Services Directive has to be implemented in the EU member states via national legislation by November 1st, 2009. It is expected that the new member state legislation will have a material impact on the development of our industry in the EU.

Stored-value services offered to issuers by First Data Prepaid Services (FDPS) in the United States and outside the United States by First Data International businesses (First Data International) are subject to various federal, state and foreign laws and regulations, which may include laws and regulations related to consumer and data protection, licensing, escheat, anti-money laundering, banking, trade practices and competition and wage and employment. These laws and regulations are evolving, unclear and sometimes inconsistent and subject to judicial and regulatory challenge and interpretation, and therefore the extent to which these laws have application to, and their impact on, FDPS, First Data International, financial institutions, merchants or others is in flux. At this time we are unable to determine the impact that the clarification of these laws and their future interpretations, as well as new laws, may have on FDPS, First Data International, financial institutions, merchants or others. These services may also be subject to the rules and regulations of the various international, domestic and regional schemes, Networks and Associations in which FDPS, First Data International and the card issuers participate. These schemes, Networks or Associations may, generally in their discretion, modify these rules and regulations and such modifications could also impact FDPS, First Data International, financial institutions, merchants and others.

ITEM 1A. RISK FACTORS

The following are certain risks that could affect the Company's business and its results of operations. The risks identified below are not all encompassing but should be considered in establishing an opinion of the Company's future operations.

The Company's substantial leverage could adversely affect its ability to raise additional capital to fund its operations, limit the Company's ability to react to changes in the economy or its industry, expose the Company to interest rate risk to the extent of its variable rate debt and prevent the Company from meeting its debt obligations.

As a result of the September 24, 2007 merger of the Company with Omaha Acquisition Corporation, the Company became highly leveraged. The Company's high degree of leverage could have important consequences, including:

increasing the Company's vulnerability to adverse economic, industry or competitive developments;

requiring a substantial portion of cash flow from operations to be dedicated to the payment of principal and interest on the Company's indebtedness, therefore reducing the Company's ability to use its cash flow to fund the Company's operations, capital expenditures and future business opportunities;

exposing the Company to the risk of increased interest rates because certain of its borrowings, including borrowings under the Company's new senior secured credit facilities, will be at variable rates of interest;

making it more difficult for the Company to satisfy its obligations with respect to its indebtedness, and any failure to comply with the obligations of any of the Company's debt instruments, including restrictive covenants and borrowing conditions, could result in an event of default under the indenture governing the notes and the agreements governing such other indebtedness;

restricting the Company from making strategic acquisitions or causing the Company to make non-strategic divestitures;

making it more difficult for the Company to obtain network sponsorship and clearing services from financial institutions as a result of the Company's increased leverage;

limiting the Company's ability to obtain additional financing for working capital, capital expenditures, product development, debt service requirements, acquisitions and general corporate or other purposes; and

limiting the Company's flexibility in planning for, or reacting to, changes in the Company's business or market conditions and placing the Company at a competitive disadvantage compared to its competitors who are less highly leveraged and who therefore, may be able to take advantage of opportunities that the Company's leverage prevents it from exploiting.

Despite the Company's high indebtedness level, the Company and its subsidiaries still may be able to incur significant additional amounts of debt, which could further exacerbate the risks associated with the Company's substantial indebtedness.

The Company and its subsidiaries may be able to incur substantial additional indebtedness in the future. Although the indentures governing the Company's senior notes, the senior PIK notes of First Data Holdings Inc., the agreements governing the Company's unsecured debt, including the indentures governing the exchange notes related thereto, and the Company's senior secured credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to the Company's and its subsidiaries' existing debt levels, the related risks that the Company will face would increase.

The Company's debt agreements contain restrictions that will limit the Company's flexibility in operating its business.

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The indenture governing the Company's senior notes and the agreements governing the Company's unsecured debt, including the indentures governing the exchange notes related thereto, the indenture governing the senior PIK notes of First Data Holdings Inc., and the Company's senior secured credit facilities contain various covenants that limit the Company's ability to engage in specified types of transactions. These covenants limit the Company's and its restricted subsidiaries' ability to, among other things:

incur additional indebtedness or issue certain preferred shares;

pay dividends on, repurchase or make distributions in respect of the Company's capital stock or make other restricted payments;

make certain investments;

sell certain assets;

create liens;

consolidate, merge, sell or otherwise dispose of all or substantially all of the Company's assets;

enter into certain transactions with the Company's affiliates; and

designate the Company's subsidiaries as unrestricted subsidiaries.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of the revolving credit facility, permit the lenders to cease making loans to the Company. Upon the occurrence of an event of default under the Company's senior secured credit facilities, the lenders could elect to declare all amounts outstanding under the Company's senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under the Company's other indebtedness. If the Company was unable to repay those amounts, the lenders under the Company's senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness. The Company has pledged a significant portion of the Company's assets as collateral under the Company's senior secured credit facilities. If the lenders under the senior secured credit facilities accelerate the repayment of borrowings, the Company may not have sufficient assets to repay the Company's senior secured credit facilities as well as the Company's unsecured indebtedness.

The ability to adopt technology to changing industry and customer needs or trends may affect the Company's competitiveness or demand for the Company's products, which may adversely affect the Company's operating results.

Changes in technology may limit the competitiveness of and demand for the Company's services. The Company's businesses operate in industries that are subject to technological advancements, developing industry standards and changing customer needs and preferences. Also, the Company's customers continue to adopt new technology for business and personal uses. The Company must anticipate and respond to these industry and customer changes in order to remain competitive within the Company's relative markets. For example, the ability to adopt technological advancements surrounding POS technology available to merchants could have an impact on the Company's International and Commercial Services business. The Company's inability to respond to new competitors and technological advancements could impact all of the Company's businesses.

Changes in credit card association or other network rules or standards could adversely affect the Company's business.

In order to provide the Company's transaction processing services, several of the Company's subsidiaries are registered with Visa and MasterCard and other networks as members or service providers for member institutions. As such, the Company and many of its customers are subject to card association and network rules that could subject the Company or its customers to a variety of fines or penalties that may be levied by the card associations or networks for certain acts or omissions by the Company, acquirer customers, processing customers and merchants. Visa, MasterCard and other networks, some of which are the Company's competitors, set the standards with respect to which the Company must comply. The termination of the Company's member registration or the Company's status as a certified service provider, or any changes in card association or other network rules or standards, including interpretation and implementation of the rules or standards, that increase the cost of doing business or limit the Company's ability to provide transaction processing services to or through the Company's customers, could have an adverse effect on the Company's business, operating results and financial condition.

Changes in card association and debit network fees or products could increase costs or otherwise limit the Company's operations.

From time to time, card associations and debit networks increase the organization and/or processing fees (known as interchange fees) that they charge. It is possible that competitive pressures will result in the Company absorbing a portion of such increases in the future, which would increase its operating costs, reduce its profit margin and adversely affect its business, operating results and financial condition. Furthermore, the rules and regulations of the various card associations and networks prescribe certain capital requirements. Any increase in the capital level required would further limit the Company's use of capital for other purposes.

The Company is the subject of various legal proceedings which could have a material adverse effect on the Company's revenue and profitability.

The Company is involved in various litigation matters. The Company is also involved in or is the subject of governmental or regulatory agency inquiries or investigations from time to time. If the Company is unsuccessful in its defense in the litigation matters, or any other legal proceeding, it may be forced to pay damages or fines and/or change its business practices, any of which could have a material adverse effect on the Company's revenue and profitability. For more information about the Company's legal proceedings, see Item 3: Legal Proceedings herein.

The Company's business may be adversely affected by risks associated with foreign operations.

The Company is subject to risks related to the changes in currency rates as a result of its investments in foreign operations and from revenues generated in currencies other than the U.S. dollar. Revenue and profit generated by international operations will increase or decrease compared to prior periods as a result of changes in foreign currency exchange rates. From time to time, the Company utilizes foreign currency forward contracts or other derivative instruments to mitigate the cash flow or market value risks associated with foreign currency denominated transactions. However, these hedge contracts may not eliminate all of the risks related to foreign currency translation. Furthermore, the Company may become subject to exchange control regulations that might restrict or prohibit the conversion of its other revenue currencies into U.S. dollars. The occurrence of any of these factors could decrease the value of revenues the Company receives from its international operations and have a material adverse impact on the Company's business.

Increase in interest rates may negatively impact the Company's operating results and financial condition.

Certain of the Company's borrowings, including borrowings under the Company's new senior secured credit facilities to the extent the interest rate is not fixed by an interest rate swap, are at variable rates of interest. An increase in interest rates would have a negative impact on the Company's results of operations by causing an increase in interest expense.

Future consolidation of client financial institutions or other client groups may adversely affect the Company's financial condition.

The Company has experienced the negative impact of the bank industry consolidation in recent years. Bank industry consolidation impacts existing and potential clients in the Company's service areas, primarily in Financial Institution Services and Commercial Services. The Company's alliance strategy could be negatively impacted as a result of consolidations, especially where the banks involved are committed to their internal merchant processing businesses that compete with the Company. Bank consolidation has led to an increasingly concentrated client base in the industry, resulting in a changing client mix for Financial Institution Services as well as increased price compression. Further consolidation in the bank industry or other client base could have a negative impact on the Company.

