FIRST DATA CORP
Form 10-K
March 19, 2013

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, 2012

OR

o **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 o 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 o 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 o

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 x No o

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 o	Accelerated filer o
Non-accelerated filer x	Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o 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, 2013.

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 34 countries, serving approximately 6.2 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 on June 26, 2009. The Company owns 51% of BAMS and Bank of America N.A. owns 49%. Refer to Note 3 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the BAMS alliance.

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 85% and 15% of FDC s consolidated revenues for the year ended December 31, 2012, respectively. Long-lived assets attributable to domestic and international operations as percentages of FDC s total long-lived assets as of December 31, 2012 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 15 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

Products and Services Segment Information

The Company is organized in three segments: Retail and Alliance Services, Financial Services and International.

Financial information relating to each of the Company s segments is set forth in Note 15 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K. The Retail and Alliance Services segment is reported on a proportionate consolidation basis. 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. The segments profit measure is a form of EBITDA (earnings before net interest expense, income taxes, depreciation and amortization). 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.

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:

	Year ended December 31,		
	2012	2011	2010
Segment revenues from external customers	53%	51%	51%
Segment EBITDA	65%	63%	65%
Assets (at December 31)	68%	69%	66%

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 (POS), 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.

Most of this segment s revenue is derived from regional and local merchants. The items listed above are included in the Company s consolidated revenues and, for equity earnings from unconsolidated alliances, the Equity earnings in affiliates line item in the Consolidated Statements of Operations. The Retail and Alliance Services segment revenue and EBITDA are presented using proportionate consolidation, accordingly, segment revenue also includes the alliance partner s share of processing fees charged to consolidated alliances. 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 3.9 million merchant locations across the U.S. and acquired $1.6 trillion of payment transaction dollar volume on behalf of U.S. merchants in 2012. Retail and Alliance Services provides full service merchant processing primarily on Visa and MasterCard transactions and PIN-debit at the point of sale.

Retail and Alliance Services approaches the market through diversified sales channels including equity alliances, revenue sharing alliances and referral arrangements with more than 400 financial institution partners, more than 1,200 non-bank referral partners, and more than 600 independent sales organization partners, as of December 31, 2012. 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 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 personal identification number (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 Company s Financial Services business) on behalf of the issuer. The card associations, Visa or MasterCard, a debit network (such as STAR Network) or another payment network (such as Discover) route 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 cap on certain debit transactions has been changed to $0.21), 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.

Money Network offers prepaid products to address the needs of employers, employees, merchants and unbanked individuals. Money Network provides open loop 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 four other national competitors as well as the migration to other non-check products.

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 significant 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.

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:

	Year ended December 31,		
	2012	**2011**	**2010**
Segment revenues from external customers	20%	20%	21%
Segment EBITDA	25%	26%	27%
Assets (at December 31)	12%	12%	13%

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 provides PIN debit network services through the STAR Network which enables PIN-secured debit transaction acceptance at over approximately 2 million ATM and retail terminal locations in the U.S. as of December 31, 2012. Financial Services also offers payment management solutions for recurring bill payment and services to improve customer communications, billing, online banking and consumer bill payment as well as information and check clearing services. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012. 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.

As of December 31, 2012, the Financial Services segment had more than 4,000 domestic client relationships. 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 period) 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.

Revenues related to the STAR Network and debit card and ATM processing services are derived from fees payable under contracts but are driven more by monetary transactions processed 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 online banking and bill payment services, voice services as well as information and check clearing services. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012.

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 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 significant 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, 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:

	Year ended December 31,		
	2012	2011	2010
Segment revenues from external customers	25%	27%	25%
Segment EBITDA	20%	20%	16%
Assets (at December 31)	14%	13%	14%

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. International has operations in 34 countries. 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 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. 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:

	Year ended December 31,		
	2012	2011	2010
United Kingdom	17%	18%	17%
Australia	15%	16%	15%
Germany	12%	13%	13%

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.

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

The principal IPS business is official check services. Until May 2010, IPS issued official checks, which were sold by agents that were financial institutions. Official checks served as an alternative to a bank s own items such as cashiers or bank checks. The Company has gradually exited the official check line of business. The majority of the clients of this business deconverted during 2008 and there was no new official check and money order business beyond May 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 as outstanding official check and money order clearance activity winds down.

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. No single competitor would have a material impact on the Company.

