FIRST DATA CORP
Form 10-K
March 11, 2010

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from to

Commission file number 001-11073

FIRST DATA CORPORATION

DELAWARE	**47-0731996**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

5565 GLENRIDGE CONNECTOR, N.E., SUITE 2000, ATLANTA, GEORGIA 30342

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code (404) 890-2000

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 x

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 x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ¨ No ¨

Indicate by check mark 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. x

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 x 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 x

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, 2010.

PART I

ITEM 1. BUSINESS

General

First Data Corporation (FDC or the Company) is a provider of electronic commerce and payment solutions for merchants, financial institutions and card issuers globally and has operations in 36 countries, serving approximately 6.0 million merchant locations. FDC was incorporated in Delaware in 1989 and was the subject of an initial public offering in connection with a spin-off from American Express in 1992. On September 24, 2007, the Company was acquired through a merger transaction (the merger) with an entity controlled by affiliates of Kohlberg Kravis Roberts & Co. (KKR). The merger resulted in the equity of FDC becoming privately held.

The Company has acquired multiple domestic and international businesses over the last five years with the most significant acquisition being the formation of the Banc of America Merchant Services, LLC (BAMS) alliance in 2009. The acquisition resulted in a total purchase price of approximately $3.4 billion. On June 26, 2009, Bank of America N.A. (BofA) and the Company, together with Rockmount Investments, LLC (Rockmount), an investment vehicle controlled by a third-party investor, formed a new company, BAMS. BAMS provides clients with a comprehensive suite of acquiring and processing payment products for credit and debit cards as well as merchant loyalty, prepaid, check and e-commerce solutions. The Company owns a 48.45% direct voting interest in BAMS and BofA owns a 46.55% direct voting interest. The remaining stake in BAMS is a 5% non-voting interest held by Rockmount. The Company owns a 40% noncontrolling interest in Rockmount. Refer to Note 4 of the Company s Financial Statements in Item 8 of this Form 10-K for additional information regarding the BAMS alliance.

Spin-off of The Western Union Company (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.

Segments

Effective January 1, 2009, the Company s Chief Executive Officer began making strategic and operating decisions with regards to assessing performance and allocating resources based on a new segment structure. The most significant changes were check verification, settlement and guarantee services moving from the Financial Services segment into the Retail and Alliance Services segment as well as the Prepaid Services segment moving into the Retail and Alliance Services segment. The Company is organized in three primary segments: Retail and Alliance Services, Financial Services and International. In addition, the Company currently operates its official check business through its Integrated Payment Systems (IPS) segment but is in the process of winding-down the official check business.

In the third quarter of 2009, the Company changed the financial reports provided to its Chief Executive Officer to better enable him to make operating decisions and assess the performance of the Company s business segments. The segments have not changed but the presentation of the results has changed including the Retail and Alliance Services segment being reported on a proportionate consolidation basis and the profit measure being changed to a form of EBITDA (earnings before net interest expense, income taxes, depreciation and amortization). Proportionate consolidation reflects the Company s proportionate share of the results of non-wholly owned alliances based on equity ownership, net of a proportionate share of eliminations for amounts charged between the Company and the alliances. Results in prior periods have been adjusted to conform to this presentation. Refer to Note 16 of the Company s Financial Statements in Item 8 of this Form 10-K for additional information regarding segment results.

Retail and Alliance Services

Retail and Alliance Services provides merchant acquiring and processing services, prepaid services and check verification, settlement and guarantee services. The Company provides these services to approximately 4.0 million merchant locations across the U.S. and acquired $1.2 trillion of payment transaction dollar volume on behalf of U.S. merchants in 2009. Retail and Alliance 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, Retail and Alliance 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. Retail and Alliance Services approaches the market through diversified sales channels including equity alliances, revenue sharing alliances and referral arrangements with over 440 financial institution partners, over 1,120 non-bank referral partners, and over 580 independent sales organization partners, as of December 31, 2009.

Financial Services

Financial Services provides financial institutions and other third parties with credit, debit and retail card processing; debit network services; output services, such as statement and letter printing, embossing and mailing services; and remittance processing services. The credit, debit and retail card 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 Services also provides personal identification number (PIN) debit network services through the STAR Network which enables PIN-secured debit transaction acceptance at approximately 2.3 million ATM and retail locations in the U.S. as of December 31, 2009.

International

International provides products and services in international markets that are similar to those offered by the Retail and Alliance Services and Financial Services segments in the U.S. International has operations in 36 countries, including the U.S., with regional management teams overseeing local operations.

Integrated Payment Systems

The principle business in the Integrated Payment Systems segment is official check services. Official checks are sold through independent agents, which are financial institutions. IPS also offers payment processing services and such other services will continue after the wind down of the official check business.

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 U.S. Revenues generated from processing transactions at locations within the U.S. (domestic) and outside of the U.S. (international), regardless of the segments to which the associated revenues applied, were 84% and 16% of FDC s consolidated revenues for the year ended December 31, 2009, respectively. Long-lived assets attributable to domestic and international operations as percentages of FDC s total long-lived assets as of December 31, 2009 were 86% and 14%, respectively. No individual foreign country is material to the Company s total revenues or long-lived assets. Further financial information relating to the Company s international and domestic revenues and long-lived assets is set forth in Note 16 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

First Data Products and Services Segment Information

Financial information relating to each of the Company s segments is set forth in Note 16 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K. 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, of this form 10-K. 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.

The Company sold a merchant acquiring business in Canada as well as a debit and credit card issuing and acquiring processing business in Austria and Active Business Services, Ltd, all reported within the International segment, in November 2009, August 2009 and July 2008, respectively, and Peace Software, reported within the Financial Services segment, in October 2008. The results of divested businesses are excluded from segment results. The International and Financial Services performance measures have been adjusted for 2008 and 2007 to exclude the results of divested businesses. Retail and Alliance Services segment performance measures have been adjusted for 2008 and 2007 to reflect the sale of 12.5% of the Company s ownership interest in the Wells Fargo Merchant Services alliance that occurred on December 31, 2008.

Retail and Alliance Services Segment

The Retail and Alliance Services segment is comprised of merchant acquiring and processing services, prepaid services and check verification, settlement and guarantee services.

Retail and Alliance Services segment revenues from external customers, segment EBITDA and assets represent the following percentages of total segment and All Other and Corporate revenues from external customers, total segment and All Other and Corporate EBITDA, and consolidated assets:

	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	Period from September 25, 2007 through December 31, 2007	Period from January 1, 2007 through September 24, 2007
Segment revenues from external customers	49%	48%	50%	52%
Segment EBITDA	56%	55%	57%	58%
Assets (at December 31) (1)	64%	55%	45%	

(1) Segment assets in the successor periods were impacted by purchase accounting for the merger. Assets at December 31, 2008 were additionally impacted by a goodwill impairment recorded in the fourth quarter of 2008 as described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

Description of Retail and Alliance Services Segment Operations

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

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 contractual alliance arrangements primarily with financial institutions, relationships with independent sales organizations and other referral/sales partners. 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, among other things:

- 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 typically 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;

- Selling and leasing POS devices; and

- Debit network fees.

The items listed above are included in the Company s consolidated revenues and, for equity earnings from unconsolidated alliances, the Equity earnings in affiliates, net line item in the Consolidated Statements of Operations. The Retail and Alliance Services segment revenue and EBITDA are presented using proportionate consolidation. In addition, segment revenue excludes debit network fees and other reimbursable items.

Retail and Alliance Services provides merchant acquiring and processing services, prepaid services and check verification, guarantee and settlement services to merchants operating in approximately 4.0 million locations across the U.S. Retail and Alliance Services provides full service merchant processing primarily on Visa and MasterCard transactions and PIN-debit at the point of sale.

Growth in the Retail and Alliance Services business is derived from entering into 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 FDC s alliances and relationships with banks and other entities. The Company s alliance structures take on different forms, including consolidated subsidiaries, equity method investments and revenue sharing arrangements. Under the alliance and referral programs, the alliance/referral partners typically act as a merchant referral source. The Company benefits by providing processing services for the alliance/referral partners and their merchant customers. Both the Company and the alliance may provide management, sales, marketing, and other administrative services. The alliance strategy could be affected by further consolidation among financial institutions.

The Company s strategy with banks, independent sales organizations and referral/sales partners provides the Company with broad geographic coverage, regionally and nationally, as well as a presence in various industries. The alliance/referral partner 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 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 Retail and Alliance 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 an interchange rate 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 approximately $0.10 and forward $98.40 to the Company. The Company will retain, for example, $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/processors, 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.

Prepaid services

First Data Prepaid Services 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 issuance and customer service for over 200 national brands and several thousand small and mid-tier merchants. The Company also provides program management and processing services for association-branded, bank-issued, open loop, stored-value, reloadable and one time prepaid card products.

EFS Transportation Services provides payment processing, settlement and specialized reporting services for transportation companies and owns and operates ATMs at truck stops. EFS Transportation Services is a closed loop payment processing system for transportation companies in the U.S. and Canada. Its products offer truck 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.

Money Network offers prepaid products to address the needs of employers, employees, merchants and unbanked individuals. Money Network provides electronic payroll distribution solutions that reduce or eliminate an employer s expense associated with traditional paper paychecks as well as other prepaid retail solutions.

Check verification, settlement and guarantee services

TeleCheck offers check verification, settlement and guarantee services using the Company s proprietary database system to assist merchants in deciding whether accepting checks at the point-of-sale is a reasonable risk, or, further, to guarantee checks presented to merchants if they are approved. These services include risk management services, which utilize software, information and analysis to assist the merchant in the decision process and include 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 either deposit the check in its bank account or process it for settlement through the Company s Electronic Check Acceptance service. 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 s Electronic Check Acceptance service, which converts a paper check written at the point of sale into an electronic item, enables 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.

Retail and Alliance Services Segment Competition

The Company s Retail and Alliance 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 check guarantee and verification products compete principally with the products of two other national companies.

The most significant competitive factors relate to price, brand, strength of financial institution partnership, breadth of features and functionality, scalability and servicing capability. The Retail and Alliance 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 Retail and Alliance Services and Financial 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.

Retail and Alliance Services Seasonality

Retail and Alliance Services revenues and earnings are impacted by the volume of consumer usage of credit cards, debit cards, stored value cards and checks written at the point of sale. Retail and Alliance Services generally 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.

Retail and Alliance Services Geographic Mix and Revenues

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

Retail and Alliance Services Significant Customers

The Retail and Alliance Services segment does not have any individually significant customers; however, the Company has two significant merchant alliance relationships with financial institutions. A third significant merchant alliance was terminated on November 1, 2008 as discussed in Note 4 of the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

Financial Services Segment

The Financial Services segment is comprised of:

(1) Credit and retail card processing services;

(2) Debit network and processing services;

(3) Output services; and

(4) Other services including remittance processing.

Financial Services segment revenues from external customers, segment EBITDA, and assets represent the following percentages of total segment and All Other and Corporate revenues from external customers, total segment and All Other and Corporate EBITDA and consolidated assets:

	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	Period from September 25, 2007 through December 31, 2007	Period from January 1, 2007 through September 24, 2007
Segment revenues from external customers	22%	22%	22%	24%

Segment EBITDA	31%	29%	29%	31%
Assets (at December 31) (1)	13%	14%	14%	

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(1) Segment assets in the successor periods were impacted by purchase accounting for the merger. Assets at December 31, 2008 were additionally impacted by a goodwill impairment recorded in the fourth quarter of 2008 as described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

Description of Financial Services Segment Operations

Financial Services provides issuer card and network solutions for credit, retail and debit card processing, debit network services (including the STAR network), output services to financial institutions and other organizations offering credit, debit and retail cards to consumers and businesses to manage customer accounts. Financial services also offers payment management solutions for recurring bill payment and services to improve customer communications, billing, online banking and consumer bill payment. Revenue and profit growth in these businesses is derived from retaining and growing the core business 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.

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, debit card processing services and STAR Network services. These contracts generally require a notice period prior to the end of the contract if a client chooses not to renew. Additionally, 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 and retailers. Financial Services clients include a wide variety of banks, savings and loan associations, group service providers, retailers 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 services throughout the period of each card s use, starting from a card-issuing client processing an application for a card. 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. 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 network and processing services

The Company provides STAR Network access, PIN-debit and signature debit card processing services and ATM processing services, such as transaction routing, authorization, and settlement as well as ATM management and monitoring. 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. In the merchant acquiring process flow described above in the Retail and Alliance Services segment discussion, STAR Network represents a debit network. When a merchant acquirer or ATM owner 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. 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. STAR Network s fees differ from those presented in the example above in the Retail and Alliance Services segment description 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 PIN authentication is generally required and transactions are not approved unless there are sufficient funds in the customer s bank account.

Revenue related to the STAR Network and debit card and ATM 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 as well as the processor for the merchant, the Company receives: (1) a fee from the card issuing financial institution for running the transaction through the STAR Network switch, recognized in the Financial Services segment; (2) a fee from the card issuer for obtaining the authorization, recognized in the Financial Services segment; (3) a fee from the merchant for acquiring the transaction, which is recognized in the Retail and Alliance Services segment; and (4) a network acquirer fee from the merchant for accessing the STAR Network, which is recognized in the Financial Services segment. There are other possible configurations of transactions that result in the Company receiving multiple fees for a transaction, depending on the role the Company plays.

Output services

Output services consist of statement and letter printing, card 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 drive a majority of the Company s postage revenue.

Other services

Other services consist of the Company s remittance processing and other services. 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. Other services consist primarily of on-line banking and bill payment services.

Financial Services Pipeline

During 2009, the Company converted approximately 10.7 million accounts to its system. The pipeline at December 31, 2009 was approximately 2.8 million accounts, which are primarily credit accounts. The Company expects to convert these accounts in 2010.

Financial Services Segment Competition

The Company s Financial Services segment competes with several other third-party card processors and debit networks in the U.S., as well as financial institutions with in-house operations to manage card issuance and maintenance. The Company also faces significant competition from regional and national operators of debit networks.

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 Services business is further impacted by financial institution consolidation.

In both the Retail and Alliance Services and Financial 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 Services Seasonality

Debit processing and STAR Network revenues and earnings are impacted by the volume of consumer usage of debit cards at the point of sale. Such volumes are generally impacted by 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 Services Geographic Mix and Revenues

Revenues from external customers for the Financial Services segment are substantially all earned in the U.S. Card issuing revenues outside of the U.S. are reported by the Company s International segment. Within the U.S., revenues from external customers are geographically dispersed throughout the country.

Financial Services Significant Customers

No individual customer makes up more than 10% of the Financial Services segment revenue.

International Segment

The International segment is comprised of:

- Credit, retail, debit and prepaid card processing;
- Merchant acquiring and processing; and
- ATM and POS processing, driving, acquiring and switching services.