The Company's cost saving plans may not be effective which may adversely affect the Company's financial results.

The Company's operations strategy includes goals such as data center consolidation, outsourcing labor and reducing corporate overhead expenses and business unit operational expenses. While the Company has and will continue to implement these strategies, there can be no assurance that it will be able to do so successfully or that it will realize the projected benefits of these and other cost saving plans. If the Company is unable to realize these anticipated cost reductions, its financial health may be adversely affected. Moreover, the Company's continued implementation of cost saving plans and facilities integration may disrupt its operations and performance.

The Company's cost saving plans are based on assumptions that may prove to be inaccurate which may negatively impact the Company's operating results.

The Company is in the process of consolidating the Company's data centers and command centers in the United States over the next several years. The Company also expects to reduce its data centers and command centers internationally over the same period. In addition, the Company is implementing a technology outsourcing initiative, a cost reduction effort related to overhead spending (including corporate functions and overhead expenses embedded in the Company's segments) and other cost improvement and cost containment programs across all of the Company's business segments. While the Company expects its cost saving initiatives to result in significant cost savings throughout the Company's organization, the estimated savings are based on several assumptions that may prove to be inaccurate, and as a result the Company cannot assure that it will realize these cost savings. The failure to achieve the Company's estimated cost savings would negatively affect the Company's financial condition and results of operations.

The Company depends, in part, on its merchant relationships and alliances to grow the Company's Commercial Services business. If the Company is unable to maintain these relationships and alliances, the Company's business may be adversely affected.

Growth in the Company's Commercial Services business is derived primarily from acquiring new merchant relationships, new and enhanced product and service offerings, cross selling products and services into existing relationships, the shift of consumer spending to increased usage of electronic forms of payment and the strength of the Company's alliance partnerships with banks and financial institutions and other third parties. A substantial portion of the Company's business is conducted through alliances with banks and other institutions. The Company's alliance structures take on different forms, including consolidated subsidiaries, equity method investments and revenue sharing arrangements. Under the alliance program, the Company and a bank or other institution form a joint venture, either contractually or through a separate legal entity. Merchant contracts may be contributed to the venture by the Company and/or the bank or institution. The banks and other institutions generally provide card association sponsorship, clearing and settlement services. These institutions typically act as a merchant referral source when the institution has an existing banking or other relationship. The Company provides transaction processing and related functions. Both alliance partners may provide management, sales, marketing, and other administrative services. The alliance structure allows the Company to be the processor for multiple financial institutions, any one of which may be selected by the merchant as their bank partner. The Company relies on the continuing growth of its merchant relationships, alliances and other distribution channels. There can be no guarantee that this growth will continue. The loss of merchant relationships or alliance and financial institution partners could negatively impact the Company's business and result in a reduction of the Company's revenue and profit. The Company's largest merchant alliance, Chase Paymentech, is 51% owned by J.P. Morgan Chase Bank, N.A., and 49% owned by FDC. The current term of the existing alliance agreement expires in 2010; however, JPMorgan had the right to terminate the alliance due to the change of control upon the closing of the Merger. The Company has extended the time period to exercise this right to allow for further discussions regarding the alliance. If JPMorgan exercises its termination right, FDC has the right to receive 49% of the alliance's merchant contracts by value and be allocated 49% of the alliance's sales force. A termination is not expected to have a material impact to income from continuing operations or consolidated EBITDA and the Company's reported revenues would increase. Potential risks if the alliance is terminated include the potential loss of certain processing volume over time, the loss of JPMorgan branch referrals, the loss of access to the JPMorgan brand, and post-termination competition by Chase.

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

The Company has been an active business acquirer both in the United States and internationally, and may continue to be active in the future. The acquisition and integration of businesses involves a number of risks. The core risks are in the areas of valuation (negotiating a fair price for the business based on inherently limited diligence) and integration (managing the complex process of integrating the acquired company's people, products, technology and other assets so as to realize the projected value of the acquired company and the synergies projected to be realized in connection with the acquisition). In addition, international acquisitions often involve additional or increased risks including, for example:

managing geographically separated organizations, systems and facilities;

integrating personnel with diverse business backgrounds and organizational cultures;

complying with foreign regulatory requirements;

fluctuations in currency exchange rates;

enforcement of intellectual property rights in some foreign countries;

difficulty entering new foreign markets due to, among other things, customer acceptance and business knowledge of these new markets; and

general economic and political conditions.

The process of integrating operations could cause an interruption of, or loss of momentum in, the activities of one or more of the Company's combined businesses and the possible loss of key personnel. The diversion of management's attention and any delays or difficulties encountered in connection with acquisitions and the integration of the two companies' operations could have an adverse effect on the Company's business, results of operations, financial condition or prospects.

Unfavorable resolution of tax contingencies could adversely affect the Company's tax expense.

The Company has established contingency reserves for material tax exposures relating to deductions, transactions and other matters involving some uncertainty as to the proper tax treatment of the item. These reserves reflect what the Company believes to be reasonable assumptions as to the likely final resolution of each issue if raised by a taxing authority. While the Company believes that the reserves are adequate to cover reasonably expected tax risks, there can be no assurance that, in all instances, an issue raised by a tax authority will be finally resolved at a financial cost not in excess of any related reserve. An unfavorable resolution, therefore, could negatively impact the Company's results of operations.

Changes in laws, regulations and enforcement activities may adversely affect the products, services and markets in which the Company operates.

The Company and its customers are subject to regulations that affect the electronic payments industry in the many countries in which the Company's services are used. In particular, the Company's customers are subject to numerous regulations applicable to banks, financial institutions and card issuers in the United States and abroad, and, consequently, the Company is at times affected by such federal, state and local regulations. Regulation of the payments industry, including regulations applicable to the Company and its customers, has increased significantly in recent years. Failure to comply with regulations may result in the suspension or revocation of license or registration, the limitation, suspension or termination of service, and/or the imposition of civil and criminal penalties, including fines which could have an adverse effect on the Company's financial condition. The Company is subject to U.S. and international financial services regulations, a myriad of consumer protection laws, escheat regulations and privacy and information security regulations to name only a few. Changes to legal rules and regulations, or interpretation or enforcement thereof, could have a negative financial effect on the Company. In addition, even an inadvertent failure by the Company to comply with laws and regulations, as well as rapidly evolving social expectations of corporate fairness, could damage the Company's reputation or brands. There is also increasing scrutiny of a number of credit card practices, from which some of the Company's customers derive significant revenue, by the U.S. Congress and governmental agencies. For example, the Senate Permanent Subcommittee on Investigations has considered the methods used to calculate finance charges and allocate payments received from cardholders, and the methods by which default interest rates, late fees and over-the-credit-limit fees are determined, imposed and disclosed. These investigative efforts and other congressional activity could lead to legislation and/or regulation that could have a material impact on the Company's customers' businesses and the Company's business if implemented. Any such legislative or regulation restrictions on the Company's customers' ability to operate their credit card programs or to price credit freely could result in reduced revenue and increased cost for the Company's customers, reduced amounts of credit available to consumers and, therefore, a potential reduction of the Company's transaction volume and revenues. The Company has structured its business in accordance with existing tax laws and interpretations of such laws which have been confirmed through either tax rulings or opinions obtained in various jurisdictions including those related to value added taxes in Europe. Changes in tax laws or their interpretations could decrease the value of revenues the Company receives and have a material adverse impact on the Company's business.

Failure to protect the Company's intellectual property rights and defend itself from potential patent infringement claims may diminish the Company's competitive advantages or restrict it from delivering the Company's services.

The Company's trademarks, patents and other intellectual property are important to its future success. The STAR trade name is an intellectual property right which is individually material to the Company. The STAR trade name is widely recognized and is associated with quality and reliable service. Loss of the proprietary use of the STAR trade name or a diminution in the perceived quality associated with this name could harm the Company's growth in the debit network business. The Company also relies on proprietary technology. It is possible that others will independently develop the same or similar technology. Assurance of protecting its trade secrets, know-how or other proprietary information cannot be guaranteed. The Company's patents could be challenged, invalidated or circumvented by others and may not be of sufficient scope or strength to provide the Company with any meaningful protection or advantage. If the Company was unable to maintain the proprietary nature of its technologies, the Company could lose competitive advantages and be materially adversely affected. The laws of certain foreign countries in which the Company does business or contemplate doing business in the future do not recognize intellectual property rights or protect them to the same extent as do the laws of the United States. Adverse determinations in judicial or administrative proceedings could prevent the Company from selling the Company's services or prevent the Company from preventing others from selling competing services, and thereby may have a material adverse affect on the business and results of operations. Additionally, claims have been made, are currently pending, and other claims may be made in the future, with regards to the Company's technology infringing on a patent or other intellectual property rights. Unfavorable resolution of these claims could either result in the Company being restricted from delivering the related service or result in a settlement that could be material to the Company.

Material breaches in security of the Company's systems may have a significant effect on the Company's business.

The uninterrupted operation of the Company's information systems and the confidentiality of the customer/consumer information that resides on such systems are critical to the successful operations of the Company's business. The Company has security, backup and recovery systems in place, as well as a business continuity plan to ensure the system will not be inoperable. The Company also has what it deems sufficient security around the system to prevent unauthorized access to the system. An information breach in the system and loss of confidential information such as credit card numbers and related information could have a longer and more significant impact on the business operations than a hardware failure. The loss of confidential information could result in losing the customers' confidence and thus the loss of their business, as well as imposition of fines and damages.