All Other and Corporate significant customers. During 2012, the Company had a significant relationship with one client whose revenues represented approximately 50% of All Other and Corporate revenue for the year ended December 31, 2012.

Intellectual Property

The Company owns a global portfolio of 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.

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, 2012, the Company employed approximately 24,000 employees, approximately 97% 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 1,500 employees in the United Kingdom, a portion of whom are members of the Unite trade union. Employees of the Company s subsidiaries in Vienna, Austria; Frankfurt, Germany; and 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 Investor Relations portion of the Company s web site at http://investor.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 Investment Committee Charter, and Code of Ethics for Senior Financial Officers are available without charge through the About First Data , Investor Relations , Corporate Governance portion of the Company s investor relations web site, listed above, or by writing to the attention of Investor Relations at the address listed above.

Executive Officers of the Company

Refer to 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.

Dodd-Frank Act. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act) was signed into law in the United States. The Dodd-Frank Act will result in significant structural and other changes to the regulation of the financial services industry. Among other things, Title X of the Dodd-Frank Act establishes a new, independent regulatory agency known as the Consumer Financial Protection Bureau to regulate consumer financial products and services (including many offered by the Company s customers). Separately, under Section 1075 of the Dodd-Frank Act, debit interchange transaction fees that a card issuer receives and that are established by a payment card network for an electronic debit transaction will now be regulated by the Federal Reserve Board and must be reasonable and proportional to the cost incurred by the card issuer in authorizing, clearing and settling the transaction. On June 29, 2011, the Federal Reserve Board announced the final rules governing debit card interchange fees, and routing and exclusivity restrictions as well as a proposed rule governing the fraud prevention adjustment in response to Section 1075 of the Dodd-Frank Act. Effective October 1, 2011, debit interchange rates for card issuers operating in the U.S. with assets of $10 billion or more are capped at the sum of $.21 per transaction and an ad valorem component of 5 basis points to reflect a portion of the issuer s fraud losses plus, for qualifying issuers, an additional $.01 per transaction in debit interchange for fraud prevention costs. In addition, the new regulations ban debit payment card networks from prohibiting an issuer from contracting with any other payment card network that may process an electronic debit transaction involving an issuer s debit cards and prohibit card issuers and payment networks from inhibiting the ability of merchants to direct the routing of debit card transactions over any network that can process the transaction. Beginning April 1, 2012, all debit card issuers in the U.S. were required to participate in at least two unaffiliated debit payment card networks. On April 1, 2013, the ban on network exclusivity arrangements becomes effective for prepaid card and healthcare debit card issuers, with some leeway for prepaid cards issued before that date. Additionally, Section 1075 of the Dodd-Frank Act provides two self-executing statutory provisions that became effective on July 22, 2010. The first provision allows merchants to set minimum dollar amounts (not to exceed $10) for the acceptance of a credit card (while federal governmental entities and institutions of higher education may set maximum amounts for the acceptance of credit cards). The second provision allows merchants to provide discounts or incentives to entice consumers to pay with an alternative payment method, such as cash, checks or debit cards. Separate from Title X, the Dodd-Frank Act creates a new entity, known as the Financial Stability Oversight Council, and authorizes it to require that a nonbank financial company that is deemed to pose a systemic risk to the U.S. financial system become subject to consolidated, prudential supervision by the Federal Reserve Board. At this point it is unclear whether the Company would be subject to additional systemic risk related oversight.

The Company experienced some benefit due mostly to lower debit interchange rates. A discussion of the overall impact on the Company is set forth in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations, of this Form 10-K.

Association and network rules. A number of the Company s subsidiaries are subject to payment network rules of MasterCard, Visa and other associations. Several of the Company s subsidiaries in the International segment are members of MasterCard and/or Visa in the countries where the subsidiaries do business and are subject to the rules of such associations. First Data Resources, LLC, First Data Merchant Services Corporation, and STAR Network, along with a number of the Company s subsidiaries in the International segment are registered with Visa and/or MasterCard as service providers for member institutions. 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. In addition, 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.

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 payments in Australia and a member of EFTPOS Payments Australia Limited (EPAL), which is a debit payment system regulating 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 and EPAL 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 Deutsche Kreditwirtschaft (DK), the German banking association. Failure to comply with the technical requirements set forth by the DK 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.