International segment revenues from external customers, segment EBITDA and assets represent the following percentages of total segment and All Other and Corporate revenues from external customers, total segment and All Other and Corporate EBITDA and consolidated assets:

	Successor			**Predecessor**
	Year ended December 31, 2009	**Year ended December 31, 2008**	**Period from September 25, 2007 through December 31, 2007**	**Period from January 1, 2007 through September 24, 2007**
Segment revenues from external customers	25%	25%	25%	22%
Segment EBITDA	19%	17%	17%	15%
Assets (at December 31) (1)	15%	15%	12%	

(1) Segment assets in the successor periods were impacted by purchase accounting for the merger. Assets at December 31, 2008 were additionally impacted by a goodwill impairment recorded in the fourth quarter of 2008 as described in Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

The merchant acquiring and card issuing services provided by the International segment are similar in nature to the services described above in the Retail and Alliance Services and Financial Services segments other than they include substantially all the services provided outside of the U.S. For a description of the International segment s merchant acquiring and card issuing businesses refer to the Retail and Alliance Services and Financial Services segment descriptions provided above.

International Pipeline

During 2009 the Company converted approximately 2.6 million accounts to its systems. The pipeline at December 31, 2009 was approximately 5 million accounts, which are primarily credit accounts. The Company expects to convert these accounts in 2010.

International Segment Competition and Seasonality

Competition and seasonality within the International segment is similar to that of the Retail and Alliance Services and Financial 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 generally there are more and smaller competitors because of the International segment s global span.

International Geographic Mix

The following countries accounted for more than 10% of the segment s revenues from external customers for the periods presented:

	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	Period from September 25, 2007 through December 31, 2007	Period from January 1, 2007 through September 24, 2007
United Kingdom	22%	23%	25%	25%
Germany	17%	17%	20%	20%
Australia	13%	12%	13%	15%

No individual foreign country was material to the Company s consolidated revenues.

International Significant Customers

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

Integrated Payment Systems Segment

The principle business in the Integrated Payment Systems segment is official check services.

The Company is gradually exiting the official check line of business. The majority of the clients of this business deconverted during 2008 and there will be no new official check and money order business beyond April 2010. IPS will continue to use its licenses to offer payment services that fall under state and federal regulations and the business will continue to operate in a much reduced capacity after all of the client deconversions as outstanding official check and money order clearance activity winds down.

On October 1, 2009, IPS assigned and transferred to Western Union, among other things, certain assets, liabilities and equipment used by IPS to issue retail money orders. As of the closing date noted above, Western Union assumed IPS s role as issuer of the retail money orders, however, IPS continues to process money orders for Western Union when they are presented for payment.

Integrated Payment Systems segment revenues from external customers excluding an adjustment to reflect 2007 segment revenue on a pretax equivalent basis, segment EBITDA and assets represent the following percentages of total segment and All Other and Corporate revenues from external customers, total segment and All Other and Corporate EBITDA and consolidated assets:

	Successor			Predecessor
	Year ended December 31, 2009	Year ended December 31, 2008	Period from September 25, 2007 through December 31, 2007	Period from January 1, 2007 through September 24, 2007
Segment revenue from external customers	0%	1%	(1)%	(2)%
Segment EBITDA (1)	(1)%	0%	3%	2%
Assets (at December 31)	3%	11%	25%	

(1) Represents IPS segment EBITDA excluding the adjustment for the wind-down of the official check business as a percentage of total segment and All Other and Corporate EBITDA also excluding such adjustment. IPS segment EBITDA including such adjustment was zero for all periods presented.

Official checks

IPS issues official checks, which are sold by agents that are financial institutions. Official checks serve as an alternative to a bank s own items such as cashiers or bank checks.

An official check transaction is initiated when a consumer or business procures an official check from one of the Company s agents. The agent generally is required to remit the funds collected from the consumer to IPS the same day or the following day. IPS pays some of its agents commissions based on short-term variable interest rates and the balance of outstanding official checks attributable to the individual agent. IPS nets the commissions paid to agents against the revenues it earns from its investments.

The official check service generates revenue primarily through the ability to invest funds pending settlement. IPS invests these funds in investments with an objective to minimize its exposure to credit risks. These investments were primarily in short-term taxable investments in 2009 as well as some corporate bonds and student loan auction-rate securities that have been classified as long-term. Prior to 2008, these investments were primarily in tax exempt securities.

Integrated Payment Systems Significant Customers

During 2009, IPS had a significant relationship with one client.

All Other and Corporate

The remainder of the Company s business units are grouped in the All Other and Corporate category, which includes First Data Government Solutions (FDGS) and smaller businesses and corporate operations.

FDGS operates 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.

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. Administrative and shared service 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

During 2009, the Company had a significant relationship with one client whose revenues represented approximately 33% of the All Other and Corporate segment revenue for the year ended December 31, 2009.

Intellectual Property

The Company owns many trademarks, trade names, patents and other intellectual property that are important to its future success. The only intellectual property rights which are individually material to the Company are the FIRST DATA trademark and trade name and the STAR trademark and trade name. The STAR trademark and trade name are used in the Financial Services segment. The FIRST DATA trademark and trade name are associated with quality and reliable electronic commerce and payments solutions. Financial institutions and merchants associate the STAR trademark and trade name with quality and reliable debit network services and processing services. Loss of the proprietary use of the FIRST DATA or STAR trademarks and trade names or a diminution in the perceived quality associated with these names could harm the growth of the Company s businesses. Also important, but not individually material, are the Vision*PLUS* and FirstVision trademarks and software. Vision*PLUS* and FirstVision are recognized globally as a quality software product and card processing system, respectively. The software is important to the Company s global expansion.

The Company uses a combination of technologies (including proprietary technology and technology obtained from third parties) to provide its products and services to its customers, and to remain competitive. The Company has various programs and procedures to protect its patents and other intellectual property rights. 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, 2009, the Company employed approximately 24,900 employees, approximately 96% of which were full-time employees. The majority of the employees of the Company s subsidiaries outside of the U.S. are subject to the terms of individual employment agreements. One of the Company s wholly owned subsidiaries has approximately 1,700 employees in the United Kingdom, about 25% of whom are members of Unite trade union. Employees of the Company s subsidiaries in Vienna, Austria; Frankfurt, Germany; Nürnberg, Germany are also represented by local works councils and a portion of the Frankfurt workforce is covered by a union contract. Certain employees of the Company s Korean subsidiary are represented by a Labor-Management council. Employees in certain other countries are also covered by the terms of industry-specific national collective agreements. None of the Company s employees are otherwise represented by any labor organization in the U.S. 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 5565 Glenridge Connector, N.E, Suite 2000, Atlanta, Georgia 30342, telephone (404) 890-2000. 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 First Data , Investor Relations 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, Governance Compensation and Nominations Committee Charter, Technology and Investments Committee Charter, and Code of Conduct for Senior Financial Officers are available without charge through the About First Data , Investor Relations , Corporate 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 the Company s service areas are subject to U.S. federal, state and local regulation, as well as regulation outside the U.S. 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 the Company s services also are subject to rules promulgated by various payment networks, such as Visa, MasterCard and Discover, as more fully described below.

Association and Network Rules

A number of the Company s subsidiaries are subject to payment network rules of MasterCard, Visa and other associations. First Data Loan Company Canada (FDLCC) is a member of MasterCard and Visa and First Data Cono Sur, S.A. is a member of MasterCard in Argentina and Uruguay and both subsidiaries are subject to the rules of such associations. First Data Canada Merchant Solutions ULC is a member of Interac and subject to its rules and First Data Global Services Limited is a subscriber to PULSE and is therefore subject to rules applicable to its members. First Data Resources, LLC, First Data Merchant Services Corporation, FDRL, First Data Deutschland, First Data Hellas Processing Services and Holdings S.A., First Data Latvia, First Data Lithuania, First Data Polska S.A., 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., First Merchant Service GmbH, AIB Merchant Services, European Merchant Services, BNL Positivity, Merchant Solutions Private Limited (as incorporated in Singapore, Hong Kong, Bangladesh and Sri Lanka), Merchant Solutions Private (Macau) Limited, Merchant Solutions Sdn Bhd, POS Merchant Solutions (B) Sdn Bhd, POS Merchant Solutions Private Limited, Merchant Solutions (Shanghai) Consulting Co. Ltd and STAR Network are registered with Visa and/or MasterCard as service providers for member institutions and application for the registration of ICICI Merchant Services Private Limited has been made. In those situations where the Company serves as a service provider to member institutions, the Company is not an issuer or an acquirer under Visa s and MasterCard s rules.

Various subsidiaries of the Company are also processor level members of numerous debit and electronic benefits transaction (EBT) networks, such as Star Networks, Inc., Star Processing Inc., First Data Merchant Services Corporation, and Concord Transaction Services, LLC, or are otherwise subject to various network rules in connection with processing services and other services they provide to their customers and a number of the Company s subsidiaries are providing processing and other services related to ATM deployment to customers. As such, the Company is subject to applicable card association, network and national scheme rules, which could subject the Company to a variety of fines or penalties that may be levied by the card associations, banking associations or networks for certain acts and/or omissions by the Company, its sponsorees, acquirer customers, processing customers and/or merchants. The Company mitigates this risk by maintaining an extensive card association and network compliance function. The Company is also subject to network operating rules promulgated by the National Automated Clearing House Association relating to payment transactions processed by the Company using the Automated Clearing House Network and to various state and Federal 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. Cashcard is also a member of the ATM Access Company Limited and the EFTPOS Access Company Limited which respectively administers reciprocal access and interchange arrangements for ATMs and EFTPOS in Australia. The network operating rules, ATM Access Code and EFTPOS Access Code 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.

The Company s 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.

Banking Regulation

Because a number of the Company s subsidiary businesses, including card issuer processing, merchant processing and STAR Network businesses as well as those subsidiaries engaged in the business of ATM deployment, 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 and national regulatory bodies.

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.

In the European Union, Directive 2007/60 EG, the Payment Services Directive , was released by the European Parliament and by the Council on November 13, 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 was implemented in most EU member states via national legislation effective November 1, 2009. As a result of the implementation of the Payment Services Directive, a number of the Company s subsidiaries have applied for a Payment Institution License which would subject these entities to regulation and oversight in the applicable member state. First Merchant Processing (Ireland) Limited and First Merchant Processing (UK) have been granted Payment Institution Licenses by the Irish Financial Regulator. EMS has submitted its Payment Institution License application to the Dutch National Bank and First Merchant Solutions GmbH have submitted its Payment Institution License application to the BaFin in Germany.

FDLCC, through which the Company conducts some of its 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 U.S. or do business in the U.S., except such business as may be incidental to its activities outside the U.S., the Company s affiliation with FDTC and FDLCC does not cause it to be regulated as a bank holding company or financial holding company under the BHCA.

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.

As a result of a recent change in legislation in Germany, the provision of factoring services to financial institutions as historically provided by First Data Deutschland GmbH has become regulated by the Federal Banking Supervision Agency (BaFin) and First Data Deutschland GmbH is now regulated by BaFin as financial services provider under the German Federal Banking Act.

Privacy and Information Security Regulations

Each of the Company s 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 (or in some instances directly) 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 (or in some instances directly) 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. These laws and their implementing regulations restrict 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 and proper destruction of personal information through the issuance of data security standards or guidelines. In addition, there are state laws restricting the ability to collect and utilize certain types of information such as Social Security and Driver s License Numbers, etc. 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.

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 TRS Recovery Services, Inc. (TRS) is subject to the Fair Debt Collection Practices Act and various similar state laws. TRS has licenses in a number of states in order to engage in collection in those states. 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 or TRS may become subject to further regulation in the future as legislatures and government agencies, both federal and state, enact additional legislation or issue regulations aimed at regulating collection activities, the collection, storage and use of data and databases regarding consumers. In particular, laws regulating activities with respect to current or emerging technology such as the use of automated dialers or pre-recorded messaging or calls to cellular phones could impair the collection by TRS of returned checks, including those purchased under TeleCheck s guarantee services. Moreover, 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 currently 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.

In Greece, D.Man S.A., engages in debt collection activities and is subject to the provisions of the Greek law On the Regulation of Notification of Debtors for Overdue Debts Relating to Financial Products and registered as a Debt Notification Company under such law.

Anti-Money Laundering and Counter Terrorist Regulation

The Company s payment instrument businesses are subject to regulation by the U.S., including anti-money laundering laws and regulations, including the Bank Secrecy Act, as amended by the USA PATRIOT Act of 2001 (collectively, the BSA). 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.

The Company is also subject to certain economic and trade sanctions programs that are administered by the Treasury Department s Office of Foreign Assets Control (OFAC) that 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.

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. The Company s businesses in those jurisdictions are subject to those data retention obligations.

The Company has developed and is enhancing global compliance programs to monitor and address legal and regulatory requirements and developments.

Payment Instrument Licensing and Regulation

The Company is 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 U.S., most states license issuers of payment instruments. Many states exercise authority over the operations of the Company s services related to the sale of payment instruments and, as part of this authority, subject the Company 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.

Government agencies both inside and outside the U.S. 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

The Company is subject to unclaimed or abandoned property (escheat) laws in the U.S. and abroad which require the Company to turn over to certain government authorities the property of others held by the Company 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 Retail and Alliance Services segment, account balances that cannot be returned to a merchant following discontinuation of its relationship with the Company. A number of the Company s subsidiaries hold property subject to escheat laws and the Company has an ongoing program to comply with those laws. The Company is subject to audit by individual U.S. states with regard to the Company s escheatment practices.

Other

Stored-value services offered to issuers by First Data Prepaid Services (FDPS) in the U.S., and by First Data s International businesses (First Data International) outside the U.S. 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. For example, the Credit CARD Act of 2009 created new requirements applicable to general-use prepaid cards, store gift cards, and electronic gift certificates effective August 22, 2010, and the Federal Reserve Board published on November 20, 2009, a proposed rule to amend Regulation E with respect to such cards and electronic certificates. 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 and rules have application to, and their impact on, FDPS, First Data International, financial institutions, merchants or others is in flux. At this time the Company is 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 in a number of jurisdictions. 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.

New regulation of the payments industry in the U.S. and abroad that is applicable to the Company s customers could impact the Company as well. For example, the Federal Reserve Board has issued rules amending Regulation Z (rules implementing the Truth in Lending Act) that impose new restrictions on certain credit card practices and require increased consumer disclosure effective February 22, 2010 and July 1, 2010. As further example, the Canadian Department of Finance promulgated similar new rules (the Credit Business Practices Regulations) and rules amending the existing Cost of Borrowing Regulations with effective dates in 2010. In addition, the Housing Assistance Tax Act of 2008 included an amendment to the Internal Revenue Code that requires information returns to be made for each calendar year by merchant acquiring entities and third party settlement organizations with respect to payments made in settlement of payment card transactions and third party payment network transactions occurring in that calendar year. This requirement to make information returns applies to returns for calendar years beginning after December 31, 2010. These new regulations may require the Company to incur additional costs to modify its systems so that the Company may provide compliant services but may also provide opportunities for the Company to offer additional revenue producing services to its customers.