The ability to recruit, retain and develop qualified personnel is critical to the Company's success and growth.

All of the Company's businesses function at the intersection of rapidly changing technological, social, economic and regulatory developments that requires a wide ranging set of expertise and intellectual capital. For the Company to successfully compete and grow, it must retain, recruit and develop the necessary personnel who can provide the needed expertise across the entire spectrum of its intellectual capital needs. In addition, the Company must develop its personnel to provide succession plans capable of maintaining continuity in the midst of the inevitable unpredictability of human capital. However, the market for qualified personnel is competitive and the Company may not succeed in recruiting additional personnel or may fail to effectively replace current personnel who depart with qualified or effective successors. The Company's effort to retain and develop personnel may also result in significant additional expenses, which could adversely affect the Company's profitability. The Company also manages its business with a number of key personnel that do not have employment agreements with the Company. In connection with the recent appointment of a new chief executive officer concurrent with the closing of the merger, changes have been and may continue to be made to the Company's senior management. The Company cannot assure that key personnel, including executive officers, will continue to be employed or that it will be able to attract and retain qualified personnel in the future. Failure to retain or attract key personnel could have a material adverse effect on the Company.

Failure to comply with state and federal antitrust requirements could adversely affect the Company's business.

Through the Company's merchant alliances, it holds an ownership interest in several competing merchant acquiring businesses while serving as the electronic processor for those businesses. In order to satisfy state and federal antitrust requirements, the Company actively maintains an antitrust compliance program. Notwithstanding the Company's compliance program, it is possible that perceived or actual violation of state or federal antitrust requirements could give rise to regulatory enforcement investigations or actions. Regulatory scrutiny of, or regulatory enforcement action in connection with, compliance with state and federal antitrust requirements could have a material adverse effect on the Company's reputation and business.

Global economics, political and other conditions may adversely affect trends in consumer spending, which may adversely impact the Company's revenue and profitability.

The global electronic payments industry depends heavily upon the overall level of consumer, business and government spending. A sustained deterioration in the general economic conditions, particularly in the United States or Europe, or increases in interest rates in key countries in which the Company operates may adversely affect the Company's financial performance by reducing the number of average purchase amount of transactions involving payment cards. A reduction in the amount of consumer spending could result in a decrease of the Company's revenue and profits.

The market for the Company's electronic commerce services is evolving and may not continue to develop or grow rapidly enough for the Company to maintain and increase its profitability.

If the number of electronic commerce transactions does not continue to grow or if consumers or businesses do not continue to adopt the Company's services, it could have a material adverse effect on the profitability of the Company's business, financial condition and results of operations. The Company believes future growth in the electronic commerce market will be driven by the cost, ease-of-use, and quality of products and services offered to consumers and businesses. In order to consistently increase and maintain the Company's profitability, consumers and businesses must continue to adopt the Company's services.

The Company may experience breakdowns in its processing systems that could damage customer relations and expose it to liability.

The Company depends heavily on the reliability of its processing systems in the Company's core business. A system outage or data loss could have a material adverse effect on the Company's business, financial condition and results of operations. Not only would the Company suffer damage to its reputation in the event of a system outage or data loss, but the Company may also be liable to third parties. Many of the Company's contractual agreements with financial institutions require the payment of penalties if the Company's systems do not meet certain operating standards. To successfully operate the Company's business, the Company must be able to protect its processing and other systems from interruption, including from events that may be beyond the Company's control. Events that could cause system interruptions include but are not limited to:

fire;

natural disaster;

unauthorized entry;

power loss;

telecommunications failure;

computer viruses;

terrorist acts; and

war.

Although the Company has taken steps to protect against data loss and system failures, there is still risk that it may lose critical data or experience system failures. The Company performs the vast majority of disaster recovery operations itself, though it utilizes select third parties for some aspects of recovery, particularly internationally. To the extent the Company outsources its disaster recovery, it is at risk of the vendor's unresponsiveness in the event of breakdowns in the Company's systems. Furthermore, the Company's property and business interruption insurance may not be adequate to compensate it for all losses or failures that may occur.

The Company may experience software defects, computer viruses and development delays, which could damage customer relations, decrease the Company's potential profitability and expose it to liability.

The Company's products are based on sophisticated software and computing systems that often encounter development delays, and the underlying software may contain undetected errors, viruses or defects. Defects in the Company's software products and errors or delays in the Company's processing of electronic transactions could result in:

additional development costs;

diversion of technical and other resources from the Company's other development efforts;

loss of credibility with current or potential customers;

harm to the Company's reputation; or

exposure to liability claims.

In addition, the Company relies on technologies supplied to it by third parties that may also contain undetected errors, viruses or defects that could have a material adverse effect on the Company's business, financial condition and results of operations. Although the Company attempts to limit its potential liability for warranty claims through disclaimers in the Company's software documentation and limitation-of-liability provisions in the Company's license and customer agreements, the Company cannot assure that these measures will be successful in limiting the Company's liability.

A deterioration in economic conditions could adversely affect our results of operations.

As noted above, many of the Company's businesses rely in part on the number and size of consumer transactions which may be affected by, among other things, overall economic conditions. If general market softness in the United States economy or other national economies important to the Company's businesses should continue for an extended period of time or deteriorate further, the Company's results of operations could be

adversely impacted.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not Applicable

ITEM 2. PROPERTIES

As of December 31, 2007, the Company and its subsidiaries owned or leased approximately 116 domestic properties and approximately 65 international properties. These facilities are used for operational, sales and administrative purposes, and are all currently being utilized.

	Leased Facilities		Owned Facilities	
	No.	Sq. Ft.	No.	Sq. Ft.
Facilities in the United States				
First Data Commercial Services	66	1,348,787	6	657,280
First Data Financial Institution Services	15	592,963	14	1,852,242
Integrated Payment Systems	5	149,799		
All Other and Corporate	10	580,064		
International Facilities				
First Data Commercial Services	1	2,250		
First Data Financial Institution Services	1	50,059		
First Data International	54	974,519	9	557,002

Integrated Payment Systems has principal operations in Englewood, Colorado. Commercial Services principal operations are conducted in Melville, New York; Hagerstown, Maryland; Coral Springs and Maitland, Florida; Kennesaw and Marietta, Georgia; Houston, Texas; Moorpark and Roseville, California; and Wilmington, Delaware. The principal operations for Financial Institution Services are located in Omaha, Nebraska; Wilmington, Delaware; and Chesapeake, Virginia. The principal operations for First Data International are located in Basildon, United Kingdom; Frankfurt, Germany; Athens (Kryoneri), Greece; Sydney, Australia; Vienna, Austria; and Buenos Aires, Argentina. The Company's All Other and Corporate facilities include the Company's corporate offices in Greenwood Village, Colorado.

The Company believes that its facilities are suitable and adequate for its current business; however, the Company periodically reviews its space requirements and may acquire new space to meet the needs of its businesses or consolidate and dispose of or sublet facilities which are no longer required.

ITEM 3. LEGAL PROCEEDINGS

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. None of these matters, either individually or in the aggregate, currently is material to the Company except the matters reported below.

In Re: Concord EFS, Inc. Shareholders Litigation

On or about April 3 and 4, 2003, two purported class action complaints were filed on behalf of the public holders of Concord's common stock (excluding shareholders related to or affiliated with the individual defendants) in the Circuit Court of Tennessee for the Thirtieth Judicial District by Charles Reed and Coralyn Stransky. The defendants in those actions were certain current and former officers and directors of Concord. The complaints generally alleged breaches of the defendants' duty of loyalty and due care in connection with the defendants' alleged attempt to sell Concord without maximizing the value to shareholders in order to advance the defendants' alleged individual interests in obtaining indemnification agreements related to litigation against Concord and its directors alleging Concord's financial statements were materially misleading and other derivative litigation. The complaints sought class certification, injunctive relief directing the defendants' conduct in connection with an alleged sale or auction of Concord, reasonable attorneys' fees, experts' fees and other costs and relief the Court deems just and proper. These complaints were consolidated into one action (In Re Concord EFS, Inc. Shareholders Litigation) and transferred to the Shelby County Circuit for the State of Tennessee.

On or about April 2, 2003, an additional purported class action complaint was filed in the Chancery Court for Shelby County, Tennessee, by Barton K. O'Brien. The defendants were Concord, certain of its current and former officers and directors, and the Company. This complaint contained allegations regarding the individual defendants' alleged insider trading and alleged violations of securities and other laws and asserted that this alleged misconduct reduced the consideration offered to Concord shareholders in the proposed merger between Concord and one of the Company's subsidiaries. The complaint sought class certification, attorneys' fees, experts' fees, costs and other relief the Court deems just and proper. Moreover, the complaint also sought an order enjoining consummation of the merger, rescinding the merger if it is consummated and setting it aside or awarding rescissory damages to members of the putative class, and directing the defendants to account to the putative class members for unspecified damages. On April 24, 2003, the Company filed a motion to dismiss the claims against it which was granted by the Court. On June 25, 2003, this complaint was transferred to the Shelby County Circuit Court in which In re Concord EFS, Inc. Shareholders Litigation is pending. Through a Court-ordered second amended consolidated complaint filed September 19, 2003, the two matters were consolidated.

