

FIRST DATA CORP
Form 10-Q
May 13, 2011
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

OR

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

For the transition period from to

Commission file number 001-11073

FIRST DATA CORPORATION

(Exact name of registrant as specified in its charter)

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www.firstdata.com

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

ATLANTA, GEORGIA
(Address of principal executive offices)

30342
(Zip Code)

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

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

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

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

Class	Outstanding at April 30, 2011
Common Stock, \$0.01 par value per share	1,000 shares

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

(in millions)	Three months ended	
	March 31,	
	2011	2010
Revenues:		
Transaction and processing service fees:		
Merchant related services ^(a)	\$ 833.0	\$ 792.4
Check services	84.0	90.5
Card services ^(a)	429.6	433.2
Other services	136.4	132.1
Product sales and other ^(a)	196.9	194.8
Reimbursable debit network fees, postage and other	864.3	759.1
	2,544.2	2,402.1
Expenses:		
Cost of services (exclusive of items shown below)	716.5	755.5
Cost of products sold	90.8	75.3
Selling, general and administrative	411.7	378.7
Reimbursable debit network fees, postage and other	864.3	759.1
Depreciation and amortization	341.8	351.3
Other operating expenses:		
Restructuring, net	12.6	12.5
Litigation and regulatory settlements		(0.3)
	2,437.7	2,332.1
Operating profit	106.5	70.0
Interest income	1.9	2.0
Interest expense	(442.3)	(448.9)
Other income (expense)	(26.3)	8.2
	(466.7)	(438.7)
Loss before income taxes and equity earnings in affiliates	(360.2)	(368.7)
Income tax benefit	(148.0)	(138.1)
Equity earnings in affiliates	27.7	22.2
Net loss	(184.5)	(208.4)
Less: Net income attributable to noncontrolling interests	32.6	31.7

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Net loss attributable to First Data Corporation

\$ (217.1) \$ (240.1)

- (a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of \$35.7 million for the three months ended March 31, 2011 and \$30.1 million for the comparable period in 2010.
See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS

(in millions, except common stock share amounts)	March 31, 2011 (Unaudited)	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 335.5	\$ 509.5
Accounts receivable, net of allowance for doubtful accounts of \$22.9 (2011) and \$20.3 (2010)	1,979.1	2,169.6
Settlement assets	6,384.7	6,694.0
Other current assets	433.2	413.4
Total current assets	9,132.5	9,786.5
Property and equipment, net of accumulated depreciation of \$719.9 (2011) and \$691.6 (2010)	986.0	952.0
Goodwill	17,419.1	17,296.9
Customer relationships, net of accumulated amortization of \$2,683.0 (2011) and \$2,490.5 (2010)	5,065.7	5,223.7
Other intangibles, net of accumulated amortization of \$1,075.3 (2011) and \$975.8 (2010)	1,934.7	1,931.0
Investment in affiliates	1,202.9	1,208.2
Long-term settlement assets	322.8	365.1
Other long-term assets	777.3	780.7
Total assets	\$ 36,841.0	\$ 37,544.1
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	\$ 198.9	\$ 180.9
Short-term and current portion of long-term borrowings	206.9	270.5
Settlement obligations	6,708.4	7,058.9
Other current liabilities	1,170.4	1,353.7
Total current liabilities	8,284.6	8,864.0
Long-term borrowings	22,579.2	22,438.8
Long-term deferred tax liabilities	929.0	1,013.7
Other long-term liabilities	1,049.5	1,139.6
Total liabilities	32,842.3	33,456.1
Commitments and contingencies (See Note 7)		
Redeemable noncontrolling interest	45.1	28.1
First Data Corporation stockholder's equity:		
Common stock, \$.01 par value; authorized and issued 1,000 shares (2011 and 2010)		
Additional paid-in capital	7,380.9	7,395.1
Paid-in capital	7,380.9	7,395.1
Accumulated loss	(6,381.0)	(6,163.9)
Accumulated other comprehensive loss	(480.5)	(636.9)
Total First Data Corporation stockholder's equity	519.4	594.3

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Noncontrolling interests	3,434.2	3,465.6
Total equity	3,953.6	4,059.9
Total liabilities and equity	\$ 36,841.0	\$ 37,544.1