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.

The Company is 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 and most significantly borrowings under the Company s senior secured credit facilities, are 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;
- 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 Company s senior subordinated notes, and the senior PIK notes of First Data Holdings Inc.; the agreement governing the Company s senior unsecured debt;

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.

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 or 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.

A further weakening in the economy could also force some retailers to close resulting in exposure to potential credit losses and further transaction declines and the Company earning less on transactions due also to a potential shift to large discount merchants. Additionally, credit card issuers have been reducing credit limits and are more selective with regard to whom they issue credit cards. A continuation or acceleration of the economic slowdown could adversely impact future revenues and profits of the Company and result in a downgrade of its debt ratings which may lead to termination or modification of certain contracts and make it more difficult for the Company to obtain new business.

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. However, the Company s visibility in the global payments industry may attract hackers to conduct attacks on the Company s systems that could compromise the security of the Company s data. 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.

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). The Company, Bank of America, N.A. and Rockmount Investments, LLC recently formed Banc of America Merchant Services, LLC (BAMS). Processing, technology and operational synergies of BAMS are dependent upon the successful migration of merchant accounts to the Company. Any failure to migrate accounts or material adverse impact to merchants from potential conversion issues could negatively impact the Company s business and result in a reduction of the Company s revenue and profit.

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.

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

The indentures governing the Company s senior notes, the Company s senior subordinated notes, and the senior PIK notes of First Data Holdings Inc.; the agreement governing the Company s senior unsecured debt; 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 it s 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 Company depends, in part, on its merchant relationships and alliances to grow the Company s Retail and Alliance 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 Retail and Alliance 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 an alliance, either contractually or through a separate legal entity. Merchant contracts may be contributed to the alliance 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 relies on various financial institutions to provide clearing services in connection with its settlement activities. If the Company is unable to maintain clearing services with these financial institutions and is unable to find a replacement, the Company s business may be adversely affected.

The Company relies on various financial institutions to provide clearing services in connection with the settlement activities of the Company. If such financial institutions should stop providing clearing services the Company must find other financial institutions to provide those services. If the Company is unable to find a replacement financial institution the Company may no longer be able to provide processing services to certain customers which could negatively impact the revenue and earnings of the Company.

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 substantial bank industry consolidation in recent years. Bank industry consolidation impacts existing and potential clients in the Company s service areas, primarily in Financial Services and Retail and Alliance 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 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 is subject to the credit risk that its merchants will be unable to satisfy obligations for which the Company may also be liable.

The Company is subject to the credit risk of its merchants being unable to satisfy obligations for which the Company also may be liable. For example, the Company and its merchant acquiring alliances are contingently liable for transactions originally acquired by the Company that are disputed by the card holder and charged back to the merchants. If the Company or the alliance are 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. The Company has an active program to manage its credit risk and often mitigates its risk by obtaining collateral. Notwithstanding the Company s program for managing its credit risk, it is possible that a default on such obligations by one or more of the Company s merchants could have a material adverse effect on the Company s business.

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 implementing 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, its 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 its financial condition and results of operations.

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 point-of-sale (POS) technology available to merchants could have an impact on the Company s International and Retail and Alliance 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.

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. 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, the value of tax loss carryforwards and tax credits recorded on the Company s balance sheet and the amount of the Company s cash flow and have a material adverse impact on the Company s business.

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 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.

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

The Company s tax returns and positions are subject to review and audit by federal, state, local and international taxing authorities. An unfavorable outcome to a tax audit could result in higher tax expense, thereby negatively impacting the Company s results of operations. The Company has established contingency reserves for material, known 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 is 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 effective tax rate, financial position, results of operations and cash flows in the current and/or future periods. The Company s exposure to tax audits includes matters involving its former Western Union unit, which was spun off in September 2006. Under the Tax Allocation Agreement executed at the time of the spin-off, Western Union is responsible for all taxes, interest and penalties related to it and must indemnify the Company against such amounts. The Company, however, generally has ultimate liability to the relevant tax authorities for such amounts in the event Western Union were to default in its indemnification obligation.

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 FIRST DATA trademark and trade name and the STAR trademark and trade name are intellectual property rights which are individually material to the Company. These trademarks and trade names are widely recognized and associated with quality and reliable service. Loss of the proprietary use of the FIRST DATA or STAR trademarks and trade names or a diminution in the perceived quality associated with them could harm the growth of the Company s businesses. 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 contemplates 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.

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 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 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.

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 businesses. 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

As of December 31, 2009, the Company and its subsidiaries owned or leased approximately 83 domestic properties and approximately 88 international properties. These facilities are used for operational, sales and administrative purposes, and are substantially all currently being utilized.

	Leased Facilities		Owned Facilities	
	No.	Sq. Ft.	No.	Sq. Ft.
Facilities in the United States				
Retail and Alliance Services	32	1,028,806	5	623,280
Financial Services	21	714,920	12	1,826,719
Integrated Payment Systems	1	30,022		
All Other and Corporate	10	661,981	2	140,600
International Facilities				
Retail and Alliance Services	1	2,250		
International	80	1,128,447	7	430,363

Retail and Alliance Services principal operations are conducted in Melville, New York; Hagerstown, Maryland; Coral Springs, Florida and Houston, Texas. The principal operations for Financial Services are located in Omaha, Nebraska; Wilmington, Delaware; Maitland, Florida; and Chesapeake, Virginia. The principal operations for International are located in Basildon, United Kingdom; Frankfurt, Germany; Athens (Kryoneri), Greece; Sydney, Australia; and Buenos Aires, Argentina. The Company s All Other and Corporate facilities include the Company s corporate offices in Atlanta, Georgia and 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 matter reported below.

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). All cases were transferred to the Northern District Court of California and the Court consolidated all of the ATM interchange cases pending against the defendants in Brennan (referred to collectively as the ATM Fee Antitrust Litigation).

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. On March 24, 2008, the Court entered an order granting the defendants motions for partial summary judgment, finding that the claims raised in this case would need to be addressed under a Rule of Reason analysis. On February 2, 2009, the Plaintiffs filed a Second Amended Complaint and on April 6, 2009, the defendants filed a Motion to Dismiss the Second Amended Complaint. On September 4, 2009, the Court entered an order dismissing the Second Amended Complaint and, on October 16, 2009, the Plaintiffs filed a Third Amended Complaint. The defendants filed a motion to dismiss the Third Amended Complaint on November 13, 2009.

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

ITEM 4. RESERVED

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, 2010, and no equity securities of the Company are authorized for issuance under any equity compensation plan.

In 2008, the Company paid two dividends that totaled $1.8 million. The senior secured revolving credit facility, senior secured term loan facility, and the indentures for the senior notes, senior PIK notes, and senior subordinated notes 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 13 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 other operating expenses, 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 September 24, 2007, the Company was acquired through a merger transaction (the merger) with an entity controlled by affiliates of Kohlberg Kravis Roberts & Co. The merger resulted in the equity of FDC becoming privately held. Details of the merger are more fully discussed in Note 2 to the Consolidated Financial Statements included in Item 8 of this Form 10-K. As a result of the merger, amounts below are presented for two periods: predecessor and successor, which primarily relate to the periods preceding the merger and the periods succeeding the merger, respectively.

The Company classified Western Union, Primary Payment Systems, IDLogix and Taxware as discontinued operations in 2006 and 2005 has been reclassified from historically reported results to reflect the impact. Amounts below include acquisitions since the date acquired. All results are in millions, or as otherwise noted.

In 2008, the Company changed to a classified balance sheet presentation. Balance sheet data for 2007 and 2006 have been adjusted to conform to this presentation.

	Successor			Predecessor		
	Year ended December 31,		Period from September 25, 2007 through December 31,	Period from January 1, 2007 through September 24,	Year ended December 31,	
	2009	2008	2007	2007	2006	2005
Statement of operations data:						
Revenues	$ 9,313.8	$ 8,811.3	$ 2,278.5	$ 5,772.9	$ 7,076.4	$ 6,526.1
Operating expenses (a)	8,869.3	8,032.6	2,123.7	5,209.2	5,990.9	5,461.0
Other operating expenses (b)(d)	289.7	3,255.6	(0.2)	23.3	5.0	142.6
Interest income	11.7	26.0	17.9	30.8	55.5	12.4
Interest expense	(1,796.4)	(1,964.9)	(584.7)	(103.6)	(248.0)	(190.9)
Other income (expense) (c)	(61.3)	(14.4)	(74.0)	4.9	22.6	145.8
Net (loss) income from continuing operations (d)	(1,014.6)	(3,608.0)	(262.9)	569.7	990.0	934.4
Net (loss) income from discontinued operations				(3.9)	690.0	911.6
Depreciation and amortization (e)	1,553.8	1,559.6	427.2	540.2	700.8	689.0
Balance sheet data (at year-end):						
Total assets	$ 39,735.4	$ 38,176.1	$ 52,509.3		$ 34,565.8	$ 34,248.5
Total current assets (including current settlement assets)	10,461.6	11,393.5	20,641.6		11,229.3	*
Total current and long-term settlement assets	7,351.0	8,662.9	18,228.4		19,149.8	16,076.3
Assets held for sale and spin-off						3,812.6
Total liabilities	34,408.4	35,773.8	45,609.2		24,312.7	25,714.0
Total current liabilities (including current settlement obligations)	9,455.2	10,778.0	20,349.5		20,920.1	*
Settlement obligations	7,394.7	8,680.6	18,228.4		19,166.5	16,152.5
Long-term borrowings	22,304.9	22,075.2	21,953.5		2,294.3	3,961.1
Other long-term liabilities	2,648.3	2,920.6	3,306.2		1,098.3	*
Liabilities related to sale and spin-off						1,730.6
Redeemable noncontrolling interests	226.9					
Total First Data Corporation stockholders equity	1,585.3	2,377.9	6,829.0		10,141.2	8,457.0
Noncontrolling interests	3,514.8	24.4	71.1		111.9	77.5

Total equity	5,100.1	2,402.3	6,900.1	10,253.1	8,534.5

	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Summary operating data:					
At year-end					
Domestic active card accounts on file (in millions) (f)	120.9	127.6	128.3	116.8	91.9
International card accounts on file (in millions) (g)	80.9	80.1	62.5	47.3	30.9
For the year					
Domestic merchant transactions (in millions) (h)	28,257.8	26,856.9	25,359.0	22,626.0	19,882.2
Domestic debit issuer transactions (in millions) (i)	12,222.5	12,042.2	11,651.4	10,572.4	8,988.2
International transactions (in millions) (j)	5,826.8	5,397.2	4,525.5	3,763.7	2,816.0

(a) Operating expenses include Cost of services; Cost of products sold; Selling, general and administrative; Reimbursable debit network fees, postage and other; and Depreciation and amortization.

(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 currency gains and (losses).

(d) Includes a goodwill impairment charge in 2008 of $3.2 billion.

(e) Includes amortization of initial payments for new contracts which is recorded as a contra-revenue within Transaction and processing service fees and amortization related to equity method investments which is netted within Equity earnings in affiliates in the Consolidated Statements of Operations.

(f) Domestic active card accounts on file include bankcard and retail accounts that had a balance or any monetary posting or authorization activity during the last month of the quarter.

(g) International card accounts on file include bankcard and retail.

(h) Domestic merchant transactions include acquired VISA and MasterCard credit and signature debit, PIN-debit, electronic benefits transactions, and processed-only or gateway customer transactions at the point of sale (POS). Domestic merchant transactions include 100% of the Chase Paymentech Solutions alliance transactions in 2007 and through the November 1, 2008 termination date. Subsequent to the termination of the alliance, domestic merchant transactions include transactions related to the Company s 49% proportionate share of the alliance s assets rather than 100% of alliance activity. In addition, domestic merchant transactions include activity for JPMorgan Chase merchants that continue to process on the Company s platforms. The domestic merchant transactions continue to reflect all Wells Fargo Merchant Services alliance transactions despite the deconsolidation of the alliance effective December 31, 2008. Domestic merchant transactions for 2009 also include all of the transactions related to merchants contributed by Bank of America to the Banc of America Merchant Services alliance since the alliance was formed on June 26, 2009.

(i) Domestic debit issuer transactions include VISA and MasterCard signature debit, STAR ATM, STAR PIN-debit POS and ATM and PIN-debit POS gateway transactions.

(j) 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.

* Information not available

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

First Data Corporation (FDC or the Company), with global headquarters and principal executive offices in Atlanta, Georgia, operates electronic commerce businesses providing services that include merchant transaction processing and acquiring services; credit, retail and debit card issuing and processing services; prepaid card services; and check verification, settlement and guarantee services.

To achieve its financial objectives, the Company focuses on internal revenue growth. Internal growth is achieved through 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 many of these clients and partners. The length of the contracts varies across the Company s business units, but the majority are for multiple years.

Segment Realignment

Effective January 1, 2009, the Company s Chief Executive Officer began making strategic and operating decisions with regards to assessing performance and allocating resources based on a new segment structure. Segment results for 2008 and 2007 have been adjusted to reflect the new structure. The Company is organized in three primary segments: Retail and Alliance Services, Financial Services and International. In addition, the Company currently operates its official check business through it Integrated Payment Systems (IPS) segment but is in the process of winding-down the official check business. The most significant changes were check verification, settlement and guarantee services moving from the Financial Services segment into the Retail and Alliance Services segment as well as the Prepaid Services segment moving into the Retail and Alliance Services segment. Each of the segments is discussed in more detail in the Segment Discussion section below.

Presentation

This Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is presented for the successor years ended December 31, 2009 and 2008 as well as the successor period from September 25, 2007 through December 31, 2007 and the predecessor period from January 1, 2007 through September 24, 2007. The full year 2007 is also presented on a pro forma basis. Predecessor and successor periods primarily relate to the periods preceding the merger (refer to Merger in 2007 Overview below) and the periods succeeding the merger, respectively. The Company believes that the discussion on a pro forma basis is a useful supplement to the historical results as it allows the 2007 results of operations to be analyzed on a more comparable basis to 2008 full year results. See the 2007 unaudited pro forma condensed consolidated statement of operations below which reflects the consolidated results of operations as if the merger had occurred on January 1, 2007. 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 depreciation and amortization of the re-valued fixed assets and intangible assets and to interest expense on the debt issued in connection with the merger.