On October 15, 2003, the plaintiffs moved for leave to file a third amended consolidated complaint similar to the previous complaints but also alleging that the proxy statement disclosures relating to the antitrust regulatory approval process were inadequate. On October 17, 2003, the plaintiffs filed a motion for preliminary injunction to enjoin the shareholder vote on the proposed merger and/or the merger itself. The Court denied the plaintiffs' motion on October 20, 2003 but ordered deposition discovery on an expedited basis. On October 27, 2003, the plaintiffs filed a renewed motion to enjoin the shareholder vote, which was denied by the Court the same day. A motion to dismiss was filed on June 22, 2004 alleging that the claims should be denied and are moot since the merger has occurred. On October 18, 2004, the Court heard arguments on the plaintiff's motion to amend complaint and defendant's motion to dismiss. On September 12, 2006, the Court granted the plaintiff's motion to file a third amended complaint.

On June 28, 2007, a hearing was held on Concord's motion to dismiss the third amended complaint. No order has been issued on this motion as yet.

ATM Fee Antitrust Litigation

On July 2, 2004, Pamela Brennan, Terry Crayton, and Darla Martinez filed a class action complaint on behalf of themselves and all others similarly situated in the United States District Court for the Northern District of California against the Company, its subsidiary Concord EFS, Inc., and various financial institutions (Brennan). Plaintiffs claim that the defendants violated antitrust laws by conspiring to artificially inflate foreign ATM fees that were ultimately charged to ATM cardholders. Plaintiffs seek a declaratory judgment, injunctive relief, compensatory damages, attorneys' fees, costs and such other relief as the nature of the case may require or as may seem just and proper to the court. Five similar suits were filed and served in July, August and October 2004, two in the Central District of California (Los Angeles), two in the Southern District of New York, and one in the Western District of Washington (Seattle). The plaintiffs sought to have all of the cases consolidated by the Multi District Litigation panel. That request was denied by the panel on December 16, 2004 and all cases were transferred to the Northern District Court of California and assigned to a single judge. All cases other than Brennan were stayed.

In Brennan, on May 4, 2005, the Court ruled on Defendants' Motion to Dismiss and Motion for Judgment on the Pleadings. The Court did not dismiss the complaint, except for a technical dismissal of the claims against the Company, Bank One Corporation and JPMorgan Chase. On May 25, 2005, the plaintiffs filed an amended complaint that clarified the basis for alleging that the holding companies First Data Corporation, Bank One Corporation and JPMorgan Chase were liable. On July 21, 2005, Concord filed a motion for summary judgment seeking to foreclose claims arising after February 1, 2001 the date that Concord acquired the STAR network. On August 22, 2005, the Court also consolidated all of the ATM interchange cases pending against the defendants in Brennan that is now referred to collectively as the ATM Fee Antitrust Litigation. On September 14, 2006, a hearing on our Motion for Summary Judgment was held.

On November 30, 2006, the Court issued an order that terminated the pending motion and requested further discovery on the limited issue of procompetitive justifications for the fixed ATM interchange. On June 25, 2007, the Court issued an order resolving several disputes regarding the scope of this discovery and on August 3, 2007, Concord filed a motion for summary judgment seeking to dismiss plaintiffs' *per se* claims, arguing that there are procompetitive justifications for the ATM interchange. The hearing on this motion was held on March 7, 2008 and the parties await the Court's ruling.

Class Action Lawsuits Challenging Merger Agreement

Six purported class action lawsuits have been filed against the Company and its directors challenging the process by which the Company agreed to enter into the Merger Agreement. These lawsuits have been consolidated into one action in Colorado state court and one action in Delaware state court, respectively. These purported class action complaints generally allege that the members of the Company's Board of Directors breached their fiduciary duties of care and loyalty by entering into the Merger Agreement without regard to the fairness of the transaction to the Company's shareholders or the maximization of shareholder value. The complaints also allege that the Company and/or KKR aided and abetted the directors' breaches. The complaints generally seek class certification, an order enjoining consummation of the proposed merger, rescinding the proposed merger if it is consummated and setting it aside or awarding rescissory damages to members of the class, directing the defendants to exercise their fiduciary duties and account to the class members for unspecified damages, imposing a constructive trust in favor of the class for benefits improperly received by the defendants, and awarding costs and disbursements, including reasonable attorneys' fees, experts' fees and other costs and relief the Court deems just and proper.

The parties have entered into a settlement agreement which was executed and submitted to the Colorado state court for approval on December 12, 2007. On December 17, 2007, the District Court for Arapahoe County, Colorado granted preliminary approval of the settlement. A Notice of Pendency and Settlement of Class Action and Hearing on Proposed Settlement was transmitted to the former shareholders of FDC in January. The notice provided for shareholders to submit any objections to the proposed settlement by February 26, 2008. Two objections were received. On March 7, 2008, the Court granted final approval of the settlement.

Data Treasury

United States Patents No. 5,910,988 and No. 6,032,137

In May 2002, DataTreasury Corporation (DataTreasury) commenced action in the United States District Court for the Eastern District of Texas (the Court) against the Company and its wholly owned subsidiaries First Data Merchant Services Corporation, TeleCheck Services, Inc. d/b/a Telecheck International, Inc., and Microbilt Corporation (subsequently merged into TASQ Technology, Inc.), (collectively, the First Data Defendants), alleging infringement of United States Patent No. 5,910,988 (the 988 Patent) and Patent No. 6,032,137 (the 137 Patent). The complaint sought a declaration that the 988 Patent and the 137 Patent were valid and enforceable, injunctive relief, unidentified damages, pre-judgment interest, treble damages, costs of suit and attorneys fees. The 988 Patent and the 137 Patent generally relate to remote data acquisition, encryption, centralized processing and storage.

DataTreasury voluntarily dismissed the action filed with the Court and refiled the complaint on November 7, 2002 in the United States District Court for the Northern District of Texas asserting that the First Data Defendants infringed the 988 Patent and the 137 Patent. The complaint seeks a declaration that the 988 Patent and the 137 Patent are valid and enforceable, injunctive relief, unidentified damages, prejudgment interest, treble damages, costs of suit and attorneys fees. On November 15, 2002, the First Data Defendants filed a motion which was granted that the case be transferred to the Court. On March 1, 2005, the Court ruled on claim construction. DataTreasury filed amended infringement contentions in September 2005. On November 5, 2005, the First Data Defendants filed ex parte requests for reexamination of the 988 Patent and the 137 Patent with the United States Patent and Trademark Office (the USPTO), which was granted and is currently in process. The First Data Defendants filed their final invalidity contentions in December 2005. The First Data Defendants filed a motion for summary judgment for patent invalidity on January 4, 2006.

On September 12, 2005, DataTreasury filed a second complaint with the Court asserting that the Company s wholly owned subsidiaries Remitco, LLC (Remitco) and Integrated Payment Systems Inc. infringed the 988 Patent and the 137 Patent. DataTreasury seeks a declaration that the 988 Patent and the 137 Patent are valid and enforceable, injunctive relief, unidentified damages, prejudgment interest, treble damages, costs of suit and attorneys fees.

On November 21, 2006, the Court consolidated the two cases.

On July 24, 2007, counsel for the parties agreed among other procedural matters to abate the case until 60 days after the issuance of reexamination certificates by the USPTO for both the 988 Patent and the 137 Patent or 60 days after the Remitco document production is completed, at which time DataTreasury will serve amended infringement contentions. In accordance with the agreement of the counsel for the parties, the Court entered an order denying as moot the pending Joint Motion for Entry of a Docket Control Order and refrained from entering a new schedule.

The USPTO issued a Certificate of Reexamination on the 988 Ballard Patent on October 3, 2007 and on the 137 Ballard Patent on December 25, 2007.

United States Patent No. 5,930,778:

On February 24, 2006, DataTreasury filed a complaint with the United States District Court for the Eastern District of Texas, Marshall Division, naming more than 50 defendants, including the Company and its wholly owned subsidiaries Telecheck Services, Inc. and Remitco, for the infringement of Patent No. 5,930,778 (the 778 Patent). The complaint seeks a declaration that the 778 Patent is valid and enforceable, injunctive relief, unidentified damages, prejudgment interest, treble damages, costs of suit and attorneys fees. The 778 patent generally relates to the clearing of financial instruments. On September 25, 2007, all defendants entered into a stipulation, which, pursuant to the court s order, will result in a stay of the case pending the outcome of a pending re-examination of the 778 patent.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On November 13, 2007, the sole shareholder of the Company executed an unanimous written consent adopting a Restated Certificate of Incorporation.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no established public trading market for the Company's common stock. The Company had one record holder of common stock on March 1, 2008, and no equity securities of the Company are authorized for issuance under any equity compensation plan.

The Company paid a dividend each calendar quarter of \$0.06 per share from January through September 2006 and \$0.03 per share from October 2006 through September 2007. The Company has not paid a dividend since that time. The senior secured revolving credit facility, senior secured term loan facility, senior unsecured cash-pay term loan facility, senior unsecured PIK term loan facility, and senior subordinated unsecured credit facility limit the Company's ability to pay dividends. See Management's Discussion and Analysis of Financial Condition and Results of Operations - Liquidity and Capital Resources and Note 14 to the accompanying financial statements included in Item 8 of this Form 10-K.