FDR Limited (FDRL) in the United Kingdom is authorized and regulated by the Financial Services Authority (FSA). The FSA is the single regulatory authority for the full range of financial services in the United Kingdom, including banking, investment, mortgage and insurance mediation services. FDRL is authorized by the FSA to carry on an insurance mediation business for the purpose of arranging insurance to its issuer customers cardholders. As an FSA regulated firm, FDRL is required to meet certain prudential and conduct of business requirements.

In the European Union, Directive 2007/60 EC, 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 in the International segment have applied for and received a Payment Institution License in the countries where such subsidiaries do business. As licensed payment institutions, the relevant entities are subject to regulation and oversight in the applicable member state, which includes amongst other things, the requirement to maintain specified regulatory capital.

First Data Loan Company Canada (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.

Further, in the Company s International segment, several subsidiaries provide services such as factoring or settlement that make them subject to regulation by local banking agencies, including the National Bank of Slovakia, the National Bank of Poland and the German Federal Financial Supervision Agency.

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. 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 data protection and privacy laws which in some cases may be more restrictive than the Directive and impose additional duties on companies regarding registration/notification requirements and 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. 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 Federal 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. In the United Kingdom, FDRL has a license under the Consumer Credit Act of 1974 (CCA) to enable it to undertake, among other things, credit administration and debt collections activities on behalf of its card issuing customers through calls and correspondence with the cardholders. FDRL is also licensed under the CCA to carry on the activity of a consumer hire business for the purpose of leasing terminals to merchants. The CCA establishes a comprehensive code of regulations for the origination, administration and enforcement of credit and hire agreements.

Significant portions of federal regulatory oversight of both the Fair Credit Reporting Act and the Fair Debt Collection Practices Act have been transferred from the Federal Trade Commission to the Consumer Financial Protection Bureau. TeleCheck and TRS are subject to regulation, supervision, and examination from the Consumer Financial Protection Bureau. Further regulations may be imposed in the future as both state governments, the Consumer Financial Protection Bureau and other federal agencies identify and consider supplementary consumer financial protection measures involving, among other things, 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, Inc., 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 addition, several subsidiaries in the Company s International segment are subject to comparable local laws regarding collection activities and obtaining credit reports.

Anti-money laundering and counter terrorist regulation. Certain of the Company s 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 money services businesses (such as money transmitters, issuers of money orders and official checks, and providers of prepaid access) to develop and implement risk-based anti-money laundering programs, report large cash transactions and suspicious activity, and to maintain transaction records. Recently, the Financial Crimes Enforcement Network, the agency that enforces the BSA, finalized its rule that defines Stored Value under the BSA, and places requirements on entities that are either the Provider or Seller of Prepaid Access. Money Network, a First Data entity, will be the Provider of Prepaid Access for various open loop prepaid programs for which it is the Program Manager.

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.

Money transmission and payment instrument licensing and regulation. The Company is subject to various U.S. federal, state and foreign laws and regulations governing money transmission and the issuance and sale of payment instruments.

In the U.S., most states license money transmitters and issuers of payment instruments. Many states exercise authority over the operations of the Company s services related to money transmission and payment instruments and, as part of this authority, subject the Company to periodic examinations. Many states require, among other things, that proceeds from money transmission activity and payment instrument sales 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 money transmitters, issuers of payment instruments and their agents to comply with federal and/or state anti-money laundering laws and regulations.

Government agencies may impose new or additional rules on money transmission and 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 business, 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 Accountability Responsibility and Disclosure 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 March 23, 2010 final rules to amend Regulation E with respect to such cards and electronic certificates effective August 22, 2010. 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.

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. Reportable transactions are also subject to backup withholding requirements. The Company could be liable for penalties if it is not in compliance with these regulations.

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.

The first significant amount of the Company s indebtedness matures in September 2015 and consists of $783.5 million of indebtedness under its senior unsecured notes. Refer to Note 8 to the Company s Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for further discussion regarding future debt maturities. The Company s senior secured revolving credit facility has $499.1 million in commitments that mature in September 2013 and $1,016.2 million in commitments that mature between June 2015 and September 2016, depending upon certain conditions. The Company may not be able to refinance its senior unsecured notes or its other existing indebtedness because of the Company s high level of debt, debt incurrence restrictions under its debt agreements or because of adverse conditions in credit markets generally.