The Company adopted new accounting guidance effective January 1, 2009 which requires that earnings attributed to noncontrolling interests (formerly known as minority interests) be reported as part of consolidated earnings and not as a separate component of income or expense. The Company s Consolidated Statements of Operations for 2008 and 2007 have been revised to conform to the presentation requirements of the new guidance. In addition, presentation of transactions related to noncontrolling interests in the Company s Consolidated Statements of Cash Flows in 2008 and 2007 have been revised to reclassify such items from Cash Flows from Operating Activities and Cash Flows from Investing Activities to Cash Flows from Financing Activities.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Banc of America Merchant Services, LLC

Transaction

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

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

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

Rockmount may, at the sole option of the third-party owning a controlling interest in Rockmount, require that BAMS redeem Rockmount s interest in BAMS. This option is available during a specified period of time after each of the fourth quarter of 2009 and the first and second quarters of 2010, and upon certain conditions, additional periods thereafter. Rockmount did not exercise their option after the fourth quarter 2009. Rockmount s interest would be redeemed by BAMS for an amount of cash based on Rockmount s capital account balance in BAMS immediately prior to the redemption subject to an additional adjustment to be paid or received by the Company and BofA based on the level of BAMS revenues for the trailing 12 month period ending at the end of the fiscal quarter immediately prior to the exercise or extension of the option. Since Rockmount has the ability to put its interests to BAMS (a consolidated subsidiary of the Company), the Company has classified the 3% non-voting interest attributable to the third-party investor as Redeemable noncontrolling interest in the Consolidated Balance Sheet rather than as Equity. The 2% non-voting interest attributable to the Company is included with the Company s direct voting interest in balances attributable to the Company in the Consolidated Financial Statements.

The formation of BAMS was accounted for by the Company as a sale of a noncontrolling interest in a subsidiary and a purchase business combination. The Company recorded a gain of approximately $33 million ($21 million, net of taxes), through adjustments to additional paid in capital and noncontrolling interest. The gain was not material as the assets comprising the most significant portion of the Company s contribution were recently adjusted to fair value in the fourth quarter 2008 in connection with the November 1, 2008 termination of the CPS alliance.

In comparing 2009 to 2008 in the Consolidated Results below, the impact of the BAMS alliance will be quantified based on the contribution made by BofA as the assets contributed by the Company will continue to be discussed as part of the termination of the CPS alliance.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Purchase price allocation

The assets contributed to BAMS by the Company continue to be recorded at the Company s carrying basis, which for the majority of assets was established effective November 1, 2008 as described immediately above net of applicable amortization expense subsequently recognized, and the assets contributed by BofA were recorded at their estimated fair value. The fair value of the BofA contribution to BAMS was determined by estimating the BAMS enterprise value and attributing the appropriate portion of that value to such contribution. The Company relied in part upon a third party valuation firm in determining the enterprise value of BAMS. All key assumptions and valuations were determined by and are the responsibility of management. The value attributed to the net tangible and identifiable intangible assets contributed by BofA was based on their estimated fair values. During the fourth quarter of 2009 the final valuation was completed and the purchase price allocation resulted in identifiable intangible assets of $1,317 million, which will be amortized over a range estimated to be 11 to 20 years, and goodwill of $2,127 million. Refer to Note 4 to the Consolidated Financial Statements included in Item 8 of this Form 10-K for a description of the methodologies used to determine the fair value of the enterprise and intangible assets.

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. With the exception of BAMS, all acquisitions that closed in 2009 were not within the scope of management s report on internal control over financial reporting. The Company does not deem these acquisitions significant, individually or in aggregate, to the Consolidated Financial Statements.

Other

On June 30, 2009, the Company extended its merchant acquiring alliance with The PNC Financial Services Group (PNC) for an additional eight years which now includes National City Corporation merchant referrals. The Company also contributed $28 million and customer contracts in 2009 into the alliance as part of the agreement in order to maintain its ownership percentage. In addition, the Company renewed and expanded its agreement for transaction processing services with PNC which will include additional PIN-debit and ATM processing PNC gained through its acquisition of National City Corporation.

Impairment

In the fourth quarter of 2009, domestically, the Company recorded a $33 million impairment charge related to customer contracts, a $17 million goodwill impairment charge and a $3 million software impairment charge related to the Information Services reporting unit within All Other and Corporate. The Company followed a discounted cash flow approach in estimating the fair value of the reporting units and intangible assets consistent with the approach used to allocate the purchase price of the merger. The significant factor that drove most of the impairment was lower projections of financial results as compared to those used in the 2008 impairment testing. Discount rates were determined on a market participant basis. The Company relied in part on a third party valuation firm in determining the appropriate discount rates. All key assumptions and valuations were determined by and are the responsibility of management. A relatively small change in these inputs would have had an immaterial impact on the impairments.

In the fourth quarter of 2009, internationally, the Company recorded $124 million in asset impairment charges related to the International reporting unit and segment. Approximately $64 million of the total impairment charge related to the Company s business in Germany and was allocated to impair the value of customer contracts and real property by approximately $58 million and $6 million, respectively. The impairment occurred because of the deterioration of profitability on existing business, higher risk of revenue attrition in future years and lower projections of financial results compared to those used in prior periods. Approximately $47 million of the total impairment charge related to impairment of customer contracts associated with Company s card-issuing business in the United Kingdom. The impairment occurred because of negative cash flow in the existing business and lower projections of financial results compared to those used in prior periods. Approximately $2 million of the total impairment charge related to trade name impairment and was a result of the Company s decision to discontinue the use of a certain trade name in the Canadian market during the fourth quarter of 2009 and instead continue the business under the First Data brand. The remaining approximate $11 million of the total impairment charge related to the Company s businesses in Ireland and Brazil and was comprised of a $7 million impairment of customer contracts and $4 million impairment of software. The impairment occurred because of cash flow losses in the existing businesses and lower projections of financial results compared to those used in prior periods. The Company followed a discounted cash flow approach in estimating the fair value of the affected asset groups and individual intangible assets within those groups consistent with the approach used to allocate the purchase price of the merger. The Company obtained an appraisal from a third party brokerage firm to assist in estimating the value of real property in Germany. All key assumptions and valuations were determined by and are the responsibility of management.

In the fourth quarter of 2008, the Company recorded a $3.2 billion goodwill impairment charge. Every reporting unit had an impairment charge representing a percentage of goodwill ranging from a small charge for one reporting unit to all of the goodwill at two small reporting units. During the fourth quarter and in connection with the deterioration in general global economic conditions, the Company experienced a decrease in its operating results. These operating results caused the Company to reassess its near and long-term projections as part of its annual budgeting process. The Company followed a discounted cash flow approach in estimating the fair value of the reporting units and intangible assets consistent with the approach used to allocate the purchase price of the merger. The significant factors that drove most of the impairment were higher discount rates and revised projections of financial results as compared to those used to allocate the purchase price of the merger.

Economic Conditions

General economic conditions in the U.S. and other areas of the world dramatically weakened in the second half of 2008 and most of 2009 but showed improvement towards the end of 2009. Many of FDC s businesses are correlated to changes in macro economic conditions and revenue is derived in part on the number and size of consumer transactions. While the Company is partially insulated from specific industry trends through its diverse market presence, broad changes in consumer spending patterns could have a material impact on the Company s results. During the fourth quarter of 2008 and during 2009, a shift in transactions from smaller, more profitable merchants to national discounters and wholesalers impacted the Company s revenue growth. Additionally, the Company experienced increased credit losses during 2009 due to a higher level of merchant failures and bankruptcy filings.

2008 Overview

Chase Paymentech Solutions and Wells Fargo Merchant Services

On November 1, 2008, the Company and JPMorgan Chase terminated their merchant alliance relationship, CPS, which was the Company s largest merchant alliance. The Company received its proportionate 49% share of the assets of the alliance. The new domestic owned and managed business was operated as part of the Company s

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Retail and Alliance Services segment until as noted under Banc of America Merchant Services, LLC above, the majority of the assets received by the Company from the termination of CPS were contributed to BAMS effective June 26, 2009. The Company continues to provide transaction processing and related services for certain merchants of the alliance that were allocated to JPMorgan Chase but are resident on the Company s processing platforms. The Company historically accounted for its minority interest in the alliance under the equity method of accounting. Since November 1, 2008, the portion of CPS business received by the Company in the separation is reflected on a consolidated basis throughout the financial statements. In 2008 and 2007, CPS comprised the vast majority of the Equity earnings in affiliates and the processing and other fees noted in footnote (b) on the face of the Consolidated Statements of Operations.

On December 31, 2008, the Company and Wells Fargo & Company (WFB) extended their merchant alliance relationship, Wells Fargo Merchant Services, LLC (WFMS) for five years beyond its previously contracted termination date through December 31, 2014. In connection with the agreement to extend WFMS, the Company sold 12.5% of the membership interests to WFB for cash consideration. This resulted in the Company and WFB owning 40% and 60% of WFMS, respectively, as of December 31, 2008. As a result of the transaction, the Company deconsolidated the WFMS balance sheet as of December 31, 2008 and began reflecting its remaining ownership interest as an equity method investment beginning January 1, 2009. In 2009, the Company s share of WFMS s earnings is reflected in the Equity earnings in affiliates line in the Consolidated Statements of Operations. In 2009 WFMS comprised the majority of the Equity earnings in affiliates and the processing and other fees noted in footnote (b) on the face of the Consolidated Statements of Operations.

In comparing 2009 to 2008, the net impact of the termination of CPS and the deconsolidation of WFMS were offsetting in nature but resulted in net increases in consolidated revenues and expenses and net decreases in Equity earnings in affiliates due to the relative greater significance of CPS related balances. Net income (loss) attributable to the Company was negatively impacted in 2009 compared to 2008 as the result of the WFMS membership interest sale referred to above but was generally unaffected by the structural changes for CPS. The combined impact of these transactions when comparing results for 2009 to 2008 is referred to as the net impact of the CPS and WFMS alliance transactions in the Consolidated Results discussion below. In comparing 2008 to pro forma 2007, 2008 earnings were not significantly impacted due to the termination of CPS.

2007 Overview

Merger

On September 24, 2007, the Company merged with an affiliate of Kohlberg Kravis Roberts & Co (KKR) (the merger). The merger resulted in the Company s equity becoming privately held. The Company applied purchase accounting to the opening balance sheet and results of operations effective immediately subsequent to the merger date. The value assigned to intangible assets and fixed assets as well as other purchase accounting adjustments were finalized in the third quarter of 2008 other than certain adjustments related to income tax matters that were finalized in the fourth quarter of 2008.

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., which is licensed to offer payment services that fall under state and federal regulations. This subsidiary has separate creditors and its 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 majority of the clients of this business deconverted during 2008 and there will be no new official check and money order business beyond April 2010. IPS also offers payment processing services and such other services will continue after the wind down of the official check and money order business. On October 1, 2009, IPS assigned and transferred to The Western Union Company (Western Union), among other things, certain assets and equipment used by IPS to issue retail money orders and approximately $860 million of cash to satisfy all outstanding retail money orders. As of the closing date noted above, Western Union assumed IPS s role as issuer of the retail money orders.

Segment Discussion

Retail and Alliance Services Segment

The Retail and Alliance Services segment is comprised of businesses that provide services which facilitate the merchants ability to accept credit, debit, stored-value and loyalty cards and checks. The segment s merchant processing and acquiring services include authorization, transaction capture, settlement, chargeback handling and internet-based transaction processing and are the largest component of the segment s revenue. A majority of these services pertain to transactions in which consumer payments to merchants are made through a card association (such as Visa or MasterCard), a debit network (such as STAR or Interlink), or another payment network (such as Discover). Many of the segment s services are offered through alliance arrangements.

Retail and Alliance Services generally looks to the strength of its merchant alliances, independent sales organizations (ISO s) and referral partners, and focused sales force efforts as ways to grow credit, signature debit and PIN-debit processing. 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 Operations. Beginning in the third quarter 2009 the Company began evaluating the Retail and Alliance Services segment based on the Company s proportionate share of the results of these alliances. Refer to Segment Results below for a more detailed discussion.

Merchant processing and acquiring revenues are driven most significantly by the number of transactions, dollar volumes of those transactions and trends in consumer spending between national, regional and local merchants. Consumers continue to increase the use of credit, debit and stored-value cards in place of cash and paper checks. 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 declines in transaction and dollar volume growth during the second half of 2008 and into 2009 due to a weakened economy. The Company experienced shifts in transaction volumes from smaller, more profitable merchants to some nationwide discounters and wholesalers in the second half of 2008 and throughout 2009 due to changes in consumer spending patterns. Trends in consumer spending between national, regional and local merchants impact revenue and operating margins as revenue per transaction and operating margins from national merchants are typically less than regional and local merchants. The segment has historically experienced three to five percent annual price compression on average, with price compression for the national merchants being higher.

In addition, Retail and Alliance Services provides check verification, settlement and guarantee services. The Company continues to see a shift to the use of debit cards from credit cards, checks and cash, with the decrease in use of checks negatively affecting the Company s check verification, settlement and guarantee business. The segment also manages prepaid stored-value card issuance and processing services (i.e. gift cards) for retailers and others.

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RESULTS OF OPERATIONS (Continued)

Financial Services Segment

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

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 accounts. 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.

Debit processing revenue is derived mostly from the processing of transactions where the Company could receive multiple fees for a transaction, depending on the role of the Company. Within the Financial Services segment, domestic debit issuer transactions have been the fastest growing type of transaction as the Company continues to see a shift to the use of debit cards from credit cards, checks and cash, with the decrease in use of checks negatively affecting the Company s remittance processing business.

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.

As a result of the economic conditions in the U.S. in late 2008 and throughout 2009, credit card issuers have been reducing credit limits and closing accounts and are more selective with regard to whom they issue credit cards. Such practices have adversely impacted credit and retail card processing revenues during 2009 and 2008. Debit processing transaction growth rates have also been negatively impacted by the decline in the economy.

International Segment

The International segment businesses provide the following services outside of the U.S.: credit, retail, debit and prepaid card processing, merchant acquiring and processing; ATM and POS processing, driving, acquiring and switching services; and card processing software. The primary service offerings of the International segment are substantially the same as those provided in the Retail and Alliance Services and Financial Services segments. The largest components of the segment s revenue are fees for facilitating the merchant s 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.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

Integrated Payments Systems

The IPS segment s principle business includes the issuance of official checks which are sold by agents that are financial institutions. Revenue is principally earned on invested funds which are pending settlement. This segment is in the process of winding down its official check business. For further details refer to the Official Check and Money Order Wind-Down in the 2007 Overview section above.

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. There were no significant developments within All Other and Corporate during 2009.

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 such 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 Services as well as increased price compression. Bank consolidations impacted the Company, specifically the Financial Services and Retail and Alliance Services segments, during 2009. The Financial Services segment was negatively impacted by the consolidation of JPMorgan Chase and Washington Mutual which is discussed in more detail in the Segment Results discussion below. The Retail and Alliance Services segment was positively impacted by the PNC and National City Corporation consolidation mentioned above. If bank consolidations continue in 2010, the Company could be impacted positively or negatively depending on its relationship with the bank.