ITEM 6. SELECTED FINANCIAL DATA

The following data should be read in conjunction with the Consolidated Financial Statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this annual report.

The Notes to the Consolidated Financial Statements contain additional information about various acquisitions, dispositions, and certain charges and benefits resulting from restructurings, impairments, litigation and regulatory settlements, other, and other income (expense) which affect the comparability of information presented. Certain prior years' amounts have been reclassified to conform to the current year presentation.

On April 1, 2007, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with New Omaha Holdings L.P., a Delaware limited partnership ("Parent"), and Omaha Acquisition Corporation, a Delaware corporation and a subsidiary of Parent ("Sub"). Parent is controlled by affiliates of Kohlberg Kravis Roberts & Co. ("KKR"). On September 24, 2007, under the terms of the Merger Agreement, Sub merged with and into the Company (the "merger") with the Company continuing as the surviving corporation and a subsidiary of First Data Holdings Inc. ("Holdings"; formerly known as New Omaha Holdings Corporation) a Delaware corporation and a subsidiary of Parent. As a result of the merger, amounts below for 2007 are presented for two periods: predecessor and successor, which primarily relate to the period preceding the merger and the period succeeding the merger, respectively.

The Company classified Western Union, Primary Payment Systems, IDLogix and Taxware as discontinued operations in 2006 and NYCE as a discontinued operation in 2003, and all periods below have been reclassified from historically reported results to reflect the impact. Amounts below include Concord since the merger on February 26, 2004 and all other acquisitions since the date acquired. All results are in millions, or otherwise noted.

	Successor Period from September 25 through December 31, 2007	Period from January 1 through September 24, 2007	2006	2005	Predecessor Year Ended December 31, 2004		2003
Income statement data:							
Revenues	\$ 2,278.5	\$ 5,772.9	\$ 7,076.4	\$ 6,526.1	\$ 6,633.4	\$ 5,432.7	
Operating expenses (a)	2,123.7	5,209.2	5,990.9	5,461.0	5,111.5	4,214.2	
Other operating expenses (b)	(0.2)	23.3	5.0	142.6	120.3	35.5	
Interest income	17.9	30.8	55.5	12.4	23.1	6.7	
Interest expense	(584.7)	(103.6)	(248.0)	(190.9)	(116.4)	(81.6)	
Other income (expense) (c)	(74.0)	4.9	22.6	145.8	150.1	(69.6)	
(Loss) income from continuing operations	(301.9)	464.4	847.7	807.5	1,151.3	864.6	
(Loss) income from discontinued operations		(3.6)	665.7	909.9	757.0	635.6	
Depreciation and amortization	427.2	540.2	700.8	689.0	656.0	494.6	
	December 31, 2007						
Balance sheet data (at year-end):							
Total assets	\$ 52,324.3		\$ 34,460.7	\$ 34,248.5	\$ 32,718.8	\$ 25,585.6	
Settlement assets	18,228.4		19,149.8	16,076.3	14,995.5	14,551.1	
Assets held for sale and spin-off				3,812.6	3,170.9	3,248.3	
Total liabilities	45,495.3		24,319.5	25,791.5	23,832.7	21,538.3	
Settlement obligations	18,228.4		19,166.5	16,152.5	14,894.9	14,275.3	
Borrowings	22,573.8		2,516.2	5,354.6	4,604.3	3,034.7	
Convertible debt						537.2	
Liabilities related to sale and spin-off				1,730.6	1,473.3	1,392.6	
Total stockholders' equity	6,829.0		10,141.2	8,457.0	8,886.1	4,047.3	

	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004	Year ended December 31, 2003
Summary operating data:					
At year-end					
Domestic active card accounts on file (in millions) (d)	128.3	116.8	91.9	99.7	106.2
International card accounts on file (in millions) (e)	73.8	48.3	30.9	31.5	30.9
For the year					
Domestic merchant transactions (in millions) (f)	28,447.7	25,499.9	22,546.7	19,107.1	11,702.8
Domestic debit issuer transactions (in millions) (g)	10,450.6	9,407.4	7,908.1	6,818.9	2,605.9
International transactions (in millions) (h)	5,476.0	4,591.6	2,816.0	1,885.6	1,266.9

- (a) Operating expenses include Cost of services; Cost of products sold; Selling, general and administrative; and Reimbursable debit network fees, postage and other.
- (b) Other operating expenses include Restructuring, net; Impairments; Litigation and regulatory settlements; and Other charges.
- (c) Other income (expense) includes Investment gains and losses; Derivative financial instruments gains and losses; Divestitures, net; Debt repayment gains and losses; and Non-operating foreign exchange loss.
- (d) Domestic active card accounts on file include bankcard and retail customer accounts that had a balance or any monetary posting or authorization activity during the month.
- (e) International card accounts on file include bankcard and retail accounts.
- (f) Domestic merchant transactions include acquired VISA and MasterCard credit and signature debit, PIN-debit, electronic benefits transactions (EBT), and processed-only or gateway customer transactions at the point of sale (POS). Domestic merchant transactions also include acquired ATM transactions, gateway transactions at ATMs, and STAR PIN-debit POS transactions received from other acquirers.
- (g) Domestic debit issuer transactions include VISA and MasterCard signature debit, STAR ATM, STAR PIN-debit POS and ATM, and PIN-debit POS gateway transactions.
- (h) International transactions include VISA, MasterCard and other card association merchant acquiring and switching, and debit issuer transactions for clients outside the U.S. Transactions include credit, signature debit and PIN-debit POS, POS gateway and ATM transactions. Transactions for prior years have been adjusted to conform to current year presentation.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

First Data Corporation (FDC or the Company), with headquarters in Greenwood Village, Colorado, is a provider of electronic commerce providing services that include merchant transaction processing and acquiring services; credit, retail and debit card issuing and processing services; official check issuance; and check verification, settlement and guarantee services. During 2007, FDC operated in four business segments: First Data Commercial Services, First Data Financial Institution Services, First Data International and Integrated Payment Systems (IPS).

To achieve its financial objectives, the Company focuses on internal revenue growth and, to a lesser extent subsequent to the merger noted below, growth through acquisitions. Internal growth is achieved through building its consumer brands, the development of new technologies and payment methods, focused sales force efforts and entering into new and strengthening existing alliance partner relationships. Internal growth also is driven through increased demand through growth of clients and partners. The Company has long-standing relationships and long-term contracts with these clients and partners. The length of the contracts varies across the Company's business units, but the majority are for multiple years.

Presentation

This Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) excludes the accounts of Parent and Holdings (both defined below) described in the Merger discussion below. Post merger, FDC continued as the surviving corporation and the accompanying Consolidated Financial Statements included elsewhere in this annual report on Form 10-K are presented for two periods for 2007: predecessor and successor, which primarily relate to the period preceding the merger and the period succeeding the merger, respectively. Note that the successor period also contains the results of Sub's (defined below) operations from March 29, 2007 (formation date) to September 24, 2007. Sub had no assets, liabilities or results of operations other than those related to two forward starting contingent interest rate swaps entered into prior to consummation of the merger that were entered into to hedge a portion of the debt incurred to finance the merger.

The discussion in this MD&A is presented with the predecessor and successor periods for 2007 and on a pro forma basis for the full year 2007. The Company believes that the discussion on a pro forma basis allows the 2007 results of operations to be analyzed on a more comparable basis to 2006. See the 2007 pro forma Condensed Consolidated Statements of Income and segment results below. Note that there were no adjustments in the calculation of pro forma revenue and the most significant pro forma adjustments in the calculation of pro forma expense pertained to amortization of the valued intangibles and interest expense on the new debt.

2007 Financial Summary

This financial summary presents comparative information for the year ended December 31, 2007 on a pro forma basis versus the historical results for the year ended December 31, 2006 and the year ended December 31, 2006 compared to the year ended December 31, 2005. The 2007 discussion of results for the predecessor and successor periods are presented later in this MD&A. The Company believes the presentation of the 2007 results on a pro forma basis throughout this MD&A is a useful supplement to the historical results as it allows comparative analysis and is generally more indicative of future operations as it comprehends the impact of the merger transaction discussed below.

Total 2007 pro forma revenues increased 14% compared to historical 2006 and 2006 increased 8% compared to 2005. Commercial Services segment revenue grew 9% for pro forma 2007 compared to historical 2006 and 10% for 2006 compared to 2005. Financial Institution Services segment revenue grew 8% for pro forma 2007 compared to historical 2006 and decreased 2% for 2006 compared to 2005. Lastly, the First Data International segment revenue grew 32% for pro forma 2007 compared to historical 2006 and 38% for 2006 compared to 2005.

For 2007 compared to historical 2006, domestic merchant transactions increased 12% to 28.4 billion; domestic debit issuer transactions increased 11% to 10.5 billion; and international transactions increased 19% to 5.5 billion.

Consolidated EBITDA, representing a measure for debt covenant compliance determination purposes, for the last twelve months ended December 31, 2007 was \$2,904.4 million. A table describing Consolidated EBITDA and a reconciliation to income (loss) from continuing operations is presented in Capital Resources and Liquidity. Management believes that Consolidated EBITDA is useful to investors to provide additional information regarding items impacting covenant compliance under the Company's new credit facilities.