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Three months ended March 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	\$ (184.5)	\$ (208.4)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	367.1	379.2
Charges related to other operating expenses and other income (expense)	38.9	4.0
Other non-cash and non-operating items, net	(11.3)	56.6
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	204.8	108.8
Other assets, current and long-term	56.9	75.9
Accounts payable and other liabilities, current and long-term	(200.7)	(405.6)
Income tax accounts	(162.8)	(181.1)
Net cash provided by (used in) operating activities	108.4	(170.6)
CASH FLOWS FROM INVESTING ACTIVITIES		
Current period acquisitions, net of cash acquired	(0.2)	(0.4)
Payments related to other businesses previously acquired		(1.3)
Proceeds from dispositions, net of expenses paid and cash disposed		21.2
Additions to property and equipment	(56.6)	(32.8)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(52.4)	(48.5)
Other investing activities	1.4	18.0
Net cash used in investing activities	(107.8)	(43.8)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(78.9)	289.0
Debt modification and related financing costs	(18.6)	
Principal payments on long-term debt	(14.9)	(56.5)
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(66.1)	(24.8)
Redemption of Parent's redeemable common stock	(0.2)	
Cash dividends		(4.7)
Net cash (used in) provided by financing activities	(178.7)	203.0
Effect of exchange rate changes on cash and cash equivalents	4.1	5.8
Change in cash and cash equivalents	(174.0)	(5.6)
Cash and cash equivalents at beginning of period	509.5	737.0
Cash and cash equivalents at end of period	\$ 335.5	\$ 731.4

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

Three months ended	First Data Corporation Shareholder						
	Total	Comprehensive Income (Loss)	Accumulated Loss	Other Comprehensive Income (Loss)	Common Shares	Paid-In Capital	Noncontrolling Interests
March 31, 2011 (in millions)							
Balance, December 31, 2010	\$ 4,059.9		\$ (6,163.9)	\$ (636.9)	0.0	\$ 7,395.1	\$ 3,465.6
Dividends and distributions paid to noncontrolling interests	(56.7)						(56.7)
Comprehensive loss:							
Net (loss) income ^(a)	(192.0)	\$ (192.0)	(217.1)				25.1
Other comprehensive income, net of taxes:							
Unrealized losses on securities	(0.6)	(0.6)		(0.6)			
Unrealized gains on hedging activities	26.8	26.8		26.8			
Foreign currency translation adjustment	130.6	130.6		130.4			0.2
Pension liability adjustment	(0.2)	(0.2)		(0.2)			
Other comprehensive income		156.6					
Comprehensive loss		\$ (35.4)					
Adjustment to redemption value of redeemable noncontrolling interests	(18.9)					(18.9)	
Stock compensation expense and other	4.7					4.7	
Balance, March 31, 2011	\$ 3,953.6		\$ (6,381.0)	\$ (480.5)	0.0	\$ 7,380.9	\$ 3,434.2
Three months ended							
March 31, 2010 (in millions)							
Balance, December 31, 2009	\$ 5,100.1		\$ (5,127.3)	\$ (681.7)	0.0	\$ 7,394.3	\$ 3,514.8
Dividends and distributions paid to noncontrolling interests	(23.3)						(23.3)
Comprehensive loss:							
Net (loss) income ^(a)	(216.9)	\$ (216.9)	(240.1)				23.2
Other comprehensive loss, net of taxes:							
Unrealized losses on securities	(0.1)	(0.1)		(0.1)			
Unrealized gains on hedging activities	9.7	9.7		9.7			
Foreign currency translation adjustment	(120.1)	(120.1)		(114.0)			(6.1)
Pension liability adjustment	2.1	2.1		2.1			
Other comprehensive loss		(108.4)					
Comprehensive loss		\$ (325.3)					
Adjustment to redemption value of redeemable noncontrolling interests	(7.9)					(7.9)	
Stock compensation expense and other	5.8					5.8	
Cash dividends paid by First Data Corporation to Parent	(4.7)		(4.7)				

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Balance, March 31, 2010	\$ 4,744.7	\$ (5,372.1)	\$ (784.0)	0.0	\$ 7,392.2	\$ 3,508.6
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- (a) The total net loss presented in the Consolidated Statements of Equity for the three months ended March 31, 2011 and 2010 is \$7.5 million and \$8.5 million, respectively, greater than the amount presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interests not included in equity.