Components of Revenue and Expenses

The following briefly describes the components of operating revenues and expenses as presented in the Consolidated Statements of Operations. Descriptions of the revenue recognition policies are included in Note 1 of the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

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; 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 62% of FDC s 2009 revenue and are most reflective of the Company s core business performance. Merchant related 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. Card services revenue for output services consists of fees for printing statements and letters and embossing plastics. Debit processing and network service fees included in Card services revenues 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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RESULTS OF OPERATIONS (Continued)

Investment income, net Revenue is derived primarily from interest generated by invested settlement assets within the IPS, Retail and Alliance Services, Financial Services and International 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 Retail and Alliance Services and International segments are the primary drivers of this revenue component, providing a recurring revenue stream. This component also includes 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 Vision*PLUS* software in the International segment and software licensing and maintenance revenue 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 Retail and Alliance 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 Services segment. Reimbursable debit network fees, postage and other revenue and the corresponding expense are not included in segment results.

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, operate computer networks and provide associated customer support, losses on check guarantee services and merchant chargebacks, 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.

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.

Depreciation and amortization This caption consists of the Company s depreciation and amortization expense. Excluded from this caption is the amortization of initial payments for contracts which is recorded as a contra-revenue within the Transaction and processing services fees line as well as amortization related to equity method investments which is netted within the Equity earnings in affiliates line.

Results of Operations

The following discussion for both consolidated results and segment results are for the year ended December 31, 2009 compared to the year ended December 31, 2008 as well as for the year ended December 31, 2008 compared to the successor period from September 25, 2007 to December 31, 2007 and the predecessor period from January 1, 2007 to September 24, 2007. On a supplemental basis, the year ended December 31, 2008 is compared to pro forma results for the year ended December 31, 2007 which reflects consolidated results of operations as if the merger had occurred on January 1, 2007. Consolidated results should be read in conjunction with segment results, which provide more detailed discussions concerning certain components of the Consolidated Statements of Operations. 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

	Historical		Pro Forma	Historical		Percent Change	
	Successor			Successor Period	Predecessor		
				from	Period from		Historical
				September 25	January 1		2008
	Year ended	Year ended	Year ended	through	through	2009	vs.
	December 31,	December 31,	December 31,	December 31,	September 24,	vs.	Pro Forma
(in millions)	**2009**	**2008**	**2007**	**2007**	**2007**	**2008**	**2007**
Revenues:							
Transaction and processing service fees	$ 5,788.9	$ 5,785.3	$ 5,519.2	$ 1,553.3	$ 3,965.9	0%	5%
Investment income, net	8.4	77.1	(75.1)	(8.2)	(66.9)	(89)%	*
Product sales and other	788.3	848.2	839.4	223.0	616.4	(7)%	1%
Reimbursable debit network fees, postage and other	2,728.2	2,100.7	1,767.9	510.4	1,257.5	30%	19%
	9,313.8	8,811.3	8,051.4	2,278.5	5,772.9	6%	9%
Expenses:							
Cost of services (exclusive of items shown below)	2,945.1	2,870.6	2,755.8	753.8	2,116.2	3%	4%
Cost of products sold	305.5	316.8	296.5	87.3	209.2	(4)%	7%
Selling, general and administrative	1,438.2	1,374.8	1,404.2	404.4	1,149.9	5%	(2)%
Reimbursable debit network fees, postage and other	2,728.2	2,100.7	1,767.9	510.4	1,257.5	30%	19%
Depreciation and amortization	1,452.3	1,369.7	1,253.9	367.8	476.4	6%	9%
Other operating expenses, net	289.7	3,255.6	23.1	(0.2)	23.3	*	*
	9,159.0	11,288.2	7,501.4	2,123.5	5,232.5	(19)%	50%
Interest income	11.7	26.0	48.7	17.9	30.8	(55)%	(47)%
Interest expense	(1,796.4)	(1,964.9)	(2,036.4)	(584.7)	(103.6)	(9)%	(4)%
Other income (expense) (a)	(61.3)	(14.4)	(53.3)	(74.0)	4.9	*	*
Income tax (benefit) expense	(578.8)	(699.2)	(652.1)	(176.1)	125.8	(17)%	7%
Equity earnings in affiliates	97.8	123.0	134.0	46.8	223.0	(20)%	(8)%
Loss from discontinued operations, net of taxes					(3.9)		
Net (loss) income	(1,014.6)	(3,608.0)	(704.9)	(262.9)	565.8	(72)%	*
Less: Net income attributable to noncontrolling interests	71.8	156.3	144.3	39.0	105.0	(54)%	8%
Net (loss) income attributable to First Data Corporation	$ (1,086.4)	$ (3,764.3)	$ (849.2)	$ (301.9)	$ 460.8	(71)%	*

* Calculation not meaningful.

(a) 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 currency exchange gains and losses.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS (Continued)

The following provides highlights of revenue and expense changes on a consolidated basis for the successor year ended December 31, 2009, the successor year ended December 31, 2008 and the predecessor, successor and pro forma periods in 2007 while a more detailed discussion is included in the Segment Results section below.

Operating revenues overview

Transaction and processing service fees Revenues remained flat due to the beneficial incremental impact of the BAMS alliance and the net impact of the CPS and WFMS alliance transactions in Merchant related services offset by a decrease due to the weakened economy, price compression, lost business and the impact of foreign exchange rate movements in all businesses. The incremental impact of the BAMS alliance and the net impact of the CPS and WFMS alliance transactions described above benefited the growth rate by 5 and 1 percentage points, respectively. Growth of existing clients and new business also benefited 2009 revenues compared to 2008.

Transaction and processing service fees revenue was positively impacted in 2008 compared to 2007 due in part to the consolidation of acquiring revenues from merchant contracts received from the termination of the CPS alliance effective November 1, 2008 partially offset by the loss of the processing revenue previously earned from the alliance on these same contracts. This positively impacted the transaction and processing service fees growth rate by 1 percentage point in 2008 compared to pro forma 2007. These revenues are included within the Company s revenue subsequent to the termination of the alliance in 2008 but were previously netted within the Equity earnings in affiliates line within the Consolidated Statements of Operations, as the alliance was previously accounted for under the equity method. Other items positively impacting 2008 compared to 2007 were acquisitions, growth of existing clients and 2008 annual fees. Annual fees for 2007 were not included in the 2007 successor period results due to purchase accounting related to the merger. These benefits were partially offset by price compression, lost business, and the affects of a slowed economy particularly in the fourth quarter of 2008, including the 2008 holiday season.

Investment income, net Revenues decreased in 2009 compared to 2008 due to lower market interest rates and a decrease in the IPS settlement portfolio balances caused by the wind-down of the official check and money order businesses. Earnings from the official check and money order business were more than offset by commissions, some of which are not variable in nature, that are netted against earnings on the investment portfolio in the IPS segment. Commissions decreased in 2009 compared to 2008 as a result of the decrease in settlement portfolio balances noted above. In addition, investment income earned on settlement assets associated with the merchant acquiring business decreased due to lower market interest rates. Partially offsetting these decreases was a benefit in 2009 due to a $60.3 million impairment recognized in the third and fourth quarters of 2008 (related to the student loan auction rate securities (SLARS) and other investments).

Revenue benefited in 2008 from reduced commissions that are netted against earnings on the official check and money order business investment portfolio in the IPS segment. The reduced commissions were caused by decreased interest rates and modifications to the contract terms made in conjunction with the wind-down of the official check and money order business. Investment income also benefited during 2008 from the repositioning of the IPS portfolio to taxable investments at the beginning of 2008. Investment income was negatively impacted by investment impairments of $60.3 million (discussed above), lower market interest rates and a decrease in the portfolio balances caused by the wind-down of the official check and money order business.

From an IPS segment perspective, revenues were similarly impacted by the above noted items but were additionally affected by presenting the segment s revenues on a pretax equivalent basis in the 2007 predecessor and successor periods but not in 2008 or 2009. Such presentation is not necessary subsequent to 2007 due to the

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repositioning of the portfolio to taxable investments. On a pre-tax equivalency basis, investment income decreased significantly in 2008 due to reduced investment balances and lower interest rates as noted above. The impact of this segment presentation in the 2007 predecessor and successor periods was eliminated for consolidated reporting purposes.

As the IPS settlement portfolio balances continue to decrease and the business continues to wind-down, investment income will diminish to insignificant amounts in 2010.

Product sales and other Revenues decreased for 2009 compared to 2008 due most significantly to a decrease of approximately $76 million in royalty income reflected in All Other and Corporate. Also contributing to the decrease were declines resulting from divested businesses as well as declines in equipment and terminal sales, primarily internationally. Partially offsetting the decrease in 2009 compared to 2008 was an increase due to contract termination fees recognized in 2009 related to the termination of services by a customer in the Financial Services segment. The recognition of contract termination fees positively impacted the product sales and other revenue growth rate in 2009 by 4 percentage points.

Revenue benefited in 2008 from increased terminal sales in the International segment, higher royalty income within All Other and Corporate and acquisitions. Negatively impacting 2008 were lower contract termination fees and merchant portfolio sales than in the 2007 predecessor period within the Financial Services and Retail and Alliance Services segments, declines in terminal sales in the Retail and Alliance Services segment due to slowing demand and price compression, and declines in professional services revenue due to completed projects. The Company had portfolio sales in the fourth quarter of 2008, however no gain was recognized due to the effects of purchase accounting for the merger. For the year ended December 31, 2008, royalty income increased approximately $27 million compared to the same pro forma 2007 period.

Reimbursable debit network fees, postage and other Revenues and expense increased in 2009 compared to 2008 most significantly due to the incremental impact of the BAMS alliance and the net impact of the CPS and WFMS alliance transactions described above which benefited the reimbursable debit network fees, postage and other growth rate by 11 and 19 percentage points, respectively. Also contributing to the increase was continued growth of PIN-debit transaction volumes as well as rate increases imposed by the debit networks and an increase in postage rates. Partially offsetting these increases was a decrease in print and plastic volumes as a result of the termination of services discussed above as well as the reduction in the number of accounts and account activity due to adverse economic conditions. The termination of services impacted the reimbursable debit network fees, postage and other revenue growth rate by 3 percentage points.

Revenues and expense benefited in 2008 most significantly due to an increase in debit network fees upon consolidation of revenues from merchant contracts received from the termination of the CPS alliance effective November 1, 2008. These fees are now included within the Company s revenue but were previously netted within the Equity earnings in affiliates line within the Consolidated Statements of Operations, as the alliance was previously accounted for under the equity method. This positively impacted the reimbursable debit network fees, postage and other growth rate by 5 percentage points in 2008 compared to pro forma 2007. Also benefiting 2008 were increases in debit network fees resulting from the continued growth of PIN-debit transaction volumes as well as rate increases imposed by the debit networks and an increase in postage rates.

<u>Operating expenses overview</u>

Cost of services Expenses increased for 2009 compared to 2008 due to the incremental impact of the BAMS alliance, the net impact of the CPS and WFMS alliance transactions and increases in expenses related to

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platform development. Partially offsetting these increases were decreases due most significantly to decreases in employee related expenses as a result of lower incentive compensation which impacted the cost of services growth rate by 1 percentage point. Employee related expenses were also lower due to reduced headcount. Cost of services, as a percentage of transaction and processing service fee revenue, increased slightly in 2009 compared to 2008 as a result of the items noted above.

In 2008, cost of services increased due to an increase in expenses associated with global labor sourcing initiatives, consulting expense, data center consolidation costs, the impact of acquisitions and net increases in various expense items not individually significant. Partially offsetting these increases were decreases due most significantly to charges recorded in the 2007 predecessor period related to the accelerated vesting of stock options and restricted stock awards and units upon the change of control due to the merger. Also decreasing in 2008 were employee related expenses due to a reduction in share-based compensation resulting from the Company s new equity compensation plan implemented after the merger as compared to the pre-merger equity compensation plan, within All Other and Corporate, as well as merger-related reductions in force, the largest of which occurred in the fourth quarter 2007, and lower incentive compensation. Cost of services, as a percentage of transaction and processing service fee revenue, remained relatively consistent for 2008 compared to the pro forma 2007 period as a result of the items noted above.

Cost of products sold Expenses decreased in 2009 compared to 2008 due principally to decreases in International equipment and terminal sales partially offset by an increase in domestic terminal costs due to the incremental impact of the BAMS alliance and replacement of outdated terminals as well as increased credit losses due to a higher level of merchant failures and bankruptcy filings resulting from challenges in the economic environment.

Costs increased in 2008 compared to the 2007 predecessor and successor periods due to acquisitions and increased terminal sales within the International segment offset partially by a decrease in costs associated with terminal and software sales due to a decline in sales volumes domestically.

Selling, general and administrative Expenses increased in 2009 compared to 2008 due to an increase in expenses associated with payments to ISO s most significantly as a result of the portion of the CPS alliance received by the Company upon termination which impacted the selling, general and administrative growth rate by 8 percentage points. Also contributing to the increase in 2009 were increased expenses due to the formation of the BAMS alliance. Partially offsetting this increase was a decrease due most significantly to lower compensation expense as a result of reduced headcount as well as lower incentive compensation which impacted the selling, general and administrative growth rate by 1 percentage point. Also contributing to the decrease were foreign currency exchange rate movements and lower legal and professional fees related to the settlement of certain litigation in 2008. Selling, general and administrative expenses, as a percentage of transaction and processing service fee revenue, increased slightly in 2009 compared to 2008 as a result of the items noted above.

Selling, general and administrative expenses decreased in 2008 compared to the 2007 predecessor and successor periods as the result of charges in the predecessor period related to the accelerated vesting of stock options and restricted stock awards and units upon the change of control due to the merger, lower incentive compensation in 2008, reduced share-based compensation expense in the successor period due to the Company s new equity compensation plan implemented after the merger as compared to the pre-merger equity compensation plan and professional fees related to the merger incurred principally in the predecessor period in 2007, mainly reflected within All Other and Corporate. The year ended 2008 also benefited from reductions in force implemented most significantly in the successor period of 2007 but also in 2008. Costs were higher in 2008 due

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to an increase in expenses associated with payments to ISO s most significantly as a result of the portion the CPS alliance received by the Company upon termination, the impacts of acquisitions as well as sponsor management fees. Selling, general and administrative expenses decreased in 2008 compared to the 2007 pro forma period due to the items noted above excluding the impact of the 2007 accelerated vesting charges and the professional fees related to the merger which are excluded from the pro forma 2007 period. Selling, general and administrative expenses, as a percentage of transaction and processing service fee revenue decreased for 2008 compared to pro forma 2007 as a result of the items noted above.

Depreciation and Amortization Expenses increased in 2009 compared to 2008 due most significantly to the net impact of amortization associated with the CPS and WFMS alliance transactions and the BAMS alliance noted above as well as an increase due to newly capitalized assets. In addition, amortization expense increased as a result of accelerated amortization recorded in second quarter 2009 related to intangible assets associated with the contract termination in the Financial Services segment. These increases were partially offset by less amortization on certain intangible assets that are being amortized on an accelerated basis resulting in higher amortization in prior periods.