FIRST DATA CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Merger

On April 1, 2007, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with New Omaha Holdings L.P., a Delaware limited partnership ("Parent"), and Omaha Acquisition Corporation, a Delaware corporation and a subsidiary of Parent ("Sub"). Parent is controlled by affiliates of Kohlberg Kravis Roberts & Co. ("KKR" or the "sponsor"). On September 24, 2007, under the terms of the Merger Agreement, Sub merged with and into the Company (the "merger") with the Company continuing as the surviving corporation and a subsidiary of First Data Holdings Inc. ("Holdings"; formerly known as New Omaha Holdings Corporation) a Delaware corporation and a subsidiary of Parent.

As of the effective time of the merger, each issued and outstanding share of common stock of the Company was cancelled and converted into the right to receive \$34.00 in cash, without interest (other than shares owned by Parent, Sub or Holdings, which were cancelled and given no consideration). Additionally, vesting of FDC stock options, restricted stock awards and restricted stock units was accelerated upon closing of the merger. As a result, holders of stock options received cash equal to the intrinsic value of the awards based on a market price of \$34.00 per share while holders of restricted stock awards and restricted stock units received \$34.00 per share in cash, without interest. Vesting of Western Union options, restricted stock awards and restricted stock units held by FDC employees was also accelerated upon closing of the merger.

Immediately following consummation of the merger, Michael D. Capellas was appointed as Chief Executive Officer ("CEO") of the Company. Capellas succeeds Henry C. Ric Duques who announced his intention to retire within two years when he returned as Chairman and CEO in late 2005.

The merger was financed by a combination of the following: borrowings under the Company's new senior secured credit facilities, new senior unsecured interim loan agreement and new senior subordinated unsecured interim loan agreement, and the equity investment of Holdings. See Note 2 of the Company's Consolidated Financial Statements in this annual report on Form 10-K for detailed discussion of purchase price and transaction costs, and Note 10 for a detailed discussion regarding the tender of previously existing debt as well as the debt issued in conjunction with the merger.

The Company applied purchase accounting to the opening balance sheet and results of operations on September 25, 2007, with subsequent adjustments to December 31, 2007, as the merger occurred at the close of business on September 24, 2007. The purchase accounting had a material impact on the successor period presented due most significantly to the amortization of intangible assets and will have a material impact on future earnings. The Company's purchase accounting is in its preliminary stages. The value assigned at December 31, 2007 to intangible assets is based on preliminary valuation data and is expected to change due to finalization of the valuation. The valuation of fixed assets is in process, with the values assigned at December 31, 2007 being based on historical value which represents the Company's current best estimate. The Company is also in the process of working through other potential purchase accounting adjustments that mostly relate to pre-acquisition contingencies and finalization of management's restructuring plans.

The Company has implemented a 100 day plan to provide strategic direction for the Company under new leadership. The plan includes generating organic growth through improved sales effectiveness and accelerating new product innovations. The plan also captures efficiencies related to the simplification of domestic and international operations and other near term cost saving initiatives as well as certain reductions in personnel. In accordance with this plan, in November 2007, the Company terminated approximately 6% of its worldwide work force. A majority of them ceased working before December 31, 2007. The Company expects that the remaining employees will cease working at various times through the first six months of 2008. A majority of the successor severance costs were recorded in purchase accounting while the remaining amount was or will be recorded through current operations. The Company expects to achieve approximately \$200 million in annual savings from the reduction of corporate and business unit spending, including the headcount reductions in November 2007 noted above.

Official Check and Money Order Wind-down

In the first quarter of 2007, the Company announced its intent to wind-down the official check and money order business included within the IPS segment. The official check and money order businesses are conducted by a subsidiary of the Company, Integrated Payment Systems Inc., with separate creditors and whose assets, including the investment portfolio associated with the official checks and money orders, are not intended to be available to creditors of First Data nor its other subsidiaries. The Company expects the wind-down of the majority of the business to take place in 2008. In the fourth quarter of 2007, the Company completed the repositioning of the investment portfolio associated with this business

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from long-term municipal bonds to short-term investments, the majority of which were short-term tax-exempt variable rate demand notes at December 31, 2007. Associated with this repositioning, the Company terminated the interest rate swaps used to hedge the portfolio. In January 2008, these short-term tax-exempt variable rate demand notes were repositioned into mostly short-term taxable investments.

FIRST DATA CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Acquisitions

In February 2007, the Company acquired the assets of Datawire Communication Networks, Inc. (Datawire), an internet-based transaction delivery company. Datawire is reported as part of the First Data Commercial Services segment.

In March 2007, the Company acquired Intelligent Results, a customer data analytics and decision management software provider. Intelligent Results is reported as part of All Other and Corporate.

In March 2007, the Company acquired Instant Cash Services® (Instant Cash), a debit card and ATM payment processing service provider for community banks, credit unions, thrifts and non-financial institutions. A majority of Instant Cash is reported as part of the First Data Financial Institution Services segment and the remaining portion is reported as part of the First Data Commercial Services segment.

In June 2007, the Company acquired FundsXpress, a provider of online banking and bill payment services. FundsXpress is reported as part of the First Data Financial Institution Services segment.

In August 2007, the Company acquired First Data Polska (formerly POLCARD), a merchant acquirer and card issuer processor in Poland. First Data Polska is reported as part of the First Data International segment.

In October 2007, the Company acquired Deecal International, a specialist software solutions provider for commercial payments in Dublin, Ireland. Deecal International is reported as part of the First Data International segment.

In November 2007, the Company purchased the remaining interest in its First Data Government Solutions (FDGS) subsidiary previously owned by minority interest holders. FDGS is reported as part of All Other and Corporate.

In November 2007, the Company acquired Check Forte Processamento de Dados Ltda. (Check Forte), a payment transaction processing company in Brazil. Check Forte is reported as part of the First Data International segment.

In November 2007, the Company formed a joint venture with Standard Chartered PLC, of which the Company owns 56% (Merchant Solutions). The joint venture will provide merchant acquiring services in Asia. Merchant Solutions is consolidated within FDC and is reported as part of the First Data International segment.

In January 2008, the Company entered into a joint venture with Allied Irish Banks p.l.c. (AIB), of which the Company owns 50.01%. The joint venture will provide card acquiring services in the Republic of Ireland, the United Kingdom and elsewhere in Europe. AIB will be consolidated and reported in the First Data International segment.

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Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities and Exchange Act of 1934. As allowed by the SEC, the Company's policy is to not include in management's assessment of internal controls the internal controls of acquired companies in the year of acquisition if the Company deems that an assessment could not be adequately accomplished in the normal course of business. All acquisitions noted above that closed in 2007 were not within the scope of management's report on internal controls over financial reporting. The Company does not deem these acquisitions significant, individually or in aggregate, to the Consolidated Financial Statements.

Companywide Initiatives

The Company has three companywide initiatives involving data center consolidation, platform consolidation and global sourcing (sourcing labor in the most cost effective and efficient marketplace). The Company began executing upon its U.S. data center consolidation initiative in the second quarter 2007. The Company plans to reduce its U.S. data centers to three from the current total of 12. Command centers will be reduced to two from the current total of seven. The cost in 2007 related to this U.S. initiative was approximately \$29 million for the predecessor period and \$10 million for the successor period consisting of approximately \$13 million and \$5 million, respectively, in capital expenditures and approximately \$16 million and \$5 million, respectively, of direct project costs. The Company expects to incur costs associated with this initiative through the second half of 2009 when the project is expected to be completed. The Company's domestic platform consolidation plan is under development and the Company began executing the global sourcing initiatives in the third quarter of 2007. As of December 31, 2007, two data centers and two command centers have been closed.

FIRST DATA CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Internationally, the Company closed three European data centers in 2007. First Data International is also in the process of consolidating its operating platforms. The most significant international platform consolidation that is under way is the migration of clients from the Equasion card processing platform to the VisionPLUS card processing platform. The Company expects to continue to incur these costs into 2009 when the project is expected to be completed.

Direct incremental costs incurred to execute the companywide initiatives that are not comprehended as an assumed liability in purchase accounting, not classified as either restructuring or impairment and that are not salaries and benefits of existing, continuing employees are compiled and reported within All Other and Corporate. Such amounts recorded in All Other and Corporate in 2007 were \$13 million for the predecessor period and \$6 million for the successor period relating to international data center and platform consolidation and \$16 million and \$5 million for the same periods for domestic data center consolidation.

2006 Overview

Financial Statement Restatement

In August 2006, the Company restated its previously issued Consolidated Financial Statements after an extensive review of its accounting for derivatives. The restatement pertained to the initial documentation for certain interest rate swaps associated with its official check business, within the IPS segment, which the Company determined did not meet the requirements to qualify for hedge accounting. As a result, changes in the fair market value of these certain derivative instruments were recognized in the Consolidated Statements of Income in the Other income (expense) line. In September 2006, the Company terminated most of the above noted interest rate swaps and entered into new interest rate swaps that qualified for hedge accounting under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133). These new interest rate swaps were subsequently terminated in connection with the portfolio repositioning associated with the official check and money order wind-down noted above.