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 secured notes, senior second lien notes, senior notes, payment-in-kind (PIK) toggle senior second lien notes, and senior subordinated notes; the indenture governing the senior PIK notes of First Data Holdings Inc.; and the Company s senior secured credit facilities contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to the Company s and its subsidiaries existing debt levels, the related risks that the Company will face would increase.

The 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.

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.

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 weakening in the economy could also force some retailers to close resulting in exposure to potential credit losses and transaction declines and the Company earning less on transactions due also to a potential shift to large discount merchants. Additionally, credit card issuers may reduce credit limits and be more selective with regard to whom they issue credit cards. Changes in economic conditions 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.

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 secured notes, senior second lien notes, senior notes, PIK toggle senior second lien notes, and senior subordinated notes; the indenture governing senior PIK notes of First Data Holdings Inc.; and the Company s senior secured credit facilities contain various covenants that limit the Company s ability to engage in specified types of transactions. These covenants limit the Company s and its restricted subsidiaries ability to, among other things:

- incur additional indebtedness or issue certain preferred shares;
- pay dividends on, repurchase or make distributions in respect of the Company s capital stock or make other restricted payments;
- make certain investments;
- sell certain assets;

- create liens;
- consolidate, merge, sell or otherwise dispose of all or substantially all of the Company s assets;
- enter into certain transactions with the Company s affiliates; and
- designate the Company s subsidiaries as unrestricted subsidiaries.

A breach of any of these covenants could result in a default under one or more of these agreements, including as a result of cross default provisions and, in the case of the revolving credit facility, permit the lenders to cease making loans to the Company. Upon the occurrence of an event of default under the Company s senior secured credit facilities, the lenders could elect to declare all amounts outstanding under the Company s senior secured credit facilities to be immediately due and payable and terminate all commitments to extend further credit. Such actions by those lenders could cause cross defaults under the Company s other indebtedness. If the Company was unable to repay those amounts, the lenders under the Company s senior secured credit facilities could proceed against the collateral granted to them to secure that indebtedness and the Company s secured and second lien notes. 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 and senior secured notes as well as the Company s second lien notes and unsecured indebtedness.

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

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

The Company 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 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.

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

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

In addition, international acquisitions often involve additional or increased risks including, for example:

- managing geographically separated organizations, systems and facilities;
- integrating personnel with diverse business backgrounds and organizational cultures;
- complying with foreign regulatory requirements;
- fluctuations in currency exchange rates;
- enforcement of intellectual property rights in some foreign countries;
- difficulty entering new foreign markets due to, among other things, customer acceptance and business knowledge of these new markets; and
- general economic and political conditions.

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

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.

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 laws and 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 laws and regulations applicable to banks, financial institutions and card issuers in the United States and abroad, and, consequently, the Company is at times affected by these federal, state and local laws and regulations. The U.S. Congress and governmental agencies have increased their scrutiny of a number of credit card practices, from which some of the Company s customers derive significant revenue. Regulation of the payments industry, including regulations applicable to the Company and its customers, has increased significantly in recent years. Failure to comply with laws and regulations may result in the suspension or revocation of licenses or registrations, the limitation, suspension or termination of services, and/or the imposition of consent orders or civil and criminal penalties, including fines which could have an adverse effect on the Company s results of operation and financial condition. The Company is subject to U.S. and international financial services regulations, a myriad of consumer protection laws, economic sanctions, laws and regulations and anti-corruption 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 particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), which was signed into law in July 2010, significantly changes the U.S. financial regulatory system, including creating a new independent agency funded by the Federal Reserve Board to regulate consumer financial products and services (including many offered by the Company s customers), restricting debit card fees paid by merchants to issuer banks and allowing merchants to offer discounts for different payment methods. On June 29, 2011, the Federal Reserve Board announced the final rules governing debit card interchange fees, and routing and exclusivity restrictions as well as a proposed rule governing the fraud prevention adjustment in response to the Dodd-Frank Act. Within the Retail and Alliance Services segment the Company experienced some transitory benefit due mostly to lower debit interchange rates, however, the overall impact of the Dodd-Frank Act on the Company is difficult to estimate because it will take some time for the market to react and adjust to the new regulations and additional regulations may be developed by the newly created Bureau of Consumer Financial Protection (CFPB), with respect to consumer financial products and services that impact the Company or its customers. Pursuant to final rules published by the CFPB specifying the criteria for agencies with consumer reporting activities that will be subject to direct supervision and regulatory oversight by the CFPB, two of the Company s subsidiaries, TeleCheck Services Inc. and TRS Recovery Services, Inc., are subject to CFPB oversight. At this point it is unclear as to whether other parts of the Company s business also will be subject to CFPB oversight in the future or what such oversight may entail. Each of the proposed regulations may adversely affect the Company s business or operations, directly or indirectly (if, for example, the Company s customers business and operations are adversely affected). In addition, 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. Furthermore, the Company is subject to tax laws in each jurisdiction where it does business. 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.