Amortization was higher in the 2008 and 2007 successor periods than in the 2007 predecessor period due to identifiable intangible assets recorded in purchase accounting related to the merger including amortization of customer relationships on an accelerated basis rather than a straight-line basis. Partially offsetting these increases was a decrease related to the depreciation of fixed assets recorded in purchase accounting related to the merger. Although the total value of the fixed assets increased from pre-merger book values, certain of the depreciable assets were determined to have longer lives which resulted in lower annual depreciation. Depreciation and amortization in 2008 increased compared to the same 2007 pro forma period due to newly capitalized assets, the impact of acquisitions, and the amortization associated with the Company s proportionate share of assets from the termination of the CPS alliance which was previously netted within the Equity earnings in affiliates line within the Consolidated Statements of Operations.

Other operating expenses, net

Other operating expenses related to restructuring, impairments, litigation and regulatory settlements and other totaled $289.7 million for the successor year ended December 31, 2009, $3,255.6 million for the successor year ended December 31, 2008, and $23.3 million and a benefit of $0.2 million for the 2007 predecessor and successor periods, respectively. These items are presented on the Consolidated Statements of Operations under those respective descriptions.

2009 Activities

	Pretax Benefit (Charge)					
Successor	**Retail and**			**All Other**		
Year ended December 31, 2009	**Alliance Services**	**Financial Services**	**International**	**and Corporate**	**Divested Operations**	**Totals**
			(in millions)			
Restructuring charges	$ (15.9)	$ (14.5)	$ (49.2)	$ (22.0)	$ (0.5)	$ (102.1)
Restructuring accrual reversals	4.2	1.7	2.9	0.5		9.3
Impairments			(131.9)	(53.2)		(185.1)
Litigation and regulatory settlements		(14.5)		2.7		(11.8)
Total pretax charge, net of reversals	$ (11.7)	$ (27.3)	$ (178.2)	$ (72.0)	$ (0.5)	$ (289.7)

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The restructurings resulted from the elimination of management and other positions, approximately 1,700 employees, as part of the Company s cost saving initiatives as well as domestic site consolidations and the elimination of certain information technology positions. Cost savings initiatives are expected to continue into future periods resulting in additional restructuring charges. The Company estimates cost savings resulting from 2009 restructuring activities of approximately $130 million on an annual basis. Partially offsetting the charges are reversals of 2009 and 2008 restructuring accruals related to the Company s change in strategy related to global labor sourcing initiatives as well as refining previously recorded estimates.

The following table summarizes the Company s utilization of restructuring accruals for the years ended December 31, 2008 and 2009 (in millions):

	Employee Severance	Facility Closure
Remaining accrual at January 1, 2008	$ 6.5	$ 0.1
Expense provision	20.4	
Cash payments and other	(4.1)	(0.1)
Changes in estimates (1)	(11.7)	
Remaining accrual at December 31, 2008	11.1	
Expense provision	101.6	0.5
Cash payments and other	(44.9)	(0.3)
Changes in estimates	(9.3)	
Remaining accrual at December 31, 2009	$ 58.5	$ 0.2

(1) Changes in estimates during 2008 included reversals related to pre-merger restructuring accruals recorded in purchase accounting as well as items reported in the Restructuring line item of the Consolidated Statements of Operations.

In the fourth quarter of 2009, the Company recorded impairment charges related to goodwill, customer contracts, real property, software and other intangibles as a result of the annual impairment tests that were performed. A detailed discussion of the impairment analysis is in the Impairment discussion in the Overview section above. During the third quarter of 2009, the Company recorded a charge related to an intangible asset impairment within the International segment resulting from continuing and projected losses combined with a change in business strategy related to an existing business. This was reported in the Impairments line item of the Consolidated Statements of Operations.

In 2009, the Company recorded litigation and regulatory settlements representing anticipated settlements of several matters within the Financial Services segment.

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2008 Activities

Successor **Year ended December 31, 2008**	**Retail and Alliance Services**	**Financial Services**	**International**	**All Other and Corporate**	**Divested Operations**	**Totals**
	Pretax Benefit (Charge) (in millions)					
Restructuring charges	$ (7.2)	$ (13.2)				$ (20.4)
Restructuring accrual reversals	0.7	7.6			$ 0.1	8.4
Impairments	(1,106.5)	(1,396.0)	$ (376.2)	$ (160.7)	(204.2)	(3,243.6)
Total pretax benefit (charge), net of reversals	$ (1,113.0)	$ (1,401.6)	$ (376.2)	$ (160.7)	$ (204.1)	$ (3,255.6)

The 2008 restructurings resulted from the planned terminations of approximately 1,000 employees associated with initial plans for call center consolidation and global labor sourcing initiatives primarily related to information technology development. During the fourth quarter, the Company s strategy related to global labor sourcing initiatives changed resulting in delaying implementation of certain of the initiatives and 20% fewer terminations than originally planned which resulted in the reversal of the associated charges. During the first three quarters of 2008, the Company had additional severance costs which were recorded in purchase accounting.

In the fourth quarter of 2008, the Company recorded goodwill impairment charges as a result of the annual impairment tests that were performed. A detailed discussion of the goodwill impairment analysis is in the Impairment discussion in the Overview section above. Also during 2008, the Company recorded a charge related to an asset impairment associated with the Company s subsidiary, Peace Software (Peace), included within divested operations. The impairment occurred because of the deterioration of profitability on existing business and Peace s limited success in attracting new clients. This resulted in the Company recording an impairment of $29.9 million of the goodwill and intangible assets associated with this business which was reported in the Impairments line item of the Consolidated Statements of Operations. The Company sold Peace in October of 2008.

2007 Activities

Predecessor **Period from January 1 through September 24, 2007**	**Retail and Alliance Services**	**Financial Services**	**International**	**Integrated Payment Systems**	**All Other and Corporate**	**Divested Operations**	**Totals**
	Pretax Benefit (Charge) (in millions)						
Restructuring charges	$ (2.8)		$ (7.1)			$ (0.3)	$ (10.2)
Restructuring accrual reversals	0.4	$ 0.2	0.9		$ 0.7	0.1	2.3
Impairments				$ (16.3)	(4.3)		(20.6)
Litigation and regulatory settlements	(5.0)				2.5		(2.5)
Other	2.1		(0.4)	2.2	3.8		7.7
Total pretax benefit (charge), net of reversals	$ (5.3)	$ 0.2	$ (6.6)	$ (14.1)	$ 2.7	$ (0.2)	$ (23.3)

A portion of the restructuring charges in the predecessor period resulted from efforts to improve the overall efficiency and effectiveness of the sales and sales support teams principally within the Retail and Alliance Services segment. This action resulted in the termination of approximately 230 sales related employees

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comprising approximately 10% of the merchant acquiring business regional sales, cross-sale and sales support organizations. The other restructuring in the predecessor period resulted from the termination of approximately 140 employees within the International segment associated with data center consolidation and global sourcing initiatives.

In November 2007, the Company terminated approximately 6% of its worldwide work force as part of a strategic plan following the merger addressing simplification, efficiencies and cost savings initiatives. A majority of the successor severance costs were recorded in purchase accounting while the remaining amount was recorded through current operations.

During the 2007 predecessor period, the Company recorded a charge of $16.3 million related to the impairment of goodwill and intangible assets associated with the wind-down of the Company s official check and money order business and an additional $4.3 million related to the impairment of fixed assets and software associated with its government business included in All Other and Corporate. The Company also recorded a $5.0 million litigation accrual associated with a judgment against the Company pertaining to a vendor contract issue within the Retail and Alliance Services segment, and a benefit of $2.5 million related to the Visa settlement originally recorded in 2006 in All Other and Corporate. The Company also released a portion of the domestic escheatment accrual made in the fourth quarter 2005 which is reflected in Other. The release was prompted by reaching resolution with a large majority of states as to the Company s escheatment liability.

<u>Interest income</u>

Interest income in 2009 decreased compared to 2008 due to lower interest rates and a decrease in cash balances. Interest income in 2008 decreased compared to the 2007 predecessor and successor periods due to the same factors.

<u>Interest expense</u>

Interest expense decreased in 2009 compared to 2008 due to lower average interest rates on variable rate debt in 2009. Also contributing to the decrease were interest rate swaps that no longer qualified for hedge accounting beginning in 2009, the impact of which is $64.3 million and is recorded in the other income (expense) line item of the Consolidated Statements of Operations. Partially offsetting these decreases was an increase due to higher average balances (approximately $22,609.8 million as of December 31, 2009 which is slightly higher than the debt balances as of December 31, 2008) as well as higher interest rates on the Company s senior unsecured debt in 2009 as the result of amendments to such debt in June 2008.

Interest expense for the year ended December 31, 2008 and the 2007 successor period were higher than the 2007 predecessor period most significantly due to debt (approximately $22,572.5 million as of December 31, 2008) incurred primarily as the result of the merger. Prior to the merger in 2007, the Company had debt balances of less than $3 billion. Higher interest rates on the new merger related debt also contributed to the increase.

Interest expense for 2008 decreased compared to pro forma 2007 primarily due to decreasing interest rates which favorably impacted all unhedged variable rate debt.

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Other income (expense)

	Successor			Predecessor
(in millions)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Period from September 25, 2007 through December 31, 2007**	**Period from January 1 through September 24, 2007**
Investment gains and (losses)	$ 3.0	$ 21.1	$ 0.9	$ (2.0)
Derivative financial instruments gains and (losses)	(67.4)	(12.9)	(33.3)	(0.6)
Divestitures, net	(12.9)	(8.5)	0.2	6.1
Debt repayment gains and (losses)		7.0	(17.2)	1.4
Non-operating foreign currency gains and (losses)	10.5	(21.1)	(24.6)	
Other	5.5			
Other income (expense)	$ (61.3)	$ (14.4)	$ (74.0)	$ 4.9

Investment gains and (losses) The 2008 investment gains and losses resulted from the recognition of a gain related to the sale of MasterCard stock in the Retail and Alliance Services and International segments and a gain on the sale of investment securities within the Financial Services segment partially offset by a loss resulting from a money market investment impairment.

Derivative financial instruments gains and (losses) The net gains and losses in 2009 were due most significantly to the mark-to-market adjustments for cross currency swaps and interest rate swaps that are not designated as accounting hedges as well as the impact of payments on interest rate swaps that do not qualify as accounting hedges.

The derivative financial instruments loss in 2008 related most significantly to $16.0 million of charges for ineffectiveness from interest rate swaps that were designated as accounting hedges but are not perfectly effective partially offset by miscellaneous individually insignificant items.

The derivative loss in the 2007 successor period related most significantly to a $12.2 million mark-to-market loss on collars entered into to economically hedge, although not designated as an accounting hedge, MasterCard stock held by the Company. These collars were terminated in January 2008 in connection with the sale of the hedged MasterCard stock. A loss of approximately $19 million was also recognized due to decreases in the fair value of forward starting, deal contingent interest rate swaps of a subsidiary of KKR, Omaha Acquisition Corporation, for the period prior to its merger with and into the Company from March 29, 2007 (its formation) through September 24, 2007 and prior to their designation as a hedge.

Divestitures, net The loss in 2009 resulted from the Company selling its debit and credit card issuing and acquiring processing business in Austria in August 2009. The loss is partially offset by a gain related to the sale of a merchant acquiring business in Canada in November 2009. During 2008, the Company recognized a loss related to a divestiture of a business within the International segment. The Company also recognized a pretax loss of $3.8 million resulting from the sale of 12.5% of its membership interest in Wells Fargo Merchant Services, LLC discussed above in Overview . During the 2007 predecessor period, the Company recognized benefits resulting from the release of excess divestiture accruals due to the expiration of certain contingencies.

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Debt repayment gains and losses The 2008 debt repayment gain related to the early repayment of long-term debt at a discount from the principal amount. In the 2007 successor period, the debt repayment losses related to costs of tendering debt at the time of the merger and the premium paid for obtaining a consent from holders to modify terms of the Company s debt they held.

Non-operating foreign currency gains and (losses) For the years ended December 31, 2009, 2008 and the 2007 successor period, the net non-operating foreign currency exchange gains and losses related to the mark-to-market of the Company s intercompany loans and the euro-denominated debt issued in connection with the merger. Historically, intercompany loans were deemed to be of a long-term nature for which settlement was not planned or anticipated in the foreseeable future. Accordingly, the translation adjustments were reported in Other comprehensive income . Effective in September 2007 and in conjunction with the merger, the Company made the decision to begin settling intercompany loans which results in a benefit or charge to earnings due to movement in foreign currency exchange rates.

Income taxes

The Company s effective tax rate on pretax income (loss) from continuing operations was 36.3%, a tax benefit, in 2009, 16.2%, a tax benefit, in 2008, 40.1%, a tax benefit, for the 2007 successor period, and 18.1%, a tax expense, in the 2007 predecessor period. The calculation of the effective tax rate includes most of the equity earnings in affiliates in pretax income because this item relates principally to entities that are considered pass-through entities for income tax purposes.

The effective tax rate benefit in 2009 is greater than the statutory rate due primarily to state tax benefits, foreign income taxed at lower effective rates and net income attributable to noncontrolling interests for pass through entities for which there was no tax expense provided. These positive adjustments were partially offset by an increase in the Company s liability for unrecognized tax benefits and an increase in the valuation allowance established against certain state and foreign net operating losses.

The effective tax rate benefit in 2008 was less than the statutory rate due primarily to the non-deductibility of most of the goodwill impairment expense recorded in the fourth quarter of 2008. Partially offsetting the tax disallowance of the goodwill impairment was the release of a valuation allowance against foreign tax credits established since consummation of the merger.

The change from pretax income in predecessor periods to a pretax loss in the 2007 successor period caused a general shift from an overall tax expense to an overall tax benefit. The non-taxable interest income from the IPS municipal bond portfolio in the 2007 successor period caused an increase to the effective tax rate benefit of approximately 8%. State income tax benefits were reduced in the successor loss period for separate company income and franchise tax liabilities. Also reducing the tax benefit of the pretax loss in the successor period was the valuation allowance against foreign operating losses in certain countries and foreign tax credits.

The non-taxable interest income from the IPS municipal bond portfolio significantly impacted the effective tax rate from continuing operations in the predecessor period, reducing the statutory rate by approximately 16 percentage points in the 2007 predecessor period. Most of the IPS municipal bond portfolio was converted into taxable investments in January 2008 and therefore did not have a significant impact on the Company s effective tax rate in 2008 or 2009.