Spin-off of Western Union

On September 29, 2006, the Company separated its Western Union money transfer business into an independent, publicly traded company through a spin-off of 100% of Western Union to FDC shareholders in a transaction intended to qualify for tax-free treatment (the spin-off). FDC and Western Union are independent and have separate ownership, boards of directors and management.

Immediately prior to the spin-off, Western Union transferred \$1 billion of Western Union notes and \$2.5 billion in cash to FDC. On September 29, 2006, the Company exchanged these Western Union notes for FDC debt (commercial paper) held by investment banks (the debt-for-debt exchange). The Company utilized approximately \$2.1 billion of the \$2.5 billion cash to repurchase commercial paper and debt through a cash tender offer and other repurchases.

In connection with the distribution by the Company of all of the outstanding shares of common stock of Western Union to the stockholders of the Company, the Company entered into certain agreements with Western Union to govern the terms of the spin-off and to define the ongoing relationship between FDC and Western Union following the spin-off. The Company effected the contribution to Western Union of the subsidiaries that operate Western Union's business and related assets on an as is, where is basis without any representations or warranties. The Company generally has not retained any of the liabilities associated with the subsidiaries or assets contributed to Western Union, and Western Union and the contributed subsidiaries have agreed to perform and fulfill all of the liabilities arising out of the operation of the contributed money transfer and consumer payments businesses. Western Union also has indemnified the Company for taxes attributable to Western Union with respect to periods before the spin-off.

Discontinued Operations

The historic results of operations of the Western Union Company, Primary Payment Systems (PPS), IDLogix and Taxware, LP (Taxware) are presented as discontinued operations due to the spin-off or sale of these entities in 2006. All prior period amounts presented in the financial statements and MD&A were adjusted to reflect this discontinued operation presentation. In 2004, the Company divested its 64% ownership of NYCE, an electronic funds transfer network. The sale agreement of NYCE contemplated potential adjustments to the sales price which resulted

in activity in discontinued operations in 2005 and 2006.

FIRST DATA CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Adoption of SFAS 123R

The Company adopted Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R), following the modified prospective method effective January 1, 2006. SFAS 123R requires all share-based compensation to employees to be recognized in the income statement based on their respective grant date fair values over the corresponding service periods and also requires an estimation of forfeitures when calculating compensation expense. Refer to Note 15 of the Company's Consolidated Financial Statements in Item 8 for a complete discussion of the Company's stock-based compensation plans and the adoption of SFAS 123R.

Segment Discussion

First Data Commercial Services Segment

The First Data Commercial Services segment is comprised of businesses that provide merchant acquiring and processing, debit network acquiring and processing, check verification, settlement and guarantee, and prepaid card services. Merchant acquiring operations are the largest component of the segment's revenue, facilitating the merchants' ability to accept credit and debit cards by authorizing, capturing, and settling merchants' credit, debit stored-value and loyalty card transactions. Many of the segment's services are offered through joint ventures and other alliance arrangements.

Commercial Services continues to grow in credit, signature debit and PIN-debit processing through the strength of its merchant alliances, focused sales force efforts and the development of new POS technologies and payment methods. The Company continues to expand its merchant alliance program and has one alliance that met the Securities and Exchange Commission's significant subsidiary test in the predecessor period. The alliance may not meet the significant subsidiary test in 2008. Financial results of the merchant alliance strategy appear both in the Transaction and processing service fees revenue and Equity earnings in affiliates line items of the Consolidated Statements of Income. The Company also continues to expand its association with Independent Sales Organizations (ISO) along with the merchant alliance program to sign-up new merchants. The segment's growth also benefited by the recent acquisitions of Datawire and Instant Cash.

Commercial Services segment revenues are driven most significantly by the number of transactions as well as dollar volumes. Consumers continue to increase the use of credit, debit and stored-value cards in place of cash and paper checks, with the decrease in use of checks negatively affecting the Company's check verification, settlement and guarantee business. The Company expects that if, for example, consumer-spending increases in correlation to an improved economy, the Company will experience a relatively proportionate increase in transactions. Internet payments continue to grow but account for a small portion of the segment's transactions. While transactions over the internet may involve increased risk, these transactions typically generate higher profits for the Company. The Company continues to enhance its fraud detection and other systems to address such risks.

The Company experienced transaction growth in the PIN-debit market in 2007 that exceeded the growth in the credit market and the Company expects this growth trend to continue. Trends in consumer spending between national, regional and boutique merchants impact revenue and operating margins as revenue per transaction and operating margins from national merchants are typically less than regional and boutique merchants. The segment has historically experienced three to five percent annual price compression on average, with price compression for the national merchants being higher. The Company currently mitigates the impact of a trend of consumers to a type of merchant through having a mix of national, regional and boutique merchants across a diverse industry set. Expense reductions and enhanced product offerings also help mitigate this impact.

The purchase and sale of merchant contracts is an ordinary element of the Company's Commercial Services business as is the movement of merchant contracts between the Company and its merchant alliances, its ISO partners and other third parties. The Company periodically evaluates its merchant portfolios. The Company or a merchant alliance may purchase or sell a portfolio of contracts outright. Other times a partner may purchase the Company's interest in a merchant alliance. This gives the partner 100% ownership in the underlying merchant contracts as compared to a partial interest in a joint venture alliance that owns the contracts. Other times the formation of a merchant alliance involves the sale or purchase of an interest in a portfolio of the Company's merchant contracts to the joint venture partner for cash. Management considers these transactions to be in the ordinary course of managing the Company's business, and therefore, the gains from selling these revenue-generating assets are included within the Product sales and other component of revenues.

FIRST DATA CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

First Data Financial Institution Services Segment

The First Data Financial Institution Services segment is comprised of businesses that provide credit and retail card processing, debit card processing and network services, output services and remittance processing services. The credit and retail card processing and debit network processing businesses provide services which enable financial institutions and other organizations offering credit cards, debit cards and retail private label cards to consumers and businesses to manage customer accounts. The output services business provides statement and letter printing and embossing and mailing services to clients processing accounts on the Company's platform, as well as those using alternative platforms. The remittance processing business processes mail-in payments for third-party organizations. 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.

Credit and retail based revenue is derived primarily from the card processing services offered to financial institutions and other issuers of cards. Revenue from these markets is driven primarily by accounts on file, with active accounts having a larger impact on revenue than inactive. Retail account portfolios typically have a lower proportionate share of active accounts than credit account portfolios and product usage is different between the card types resulting in lower revenue per active retail account. In addition, contract pricing at the customer level is dependent upon the volume of accounts, mix of account types (e.g. retail, credit, co-branded credit and debit) and product usage.

Financial Institution Services is focused on developing new product offerings, maximizing productivity and system capacity, and integrating its recent acquisitions which include Instant Cash and FundsXpress noted above.

The underlying economic drivers of card issuance are population demographics and employment. Strengthening in the economy typically results in an improved credit risk profile, allowing card issuers to be more aggressive in their marketing campaigns to issue more cards. Conversely, a weakening in the economy typically results in a tightening of the credit market with fewer consumers qualifying for credit. The Company continues to see a shift to the use of debit cards from credit cards, checks and cash. Domestic debit issuer transactions have been the fastest growing type of transaction.

First Data International

The First Data International segment businesses operate in four main geographic regions: EMEA includes European, Middle Eastern and African countries and provides card issuing processing, merchant acquiring and processing, and ATM and POS processing, driving, acquiring and switching services across the region; LAC includes Canada and Latin American and Caribbean countries and provides merchant acquiring and processing, card issuing processing, software licensing and debit switching services; ANZ includes Australia and New Zealand and provides merchant acquiring, processing and switching services, managed service card processing and owns and operates an ATM network in Australia; Asia includes China and North and South Asian countries and mainly provides merchant POS transaction switching services, software licensing, card issuing processing services, host processing services and merchant acquiring and processing. The primary service offerings of the International segment are substantially the same as those provided in the Commercial Services and Financial Institution Services segments.

The EMEA region is the largest region and accounted for approximately 60% of the segment's pro forma revenue for 2007, as well as 2006 and 2005, with LAC accounting for over 15% and ANZ accounting for over 13% of the segment's revenue for the same periods. The Asia regions accounted for the remaining revenue other than certain businesses that accounted for approximately 3% of the segment's total revenues that do not operate on a geographic basis.

In 2007, the Company's international acquisitions included First Data Polska, Deecal International, Check Forte and 56% of the Merchant Solutions joint venture.

As noted above in the First Data Commercial Services discussion, the purchase and sale of merchant contracts is also an ordinary element of the Company's International business.

Integrated Payments Systems

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The Integrated Payment Systems segment's most significant operations involve the issuance of official checks and money orders by agents which are typically banks or other financial institutions. Official checks serve as an alternative to a bank's own disbursement items such as cashiers or bank checks and money orders primarily serve as a disbursement option for un-banked customers. This segment also provides other payment services such as remote deposit, clearing services and processing for payments which occur in such forms as checks, ACH, wire transfer and stored-value cards. A large component of revenue is earnings on invested funds which are pending settlement.