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

(in millions)	Three months ended	
	2011	2010
Net loss ^(a)	\$ (192.0)	\$ (216.9)
Other comprehensive income (loss), net of tax:		
Unrealized losses on securities	(0.6)	(0.1)
Unrealized gains on hedging activities	26.8	9.7
Foreign currency translation adjustment	130.6	(120.1)
Pension liability adjustment	(0.2)	2.1
Total other comprehensive income (loss), net of tax	156.6	(108.4)
Comprehensive loss	(35.4)	(325.3)
Less: Comprehensive income attributable to noncontrolling interests	25.3	17.1
Comprehensive loss attributable to First Data Corporation	\$ (60.7)	\$ (342.4)

- (a) The net loss presented in the Consolidated Statements of Comprehensive Income (Loss) for the three months ended March 31, 2011 and 2010 is \$7.5 million and \$8.5 million, respectively, greater than the amounts presented on the Consolidated Statements of Operations due to the net income attributable to the redeemable noncontrolling interests not included in equity.

See Notes to Consolidated Financial Statements.

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

The accompanying Consolidated Financial Statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company as of March 31, 2011, the consolidated results of its operations, cash flows, changes in equity and comprehensive income (loss) for the three months ended March 31, 2011 and 2010. Results of operations reported for interim periods are not necessarily indicative of results for the entire year due in part to the seasonality of certain business units.

Use of Estimates

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

Presentation

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

	Three months ended	
	March 31,	
	2011	2010
Amortization of initial payments for new contracts	\$ 9.6	\$ 9.6
Amortization related to equity method investments	\$ 15.7	\$ 18.3

Revenue Recognition

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

	Three months ended	
	March 31,	
	2011	2010
Interchange fees and assessments	\$ 4,474.3	\$ 4,069.6
Debit network fees	\$ 725.7	\$ 604.7

New Accounting Guidance

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There were no new accounting pronouncements for the three months ended March 31, 2011 that were expected to have a material effect on the operations of the Company.

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The following table details the components of Other income (expense) on the Consolidated Statements of Operations (in millions):

	Three months ended	
	March 31,	
	2011	2010
Investment gains	\$	\$ 1.8
Derivative financial instruments losses	(11.3)	(24.7)
Divestitures, net		20.0
Non-operating foreign currency (losses) and gains	(15.0)	11.1
Other income (expense)	\$ (26.3)	\$ 8.2

Supplemental Cash Flow Information

During the three months ended March 31, 2011 and 2010, the principal amount of FDC's senior PIK (Payment In-Kind) notes due 2015 increased by \$35.6 million and \$176.6 million, respectively, resulting from the payment of accrued interest expense. Beginning October 1, 2011, the interest on FDC's senior PIK notes due 2015 will be required to be paid in cash and the first such payment will be due in March 2012.

During the three months ended March 31, 2011 and 2010, the Company entered into capital leases totaling approximately \$99 million and \$37 million, respectively.

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

Note 3: Restructuring**Restructuring Charges and Reversal of Restructuring Accruals**

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

	Approximate Number of Employees	Pretax Benefit (Charge)				Totals
		Retail and Alliance Services	Financial Services	International	All Other and Corporate	
Three months ended March 31, 2011						
Restructuring charges	260	\$ (1.5)	\$ (5.2)	\$ (6.5)	\$ (1.2)	\$ (14.4)
Restructuring accrual reversal		0.7	-	0.7	0.4	1.8
Total pretax charge, net of reversals		\$ (0.8)	\$ (5.2)	\$ (5.8)	\$ (0.8)	\$ (12.6)

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	Approximate Number of Employees	Retail and Alliance Services	Pretax Benefit (Charge)			All Other and Corporate	Totals
			Financial Services	International			
Three months ended March 31, 2010							
Restructuring charges	140	\$ (0.7)	\$ (5.4)	\$ (6.4)	\$ (4.1)	\$ (16.6)	
Restructuring accrual reversal		0.2	0.2	2.3			