Subsequent to the merger and as part of the First Data Holdings, Inc. (Holdings) consolidated federal group and consolidated, combined or unitary state groups for income tax purposes, the Company has been and continues to be in a tax net operating loss position. The Company, however, continues to incur income taxes in states for which it files returns on a separate entity basis and in certain foreign countries. Generally these foreign income taxes result in a foreign tax credit in the U.S. to the extent of any U.S. income taxes on the income upon repatriation. The Company currently anticipates being able to utilize in the future most of its existing federal and state net operating loss carryforwards and its existing foreign tax credits due to the existence of significant deferred tax liabilities established in connection with purchase accounting for the merger. Accordingly, the Company has not established valuation allowances against most of such loss carryforwards nor against such foreign tax credits. The Company, however, may not be able to record a benefit related to losses in certain states and foreign countries, requiring the establishment of valuation allowances. The additional taxes recognized as part of discontinued operations in 2007 related to 2006 income tax return to provision true-ups and other tax items associated with operations discontinued in 2006.

During the year ended December 31, 2009, the Company s liability for unrecognized tax benefits was reduced by $5 million after negotiating settlements with certain state jurisdictions. The reduction in the liability was recorded through cash payments and a decrease to tax expense. As of December 31, 2009, the Company anticipates it is reasonably possible that its liability for unrecognized tax benefits may decrease by approximately $49 million within the next twelve months as the result of the possible closure of its 2002 federal tax year, the possible resolutions of specific contested issues in the 2003 and 2004 federal tax years, and the lapse of the statute of limitations in various state jurisdictions. The potential decrease relates to various federal and state tax benefits including research and experimentation credits and certain amortization, loss and stock warrant deductions.

The Internal Revenue Service (IRS) completed its examination of the United States federal consolidated income tax returns of the Company for 2003 and 2004 and issued a Notice of Deficiency (the Notice) in December 2008. The Notice claims that the Company and its subsidiaries, which included Western Union during the years at issue, owe significant additional taxes, interest and penalties with respect to a variety of adjustments. The Company and Western Union agree with several of the adjustments in the Notice. As to the adjustments that are in dispute, for 2003 such issues represent total taxes and penalties allegedly due of approximately $34 million, of which $11 million relates to the Company and $23 million relates to Western Union, and for 2004 such issues represent total taxes and penalties allegedly due of approximately $94 million, of which $2 million relates to the Company and $92 million relates to Western Union. The Company estimates that the total interest due (pretax) on such amounts for both years is approximately $49 million through December 31, 2009, of which $6 million relates to the Company and $43 million relates Western Union. As to the disputed issues, the Company and Western Union are contesting the asserted deficiencies in United States Tax Court. The Company believes that it has adequately reserved for its disputed issues and final resolution of those issues will not have a material adverse effect on its financial position or results of operations.

Under the Tax Allocation Agreement executed at the time of the spin-off of Western Union on September 29, 2006, Western Union is responsible for and must indemnify the Company against all taxes, interest and penalties that relate to Western Union for periods prior to the spin-off date, including the amounts asserted in the Notice as described above. If Western Union were to agree to or be finally determined to owe any amounts for such periods but were to default in its indemnification obligation under the Tax Allocation Agreement, the Company as parent of the tax group during such periods generally would be required to pay the amounts to the relevant tax authority, resulting in a potentially material adverse effect on the Company s financial position and results of operations. As of December 31, 2009, the Company had approximately $137 million of uncertain income tax liabilities recorded related to Western Union for periods prior to the spin-off date. The Company has recorded a corresponding account receivable of equal amount from Western Union,

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which is included as a long-term account receivable in the Other long-term assets line of the Company s Consolidated Balance Sheets, reflecting the indemnification obligation. The uncertain income tax liabilities and corresponding receivable are based on information provided by Western Union regarding its tax contingency reserves for periods prior to the spin-off date. There is no assurance that a Western Union-related issue raised by the IRS or other tax authority will be finally resolved at a cost not in excess of the amount reserved and reflected in the Company s uncertain income tax liabilities and corresponding receivable from Western Union.

Equity earnings in affiliates

Equity earnings in affiliates decreased in 2009 compared to 2008 due to the net impact of the CPS and WFMS alliance transactions described above. Equity earnings in affiliates for 2008 and in the 2007 successor period was lower than the 2007 predecessor period due to increased amortization associated with the value assigned to the identifiable intangible assets of merchant alliances from the excess of the Company s investment over the proportionate share of the affiliates net assets from the merger as well as amortization of customer relationships on an accelerated basis in the successor periods. Equity earnings in affiliates for 2008 also were negatively impacted due to the CPS alliance termination which occurred on November 1, 2008 resulting in two fewer months of equity earnings when compared to the pro forma 2007 period.

Net income attributable to noncontrolling interests

Most of the net income attributable to noncontrolling interests relates to the Company s consolidated merchant alliances. Net income attributable to noncontrolling interests decreased in 2009 compared to 2008 due to the deconsolidation of the alliance with Wells Fargo at December 31, 2008 upon sale of part of the Company s interest in the alliance discussed in Overview above. Partially offsetting this decrease was an increase due to the formation of the BAMS alliance beginning in June 2009. Net income attributable to noncontrolling interests increased in 2008 compared to 2007 due to the new alliance with Allied Irish Banks p.l.c. (AIB) in January 2008 and higher earnings from the alliance with Wells Fargo.

Segment Results

FDC classifies its businesses into four segments: Retail and Alliance Services, Financial Services, International and Integrated Payment Systems. Integrated Payment Systems and All Other and Corporate are not discussed separately as their results that had a significant impact on operating results are discussed in the Consolidated Results discussion above. As discussed above in Overview, results of operations reflect the segment realignment for all periods presented.

The Company sold a merchant acquiring business in Canada as well as a debit and credit card issuing and acquiring processing business in Austria and Active Business Services, Ltd, all reported within the International segment, in November 2009, August 2009 and July 2008, respectively, and Peace Software, reported within the Financial Services segment, in October 2008. The results of divested businesses are excluded from segment results. The International and Financial Services performance measures have been adjusted for 2009, 2008 and 2007 to exclude the results of divested businesses. Retail and Alliance Services segment performance measures have been adjusted for 2008 and 2007 to reflect the sale of 12.5% of the Company s ownership interest in the Wells Fargo Merchant Services alliance that occurred on December 31, 2008.

Beginning in the third quarter of 2009, the Company changed the financial reports provided to its Chief Executive Officer, the Company s chief operating decision maker (CODM), to better enable him to make operating decisions and assess the performance of the Company s business segments. The segments have not

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changed from those described in the Segment Realignment section above but the presentation of the results has changed from prior periods. Results for 2008 and 2007 have been adjusted to conform to this presentation.

The business segment measurements provided to and evaluated by the CODM are computed in accordance with the following principles:

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Retail and Alliance Services segment revenue does not include equity earnings because it is reported using proportionate consolidation as described below. Other segment revenue includes equity earnings in affiliates (excluding amortization expense) and intersegment revenue.

Segment revenue excludes reimbursable debit network fees, postage and other revenue.

Segment earnings before net interest expense, income taxes, depreciation and amortization (EBITDA) includes equity earnings in affiliates and excludes depreciation and amortization expense, net income attributable to noncontrolling interests, other operating expenses and other income (expense). Retail and Alliance Services segment EBITDA does not include equity earnings because it is reported using proportionate consolidation as described below. Additionally, segment EBITDA is adjusted for items similar to certain of those used in calculating the company s compliance with debt covenants. The additional items that are adjusted to determine segment EBITDA are:

stock based compensation expense is excluded;

official check and money order businesses EBITDA are excluded;

cost of data center technology and savings initiatives are excluded and represent implementation costs associated with initiatives to reduce operating expenses including items such as platform and data center consolidation initiatives in the International segment, expenses related to the reorganization of global application development resources, expenses associated with domestic data center consolidation initiatives and planned workforce reduction expenses, as well as certain platform development and other costs directly associated with the termination of the CPS alliance all of which are considered nonrecurring projects (excludes costs accrued in purchase accounting);

KKR merger related items are excluded and represent third party expenses including legal, accounting and other advisory fees incurred in connection with the merger of the Company with affiliates of KKR and the debt issued thereunder. Other adjustments also include the exclusion of KKR annual sponsor fees for management, consulting, financial and other advisory services and the effect of purchase accounting associated with the merger on EBITDA which is primarily the result of revenue recognition adjustments.

Retail and Alliance Services segment revenue and EBITDA are reflected based on the Company s proportionate share of the results of its investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. In addition, Retail and Alliance Services segment measures reflect commission payments to certain ISO s, which are treated as an expense in the Consolidated Statements of Operations, as contra revenue to be consistent with revenue share arrangements with other ISO s that are recorded as contra revenue.

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 attributable to a segment are allocated to the respective segment. Administrative and shared service costs are retained by Corporate.

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Retail and Alliance Services Segment Results

	Historical		Pro Forma	Historical		Percent Change	
	Successor			Successor	Predecessor		
(in millions)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Period from September 25 through December 31, 2007	Period from January 1 through September 24, 2007	2009 vs. 2008	Historical 2008 vs. Pro Forma 2007
Revenues:							
Transaction and processing service fees	$ 2,720.1	$ 2,894.2	$ 2,871.1	$ 801.2	$ 2,069.9	(6)%	1%
Investment income, net	5.4	44.3	84.6	22.2	62.4	(88)%	(48)%
Product sales and other	337.3	338.7	373.4	93.4	280.0	0%	(9)%
Segment revenue	$ 3,062.8	$ 3,277.2	$ 3,329.1	$ 916.8	$ 2,412.3	(7)%	(2)%
Segment EBITDA	$ 1,193.5	$ 1,407.8	$ 1,380.5	$ 395.3	$ 985.2	(15)%	2%
Segment Margin	39%	43%	41%	43%	41%	(4)pts	2pts

	Year ended December 31, 2009	2008	2007		
Key indicators:					
Domestic merchant transactions (a)	28,257.8	26,856.9	25,359.0	5%	6%

(a) Domestic merchant transactions include acquired VISA and MasterCard credit and signature debit, PIN-debit, electronic benefits transactions, and processed-only or gateway customer transactions at the POS. Domestic merchant transactions include 100% of the CPS alliance transactions in 2007 and through the November 1, 2008 termination date. Subsequent to the termination of the alliance, domestic merchant transactions include transactions related to the Company s 49% proportionate share of the alliance s assets rather than 100% of alliance activity. In addition, domestic merchant transactions include activity for JPMorgan Chase merchants that continue to process on the Company s platforms. The domestic merchant transactions continue to reflect all WFMS alliance transactions despite the deconsolidation described above. Domestic merchant transactions for 2009 also include all of the transactions related to merchants contributed by BofA to the BAMS alliance since the alliance was formed on June 26, 2009.

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Transaction and processing service fees revenue

(in millions)	Historical Successor Year ended December 31, 2009	Historical Successor Year ended December 31, 2008	Pro Forma Year ended December 31, 2007	Historical Successor Period from September 25 through December 31, 2007	Historical Predecessor Period from January 1 through September 24, 2007	Percent Change 2009 vs. 2008	Percent Change Historical 2008 vs. Pro Forma 2007
Acquiring revenue	$ 2,078.3	$ 2,160.7	$ 2,099.2	$ 571.9	$ 1,527.3	(4)%	3%
Check processing revenue	357.2	380.2	411.9	112.0	299.9	(6)%	(8)%
Prepaid revenue	212.4	228.6	214.8	76.8	138.0	(7)%	6%
Processing fees and other revenue from alliance partners	72.2	124.7	145.2	40.5	104.7	(42)%	(14)%
Total transaction and processing service fees revenue	$ 2,720.1	$ 2,894.2	$ 2,871.1	$ 801.2	$ 2,069.9	(6)%	1%

Acquiring revenue

Acquiring revenue decreased in 2009 compared to 2008 due to economic weakness and resulting changes in consumer spending patterns, merchant attrition, and price compression. The changes in spending patterns resulted in a decrease to the average ticket size of signature based transactions and a shift from smaller, more profitable merchants to national discounters and wholesalers. Price compression was within the Company s historical three to five percentage range. Also, the Company experienced a shift from credit card usage to the use of PIN debit cards resulting in less revenue per transaction. These effects were partly offset by increased transaction volume, new sales and higher fee-related income.

Transactions are not comparable year over year due to the items noted in (a) above. BAMS transactions earn a lower revenue amount per transaction than the Company has historically experienced due to its business mix. Also, differences in transaction growth and revenue growth occur due to debit transactions having lower revenue per transaction, the impact of adverse economic conditions including lower average ticket size and business mix whereby national merchants and ISO growth are outpacing other higher margin transactions.

The Company anticipates that acquiring revenue trends could continue to be negatively impacted by transaction volume shifting from smaller merchants to discounters and wholesalers, PIN-debit growth outpacing credit, and lower average ticket size. These trends are all impacted by consumer spending patterns.

Revenue in 2008 compared to 2007 was positively impacted by annual fees recognized in the fourth quarter of 2008 that were not included in 2007 results due to purchase accounting related to the merger as well as changes in pricing. Acquiring revenue was negatively impacted due to lower average ticket size for acquired credit card transactions, to shifts in transaction volumes from smaller, more profitable merchants to several nationwide discounters and wholesalers and other impacts of the economy.

Revenue growth for 2008 compared to pro forma 2007 was most significantly impacted by annual fees. This increase was partially offset by the factors noted above.

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Check processing revenue

Check processing revenue decreased in 2009 compared to 2008 resulting from a decrease in overall check volumes, particularly with the regional merchants, and, to a lesser extent, a shift in transactions to national merchants which have lower processing revenue due to volume.

Check processing revenue for 2008 was negatively impacted by a decrease in revenue from existing clients due to declines in overall check volumes from those seen in 2007 with the check verification volumes experiencing the most significant decrease. The decrease in revenue from existing clients negatively impacted the 2008 check services revenue growth rate by 9 percentage points compared to pro forma 2007.

Prepaid revenue

Prepaid revenue decreased in 2009 compared to 2008 due to transaction volume and card shipment declines as a result of an adverse economy. Partially offsetting the decrease was an increase due to new business.

Prepaid revenue for 2008 benefited from growth of existing clients due to transaction growth as well as having a full year of results for an acquisition that was completed in the fourth quarter of 2007. Prepaid services revenue for 2008 was negatively impacted by net lost business primarily in ATM services.

Processing fees and other revenue from alliance partners

The decrease in processing fees and other revenue from alliance partners is due to the termination of the CPS alliance partially offset by processing fees related to the BAMS alliance. Processing fees and other revenue from alliance partners in 2008 compared to 2007 was negatively impacted due most significantly as a result of the CPS termination on November 1, 2008 (two fewer months in 2008 compared to 2007).

Product sales and other revenue

Product sales and other revenue growth for 2009 compared to 2008 remained flat. Revenue for 2008 was negatively impacted by decreased terminal sales resulting from slowing in equipment demand in part due to elevated prior year placements associated with merchants having to remain compliant with association rules, price compression and merchant portfolio sales in the first three quarters of 2007. The Company had portfolio sales in the fourth quarter of 2008, however, no gain was recognized due to the effects of purchase accounting for the merger.