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.

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.

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 is subject to exchange control regulations that restrict the conversion of its revenue and assets denominated in Argentine pesos into U.S. dollars. Those regulations may become more restrictive in the future. Similar regulations also may be adopted in other jurisdictions that restrict or prohibit the conversion of the Company s other foreign currencies into U.S. dollars. The occurrence of any of these factors could decrease the value of revenues and earnings the Company derives 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.

As of December 31, 2012, the Company had $8.3 billion aggregate principal amount of variable rate long-term indebtedness, of which interest rate swaps fix the interest rate on $5.0 billion in notional amount prior to the impact of $750 million of fixed to floating interest rate swaps. As a result, using balances as of December 31, 2012, a 10% proportionate increase in short-term interest rates on an annualized basis compared to the interest rates as of December 31, 2012 would result in a $1.1 million increase in interest expense related to the Company s balance of variable interest rate debt, net of interest rate swaps. Refer to the discussion of the Company s interest rate swap transactions in Note 6 to the Company s Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

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, refer to 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.

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.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

None.

ITEM 2. PROPERTIES

As of December 31, 2012, the Company and its subsidiaries owned or leased approximately 62 domestic properties and approximately 85 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	22	881,590	8	935,310
Financial Services	17	575,413	7	1,261,987
All Other and Corporate	4	554,724	4	322,664
International Facilities	75	986,495	10	375,217

Retail and Alliance Services principal operations are conducted in Melville, New York; Hagerstown, Maryland; Marietta, Georgia; 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. On March 24, 2008, the Court entered an order granting the defendants motions for partial summary judgment. 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. On June 21, 2010, the Court partially dismissed plaintiffs Third Amended Complaint and ordered the parties to brief a summary judgment on an alternative claim by plaintiffs. On September 16, 2010, the Court entered an order granting defendants motion for summary judgment, dismissing all of the claims against the defendants except for the claims for equitable relief. The Court granted judgment in favor of the defendants, dismissing the case on September 17, 2010. On October 14, 2010, the plaintiffs appealed the summary judgment. On July 12, 2012, the United States Court of Appeals for the Ninth Circuit affirmed the Northern District Court of California s dismissal of all the claims against the defendants. On July 26, 2012, the plaintiffs petitioned the Ninth Circuit for rehearing en banc.

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

ITEM 4. MINING SAFETY DISCLOSURES

Not applicable.

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, 2013, and no equity securities of the Company are authorized for issuance under any equity compensation plan.

In 2012, the Company paid four dividends totaling $6.7 million. In 2011, the Company paid one dividend in the amount of $0.2 million. The senior secured revolving credit facility, senior secured term loan facility, and the indentures for the senior secured notes, senior second lien notes, PIK toggle senior second lien notes, senior 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- Capital Resources and Liquidity and Note 12 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.

Amounts below include acquisitions since the date acquired.

	Year ended December 31,				
(in millions)	2012	2011	2010	2009	2008
Statement of operations data:					
Revenues	$ 10,680.3	$ 10,713.6	$ 10,380.4	$ 9,313.8	$ 8,811.3
Operating expenses (a)	9,578.3	9,728.2	9,782.2	8,869.3	8,032.6
Other operating expenses (b)(c)	28.2	43.9	81.5	289.7	3,255.6
Interest expense	(1,897.8)	(1,833.1)	(1,796.6)	(1,796.4)	(1,964.9)
Net loss (c)	(527.3)	(336.1)	(846.9)	(1,014.6)	(3,608.0)
Net loss attributable to First Data Corporation	(700.9)	(516.1)	(1,021.8)	(1,086.4)	(3,764.3)
Depreciation and amortization (d)	1,330.9	1,344.2	1,526.0	1,553.8	1,559.6
Balance sheet data (at year-end):					
Total assets	$ 37,899.0	$ 40,276.3	$ 37,544.1	$ 39,735.4	$ 38,176.1