FIRST DATA CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

The IPS segment businesses generate investment income from investing funds pending settlement from the sales of official checks and money orders or fee revenue from check processing or other payment management services. As noted above, the Company is in the process of winding-down the official check and money order business. During 2007, funds pending settlement were invested in tax free instruments issued by municipalities to minimize exposure to credit risks. Such investments were repositioned from long-term to mostly short-term during the year as noted above. In 2008, these investments, were further repositioned into mostly short-term taxable investments, the majority of which were in commercial paper and bank certificates of deposits, as well as some long-term auction-rate securities, the balance of which was approximately \$661 million as of February 29, 2008. The Company pays its agents commissions based on short-term variable rates and the balance of outstanding checks or money orders. The Company nets the commissions paid to agents against the revenue it earns from its investments. Prior to the portfolio repositioning discussed above, the Company managed interest rate risk through the use of interest rate swap agreements, which converted the fixed rate investments into variable rate, thus hedging the impact of market valuation of the long-term investments. The interest impact of the interest rate swaps associated with the investments were also netted against the revenue earned from the investments during the period which the interest rate swaps qualified for hedge accounting.

All Other and Corporate

All Other and Corporate is comprised of the Company's business units not included in the segments noted above as well as the Company's Corporate results. Other than the impact of the merger, the acquisition of Intelligent Results and the buyout of the minority interest in FDGS as discussed above, there were no significant developments within All Other and Corporate during 2007.

Industry

Bank industry consolidation impacts existing and potential clients in FDC's service areas. The Company's alliance strategy could be impacted negatively as a result of consolidations, especially where the banks involved are committed to merchant processing businesses that compete with the Company. Conversely, if an existing alliance bank partner acquires a new merchant business, this could result in such business being contributed to the alliance. Bank consolidation has led to an increasingly concentrated client base in the industry, resulting in a changing client mix for Financial Institution Services as well as increased price compression.

The Company believes the following are the three most significant trends driving growth of electronic payments:

The Shift to Electronic Payments: The electronic payments industry in the United States continues to benefit from the consistent migration from cash and checks to electronic payments. This migration is being driven by customer convenience, card issuer rewards and new payment forms. Additionally, broader merchant acceptance in industries that did not typically accept electronic payments in the past, such as quick-service restaurants, is helping to drive the migration. However, the decrease in the use of checks will negatively affect the Company's check verification, settlement and guarantee business, as well as remittance processing, and therefore partially offset the growth opportunities.

International Expansion: Many of the trends that have historically driven growth in FDC's industry in the United States are contributing to growth in international markets as well. International growth has been driven by the increased use of electronic payment instruments, an increased propensity of institutions to outsource payment processing, and regulatory initiatives that favor outsourced payment solutions. Electronic payment penetration is considerably lower outside of the United States as most transactions are still done in cash. In addition, many international financial institutions currently in-source their card processing functions. The Company believes there is a trend towards more outsourcing of such non-core services to third-party processors. Further, regulatory initiatives in international markets are creating additional growth opportunities for the electronics payments industry.

Industry Innovation: The electronic payments industry has experienced rapid technological innovation. New payment technologies such as prepaid cards, mobile commerce, contactless payments, payroll cards, biometric authentication and innovative POS devices facilitate the increasing adoption of electronic payments. The continually increasing demand for new and more flexible payment options creates a significant opportunity for growth in the electronic payment processing industry.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

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Segment Realignment

As a result of the merger discussed above, beginning in 2008, the Company's new chief operating decision maker (CODM), who is the Company's Chief Executive Officer, will make strategic and operating decisions with regards to assessing performance and allocating resources based on a new segment structure. A summary of the new segments follows:

The Merchant Services segment will be comprised of businesses that provide services which facilitate the merchants' ability to accept credit, debit, stored-value and loyalty cards. The segment's processing services include authorization, transaction capture, settlement, chargeback handling, and internet-based transaction processing. Merchant services also provide POS devices and other equipment necessary to capture merchant transactions. A majority of these services are offered to the merchants through joint ventures or other alliance arrangements primarily with financial institutions and 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).

The Financial Services segment will provide issuer card and network solutions and payment management solutions for point of sale and recurring bill payments. Issuer card and network solutions include credit and retail card processing, debit card processing and 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. Payment solutions include check verification, settlement and guarantee services (including TeleCheck) and other payment options that support merchants and online retailers, businesses, and government agencies. The segment's largest components of revenue consist of fees for account management, transaction authorization and posting, network switching, check acceptance and warranty, as well as reimbursable postage. In addition to issuer card and core payment solutions, Financial Services will offer services to improve customer communications, billing, online banking and consumer bill payment, and analytics.

The Prepaid Services segment will consist of businesses that provide a wide range of open and closed loop stored-value products and processing services. The closed loop operations comprise the largest component of the segment's revenue, providing gift card processing services to large national merchants as well as fleet services to trucking companies. The open loop products are the fastest growing component of the segment driven primarily by employers' adoption of the Money Network payroll product.

The International segment will be comprised of businesses that provide the following services outside of the United States: credit, retail, debit and prepaid card processing; merchant acquiring and processing; ATM and point-of-sale (POS) processing, driving, acquiring and switching services; and card processing software. The 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 segment's operations involve the issuance of official checks and money orders by agents which are typically banks or other financial institutions. Official checks serve as an alternative to a bank's own disbursement items such as cashiers or bank checks. Revenue is principally earned on invested funds which are pending settlement.

Components of Revenue and Expenses

The following briefly describes the components of operating revenues and expenses as presented in the Consolidated Statements of Income. Descriptions of the revenue recognition policies are included in Note 1 of the Consolidated Financial Statements.

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Transaction and processing service fees Transaction and processing service fee revenue is comprised of fees related to merchant acquiring; check processing; credit, retail and debit card processing; output and remittance processing; the issuance of official checks and money orders by agents; and payment management services. Revenues are based on a per transaction fee, a percentage of dollar volume processed, accounts on file or some combination thereof. These revenues represent approximately 68%, 69% and 69% of FDC's 2007 successor, predecessor and pro forma revenue, respectively, and are most reflective of the Company's core business performance. Merchant services revenue is comprised primarily of fees charged to merchants and processing fees charged to alliances accounted for under the equity method. Merchant discount revenue from credit card and signature debit card transactions acquired from merchants is recorded net of interchange and assessments charged by the credit card associations. Check services revenues include check verification, settlement and guarantee fees which are charged on a per transaction basis or as a percentage of the face value of the check. Card services revenue related to credit and retail card processing is comprised primarily of fees charged to the client based on cardholder accounts on file, both active and inactive. In addition, delivery of output services consists of printing statements and letters and embossing plastics. Debit network processing service fees are typically based on transaction volumes processed. Other services revenue includes all other types of transactional revenue not specifically related to the classifications noted above.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Investment income, net Revenue is derived primarily from interest generated by invested settlement assets within the IPS and Commercial Services segments and realized net gains and losses from such assets. This revenue is recorded net of official check agents' commissions.

Product sales and other Sales and leasing of POS devices in the Commercial Services and First Data International segments are the primary drivers of this revenue component, providing a recurring revenue stream. This component also includes incentive payments, contract termination fees, royalty income and gain/loss from the sale of merchant portfolios, all of which occur less frequently but are considered a part of ongoing operations. Also included within this line item is revenue recognized from custom programming and system consulting services as well as software licensing and maintenance revenue generated primarily from the VisionPLUS software in the First Data International segment and software licensing and maintenance revenue in the First Data Financial Institution Services segment and in FDGS in All Other and Corporate.

Reimbursable debit network fees, postage and other Debit network fees from PIN-debit card transactions acquired from merchants are recorded gross with the associated network fee recorded in the corresponding expense caption, principally within the Commercial Services segment. In addition, the reimbursable component and the offsetting expense caption include postage, telecommunications and similar costs that are passed through to customers principally within the Financial Institution Services segment.

Cost of services This caption includes the costs directly associated with providing services to customers and includes the following: telecommunications costs, personnel and infrastructure costs to develop and maintain applications and operate computer networks and associated customer support, losses on check guarantee services and merchant chargebacks, depreciation and amortization expense, and other operating expenses.

Cost of products sold These costs include those directly associated with product and software sales such as cost of POS devices, merchant terminal leasing costs, and software licensing and maintenance costs and associated amortization and depreciation.

Selling, general and administrative This caption primarily consists of salaries, wages and related expenses paid to sales personnel, administrative employees and management as well as advertising and promotional costs and other selling expenses.

Results of Operations

The following discussion for both consolidated results and segment results for 2007 will be discussed on a successor basis for the period from September 25 to December 31, 2007 and on a predecessor basis for the period January 1 to September 24, 2007 in comparison to the predecessor year ended December 31, 2006. On a supplemental basis, pro forma results for the year ended December 31, 2007 will be compared to the predecessor year ended December 31, 2006. The consolidated results and segment results for the year ended December 31, 2006 versus the same period in 2005 will also be presented. Consolidated results should be read in conjunction with segment results, which provide more detailed discussions concerning certain components of the Consolidated Statements of Income. All significant intercompany accounts and transactions have been eliminated.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Consolidated Results

	Pro Forma		Historical		Percent Change	Historical
	Successor	Period	Predecessor	Period		Percent Change
	from	from	Year ended December 31,	from		
	Year	September 25	January 1	through	Pro Forma	2006
	ended	through	through	December 31,	2007	vs.
	December 31,	September 24,	2006	2005	vs. Historical	2005
	2007	2007			2006	

(in millions)