Segment EBITDA

In addition to the impact of the items noted above in the revenue discussion, Retail and Alliance Services segment EBITDA in 2009 compared to 2008 was negatively impacted by the effects of the economy on spending patterns, increased credit losses due to a higher level of merchant failures and bankruptcy filings and by the negative impact of the BAMS alliance due to third party processing of the bank contributed merchants in the short-term. This negative impact will gradually reverse over time as the Company operationalizes the alliance, captures synergies and converts merchants to its platform. Increased credit losses negatively impacted segment EBITDA growth rates by 3 percentage points for 2009 compared to 2008. Partially offsetting these decreases was an increase due to lower incentive compensation in 2009 that contributed 1 percentage point to the segment EBITDA growth rate for 2009 compared to 2008 as well as general reductions in work force.

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Retail and Alliance Services segment EBITDA in 2008 was also positively impacted by the annual fees and change in pricing discussed in the acquiring revenue discussion above. Segment EBITDA in 2008 was negatively impacted due to a slow 2008 holiday season. The 2008 segment EBITDA was not impacted by a charge similar to that recognized during the first quarter 2007 when the Company bought out a revenue sharing agreement as part of a new, larger relationship with Discover Financial Services LLC.

Segment EBITDA for 2008 increased compared to the same pro forma 2007 period due to the items noted above.

Financial Services Segment Results

	Historical		Pro Forma	Historical		Percent Change	
	Successor			Successor	Predecessor		Historical
(in millions)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Period from September 25 through December 31, 2007	Period from January 1 through September 24, 2007	2009 vs. 2008	2008 vs. Pro Forma 2007
Revenues:							
Transaction and processing service fees	$ 1,379.8	$ 1,480.4	$ 1,483.1	$ 405.6	$ 1,077.5	(7)%	(0)%
Investment income, net	1.0	2.6	4.1	0.7	3.4	(62)%	(37)%
Product sales and other	62.0	34.5	58.3	8.8	49.5	80%	(41)%
Segment revenue	$ 1,442.8	$ 1,517.5	$ 1,545.5	$ 415.1	$ 1,130.4	(5)%	(2)%
Segment EBITDA	$ 645.3	$ 753.1	$ 723.2	$ 202.2	$ 521.0	(14)%	4%
Segment margin	45%	50%	47%	49%	46%	(5)pts	3pts

	Year ended December 31, 2009	2008	2007		
Key indicators:					
Domestic debit issuer transactions (a)	12,222.5	12,042.2	11,651.4	1%	3%
Domestic active card accounts on file (end of period) (b)					
Bankcard	48.3	50.5	48.4	(4)%	4%
Retail	72.6	77.1	79.9	(6)%	(4)%
Total	120.9	127.6	128.3	(5)%	(1)%
Domestic card accounts on file (end of period) (c)					
Bankcard	123.2	131.0	130.7	(6)%	0%
Retail	385.3	379.4	381.8	2%	(1)%
Debit	153.3	126.8	122.3	21%	4%

Total	661.8	637.2	634.8	4%	0%

(a) Domestic debit issuer transactions include VISA and MasterCard signature debit, STAR ATM, STAR PIN-debit POS and ATM and PIN-debit POS gateway transactions.

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(b) Domestic active card accounts on file include bankcard and retail accounts that had a balance or any monetary posting or authorization activity during the last month of the quarter.

(c) Domestic card accounts on file include credit, retail and debit card accounts as of the last month of the quarter.

Transaction and processing service fees revenue

Components of transaction and processing service fees revenue

	Historical Successor		Pro Forma	Historical		Percent Change	
				Successor	Predecessor		
(in millions)	Year ended December 31, 2009	Year ended December 31, 2008	Year ended December 31, 2007	Period from September 25 through December 31, 2007	Period from January 1 through September 24, 2007	2009 vs. 2008	Historical 2008 vs. Pro Forma 2007
Credit card, retail card and debit processing	$ 972.0	$ 1,019.9	$ 1,033.2	$ 282.9	$ 750.3	(5)%	(1)%
Output services	242.5	285.1	276.2	71.3	204.9	(15)%	3%
Other revenue	165.3	175.4	173.7	51.4	122.3	(6)%	1%
Total	$ 1,379.8	$ 1,480.4	$ 1,483.1	$ 405.6	$ 1,077.5	(7)%	(0)%

Credit card, retail card and debit processing revenue

Credit card and retail card processing revenue was negatively impacted in 2009 compared to 2008 due to the decline in active accounts and reduced pricing partially offset by net new business. As a result of the adverse economic conditions credit card issuers are being more selective with whom they issue cards as discussed above and consumers are using their cards less frequently resulting in fewer active credit and retail card accounts.

The economic downturn has also slowed the growth rate of debit issuer transactions. Growth in debit issuer transactions was largely offset by transactions lost as a result of the Washington Mutual deconversion. In 2009 compared to 2008, debit issuer transaction growth exceeded the impact of the lost Washington Mutual transactions resulting in a modest increase. Debit issuer transactions grew in 2009 compared to 2008 and in 2008 compared to 2007 due most significantly to the shift to debit cards from credit cards, cash and checks largely offset by lost business.

Debit processing revenue in 2009 compared to 2008 was negatively impacted by the Washington Mutual impact noted above as well as other lost business and price compression partially offset by debit transaction growth and new business. The Financial Services segment Credit card, retail card and debit processing revenue growth rates were negatively impacted by 3 percentage points in 2009 compared to 2008 as a result of the termination of services provided to Washington Mutual. Approximately half of the impact on revenue from the Washington Mutual deconversion (mostly debit processing and output services) was offset in total Financial Services segment revenue by the recognition of contract termination fees in the Product sales and other line in the Consolidated Statements of Operations. Certain agreements, representing 19% of Washington Mutual 2008 revenue, will terminate in 2010. Recognition of contract termination fees will partially offset the impact of the lost business in 2010. Washington Mutual Bank represented approximately 7% of transaction and processing service fees revenue for the segment in 2008.

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The Company received notification from a large financial institution that it will not renew its debit processing agreement at the end of the contract term. The contract is scheduled to expire in December 2010 and a portion of the business is expected to begin deconverting in late 2010 with minimal impact to revenue in 2010. The Company has also received notification of termination from various other financial institutions that are less significant individually, which are scheduled to deconvert throughout 2010. Including the large financial institution, these agreements represented approximately 4% of the segment s transaction and processing service fees revenue for 2009.

Credit card, retail card and debit processing revenue was negatively impacted in 2008 by price compression and net lost business but benefited from growth of existing clients as well as having a full year of results from the Instant Cash Services® acquisition. The acquisition related to the debit card processing business occurred in the first half of 2007. Credit card and retail card processing revenue and debit processing revenue both decreased in 2008 compared to pro forma 2007 due to the factors noted above. The acquisition noted above contributed 1 percentage point to the credit card, retail card and debit processing revenue growth rate.

Output services revenue

Output services revenue decreased in 2009 compared to 2008 due to lost business and decreases in print mail and plastics volumes from existing customers as a result of the reduction in the number of accounts and account activity due to adverse economic conditions. Partially offsetting these decreases were increases due to additional print and plastics volumes as a result of new business. Most of the lost business relates to Washington Mutual Bank, which represented 17% of output services revenue in 2008. The output services revenue growth rate was negatively impacted by 9 percentage points for 2009 compared to 2008 as a result of the lost business with Washington Mutual Bank.

Output services revenue benefited in 2008 from internal growth partially offset by net lost business. The lost business related to statement production.

Other revenue

Other revenue consists mostly of revenue from remittance processing and online banking and bill payment services. Other revenue decreased in 2009 compared to 2008 due to lost business and lower remittance and check processing volumes due to adverse economic conditions and the shift from paper to electronic forms of payment. The wind-down of an existing product also contributed to the decrease. These declines were partially offset by the addition of a new client in the remittance business as well as growth in online banking and bill payment revenue.

Other revenue for 2008 benefited from having a full year of results from the FundsXpress acquisition, an on-line banking and bill payment service provider acquired in the first half of 2007, but was negatively impacted by net lost business related to remittance processing and call volumes. The FundsXpress acquisition benefited the 2008 other revenue growth rate by 9 percentage points compared to pro forma 2007 and net lost business negatively impacted the 2008 growth rate by 8 percentage points.

Product sales and other revenue

Product sales and other revenue increased in 2009 compared to 2008 due most significantly to the recognition of contract termination fees in 2009 related to the termination of services with Washington Mutual Bank.

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Product sales and other revenue in 2008 was negatively impacted due most significantly to contract termination fees received in the 2007 predecessor period as well as a decrease in professional service fees in 2008 in the credit card and retail card businesses.

Segment EBITDA

In addition to the items noted above, Financial Services segment EBITDA decreased in 2009 compared to 2008 due most significantly to higher costs as a result of technology contractor services (including costs related to compliance with new credit card regulations) as well as higher technology cost allocations. Also impacting segment EBITDA was lower incentive compensation which benefited the growth rate by 2 percentage points. The contract termination fees related to the Washington Mutual Bank agreement termination discussed above offset the impact of losing the processing services such that the termination had no impact on segment EBITDA. The termination would have otherwise affected the segment EBITDA growth rate by 4 percentage points in 2009 compared to 2008.

Financial Services segment EBITDA in 2008 was positively impacted by decreases in compensation and other operating expenses resulting from restructurings in the fourth quarter of 2007 and other reductions in staff in 2008. Such reductions in expenses were significant enough to substantially offset the impact of price reductions and lost business. Negatively impacting 2008 are the items noted above in the revenue discussion.

International Segment Results

	Historical		Pro Forma	Historical		Percent Change	
	Successor			Successor	Predecessor		Historical
(in millions)	**Year ended December 31, 2009**	**Year ended December 31, 2008**	**Year ended December 31, 2007**	**Period from September 25 through December 31, 2007**	**Period from January 1 through September 24, 2007**	**2009 vs. 2008**	**2008 vs. Pro Forma 2007**
Revenues:							
Transaction and processing service fees	$ 1,197.1	$ 1,324.3	$ 1,162.9	$ 355.1	$ 807.8	(10)%	14%
Product sales and other	334.1	315.6	266.1	82.0	184.1	6%	19%
Other revenues	40.9	56.1	50.2	13.8	36.4	(27)%	12%
Segment revenue	$ 1,572.1	$ 1,696.0	$ 1,479.2	$ 450.9	$ 1,028.3	(7)%	15%
Segment EBITDA	$ 398.7	$ 433.3	$ 368.9	$ 117.9	$ 251.0	(8)%	17%
Segment Margin	25%	26%	25%	26%	24%	(1)pt	1pt

	Year ended December 31, 2009	2008	2007		
Key indicators:					
International transactions (a)	5,826.8	5,397.2	4,525.5	8%	19%
International card accounts on file (end of period) (b)	80.9	80.1	62.5	1%	28%

(a) 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.

(b) International card accounts on file include bankcard and retail.

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Summary

Segment revenue decreased in 2009 compared to 2008 due to foreign currency exchange rate movements, price compression and lost business. Foreign currency exchange rate movements negatively impacted the segment revenue growth rate by 9 percentage points for 2009 compared to 2008. Partially offsetting these decreases were new business and growth from existing clients.

Segment revenue in 2008 benefited from acquisitions and growth of existing clients. The most significant of these acquisitions were First Data Polska in Poland and the alliance with AIB in Ireland. Negatively impacting 2008 was price compression and net lost business.

Transaction and processing service fee revenue

Transaction and processing service fees revenue decreased in 2009 compared to 2008 due generally to the same items noted above. Foreign currency exchange rate movements negatively impacted the transaction and processing service fees revenue growth rate by 9 percentage points for 2009 compared to 2008. The majority of the lost business noted above impacted the United Kingdom, Canada and Germany in 2009, a significant portion of which related to the wind-down of a UK issuing contract assumed by the Company in a previous year. Partially offsetting these decreases was an increase due to regulation changes in Australia allowing direct charging of transaction fees to customers in 2009, new business and growth from existing clients.

Transaction and processing service fees revenue benefited in 2008 due generally to the factors noted above. Acquisitions benefited revenue most significantly followed by growth of existing clients driven by increased transaction volumes. Revenue from the acquisitions related mostly to merchant businesses and growth from existing clients was driven mostly by activity in Argentina, Slovakia, Greece, Korea and the UK acquiring business. Negatively impacting 2008 was price compression. Foreign currency exchange rates did not have a significant impact on growth rates in 2008.

Transaction and processing service fee revenue is driven by accounts on file and transactions. The spread between growth in these two indicators and revenue growth was driven mostly by the impact of foreign exchange rate movements, the mix of transaction types and price compression.

Product sales and other revenue

Product sales and other revenue increased in 2009 compared to 2008 due mostly to new license fee revenue and new business partially offset by decreased equipment and terminal sales.

Product sales and other revenue benefited in 2008 from increased terminal-related revenue and the impact of acquisitions but was negatively impacted by a decrease in professional services fees in 2008 due to the completion of projects in 2007 as well as contract termination fees received in 2007.

Segment EBITDA

Segment EBITDA decreased in 2009 compared to 2008 due to foreign currency exchange rate movements and price compression (as discussed in the revenue discussion above) as well as other items that were not individually significant. Foreign currency exchange rate movements adversely impacted the segment EBITDA growth rate by 11 percentage points in 2009 compared to 2008. Partially offsetting these decreases were benefits related to reduced headcount, growth from existing clients and lower incentive compensation in 2009.

Segment EBITDA in 2008 was impacted by the factors noted in the revenue discussion above as well as lower employee related expenses due to merger related reductions in force partially offset by an assessment for delays in a conversion project.

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Pro Forma Financial Information

The following Unaudited Pro Forma Condensed Consolidated Statement of Operations reflects the consolidated results of operations of the Company for the year ended December 31, 2007 as if the merger had occurred on January 1, 2007. The pro forma statement is derived from the application of pro forma adjustments to the historical Statement of Operations of the predecessor period January 1, 2007 to September 24, 2007 and the successor period from September 25, 2007 to December 31, 2007. The pro forma Condensed Consolidated Statement of Operations should be read in conjunction with the Consolidated Financial Statements, related notes and other financial information included elsewhere in this Form 10-K.

The pro forma adjustments are described in the notes to the pro forma Condensed Consolidated Statement of Operations and are based on available information and assumptions that management believes are reasonable. The pro forma adjustments and results of operations in the successor period are based on the final allocation of the purchase price and final valuation of intangible and fixed assets and reflect the modification of certain of the debt from variable to fixed interest rates. The pro forma Condensed Consolidated Statement of Operations is not necessarily indicative of the future results of operations of the successor Company or results of operations of the successor Company that would have actually occurred had the merger been consummated as of January 1, 2007.

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Unaudited Pro Forma Condensed Consolidated Statement of Operations

	Historical		Pro Forma Adjustments	Pro Forma
(in millions)	Successor	Predecessor		