Total current and long-term settlement assets	9,228.1	10,839.3	7,059.1	7,351.0	8,662.9
Total liabilities	35,205.2	36,800.9	33,456.1	34,408.4	35,773.8
Settlement obligations	9,226.3	10,837.8	7,058.9	7,394.7	8,680.6
Long-term borrowings	22,528.9	22,521.7	22,438.8	22,304.9	22,075.2
Other long-term liabilities (e)	1,331.4	1,459.0	2,153.3	2,648.3	2,920.6
Redeemable noncontrolling interests	67.4	67.4	28.1	226.9	
Total equity	2,626.4	3,408.0	4,059.9	5,100.1	2,402.3

(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; and Litigation and regulatory settlements.

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

(d) 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.

(e) Other long-term liabilities include Long-term deferred tax liabilities.

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.

Regulatory reform. On June 29, 2011, the Federal Reserve Board announced the final rules governing debit card interchange fees and routing and exclusivity restrictions as well as a proposed rule governing the fraud prevention adjustment in response to Section 1075 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Effective October 1, 2011, debit interchange rates for card issuers with more than $10 billion of assets are capped at $.21 per transaction with an ad valorem component of 5 basis points to reflect a portion of the issuer s fraud losses plus, for qualifying issuers, an additional $.01 per transaction in debit interchange for fraud prevention costs. In addition, the new regulations ban debit payment card networks from prohibiting an issuer from contracting with any other payment card network that may process an electronic debit transaction involving an issuer s debit cards and prohibit card issuers and payment networks from inhibiting the ability of merchants to direct the routing of debit card transactions over any network that can process the transaction. On April 1, 2013, the ban on network exclusivity arrangements becomes effective for non-reloadable prepaid card and healthcare prepaid issuers. Additionally, each debit card issuer must participate in two unaffiliated networks beginning April 1, 2012 and each debit payment card network must comply with applicable exclusivity requirements by October 1, 2011.

The Company s consolidated and segment results benefited from the impact of the Dodd-Frank Act as discussed in the Consolidated results and Segment results sections below. Within the Retail and Alliance Services segment, the Company experienced benefit due mostly to lower debit interchange rates as discussed in the Retail and Alliance Services segment results section below. Within the Financial Services segment, the implementation of the Dodd-Frank Act resulted in a net increase in debit issuer transactions in 2012 compared to 2011 with minimal impact to revenue as discussed in the Financial Services segment results section below.

Banc of America Merchant Services, LLC (BAMS). In 2009, the Company and Bank of America N.A. (BofA) formed the BAMS alliance. When the alliance was formed, the intent was to shift processing for merchants contributed to the alliance by BofA from three existing bank platforms to FDC. After evaluating the conversion strategy, the Company and BofA jointly decided to have FDC operate BofA s legacy settlement platform and provide the necessary operational support for legacy BofA merchants. The transfer of ownership was effective October 1, 2011.

The shift of processing to FDC as described above increased the Retail and Alliance Services segment revenue and segment EBITDA for 2012 compared to 2011. This benefit did not impact consolidated revenues because the BAMS alliance is consolidated by the Company. Consolidated expenses decreased in 2012 as a result of cost efficiencies resulting from the shift of processing to FDC. Beginning October 1, 2011, costs incurred related to the transfer and operation of the platform were billed to the BAMS alliance resulting in a portion of the costs being attributed to the BofA noncontrolling interest.

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 or American Express). Many of the segment s services are offered through alliance arrangements. 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. The Company evaluates 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.

In addition, Retail and Alliance Services provides check verification, settlement and guarantee services. The Company continues to see a decrease in the use of checks which negatively affects 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.

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, information 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. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012. 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. The Company continues to see a shift to the use of debit cards from checks and cash, a decrease that negatively affects 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 cards. Conversely, a weakening in the economy typically results in a tightening of the credit market with fewer consumers qualifying for credit.

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 point-of-sale (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.

All Other and Corporate. All Other and Corporate is comprised of the Company s business units not included in the segments noted above, primarily its government services business and its official check business that is winding down, as well as the Company s headquarter functions.

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 to 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 60% of FDC s 2012 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. For segment reporting purposes, the proportionate consolidation presentation results in revenue including the alliance partners share of processing fees charged to both consolidated and unconsolidated alliances. 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.

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, software licensing and maintenance revenue generated primarily from the Vision*PLUS* software in the International segment and investment income generated by invested settlement assets, realized net gains and losses and, if applicable, impairment losses from such assets within the Retail and Alliance Services, Financial Services and International segments and All Other and Corporate.

Reimbursable debit network fees, postage and other. Debit network fees from personal identification number (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, 2012 compared to the year ended December 31, 2011 as well as for the year ended December 31, 2011 compared to the year ended December 31, 2010. 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.

Consolidated results.

(in millions)	Year ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Revenues:					
Transaction and processing service fees	$ 6,452.1	$ 6,330.0	$ 6,181.5	2%	2%
Product sales and other	866.7	852.1	809.3	2%	5%
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6	(5)%	4%
	10,680.3	10,713.6	10,380.4	0%	3%
Expenses:					
Cost of services (exclusive of items shown below)	2,863.5	2,888.4	3,023.3	(1)%	(4)%
Cost of products sold	336.3	369.6	375.2	(9)%	(1)%
Selling, general and administrative	1,825.4	1,693.7	1,579.7	8%	7%
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6	(5)%	4%
Depreciation and amortization	1,191.6	1,245.0	1,414.4	(4)%	(12)%
Other operating expenses, net (a)	28.2	43.9	81.5	*	*
	9,606.5	9,772.1	9,863.7	(2)%	(1)%
Operating profit	1,073.8	941.5	516.7	14%	82%
Interest income	8.8	7.9	7.8	11%	1%
Interest expense	(1,897.8)	(1,833.1)	(1,796.6)	4%	2%
Other income (expense) (b)	(94.3)	124.1	(15.9)	*	*
	(1,983.3)	(1,701.1)	(1,804.7)	17%	(6)%
Loss before income taxes and equity earnings in affiliates	(909.5)	(759.6)	(1,288.0)	20%	(41)%
Income tax benefit	(224.0)	(270.1)	(323.8)	(17)%	(17)%
Equity earnings in affiliates	158.2	153.4	117.3	3%	31%
Net loss	(527.3)	(336.1)	(846.9)	57%	(60)%
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	173.6	180.0	174.9	(4)%	3%
Net loss attributable to First Data Corporation	$ (700.9)	$ (516.1)	$ (1,021.8)	36%	(49)%

* Calculation not meaningful.

(a) Other operating expenses, net includes restructuring, net, impairments and litigation and regulatory settlements as applicable to the periods presented.

(b) Other income (expense) includes investment gains and losses, derivative financial instruments gains and losses, divestitures, net, non-operating foreign currency exchange gains and losses and other as applicable to the periods presented.

The following provides highlights of revenue and expense growth on a consolidated basis while a more detailed discussion is included in the Segment Results section below.

Operating revenues overview.

Transaction and processing service fees. Revenue increased in 2012 compared to 2011 due to new business, growth in merchant transactions and dollar volumes both domestically and internationally and lower debit interchange rates as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act). Lower debit interchange rates positively impacted the transaction and processing service fees growth rate by approximately 1 percentage point. Partially offsetting these increases were decreases due to lost business, price compression, changes in merchant and pricing mix and foreign currency exchange rate movements. Foreign currency exchange rate movements negatively impacted the transaction and processing service fees growth rate in 2012 compared to 2011 by approximately 1 percentage point.

Revenue increased in 2011 compared to 2010 due to growth in merchant transactions and dollar volumes both domestically and internationally, growth in debit issuer transactions, new business, lower debit interchange rates as a result of the Dodd-Frank Act described in the Regulatory Reform section above, and foreign currency exchange rate movements. Partially offsetting these increases were decreases due to price compression, changes in merchant and pricing mix, lower overall check volumes and lost business. Foreign currency exchange rate movements positively impacted the transaction and processing service fees growth rate by approximately 1 percentage point.

Product sales and other. Revenue increased in 2012 compared to 2011 due to increases in software licensing and maintenance revenue, primarily internationally, as well as professional services revenue. These increases were partially offset by decreases in terminal sales both domestically and internationally and foreign currency exchange rate movements. Foreign currency exchange rate movements adversely impacted the product sales and other growth rate in 2012 compared to 2011 by approximately 2 percentage points.

Revenue increased in 2011 compared to 2010 mainly resulting from an increase in equipment sales internationally due in part to new regulations and new business, increases in the leasing business domestically and internationally resulting from new lease originations as well as fees associated with lease renewals and an increase in investment income due to a lesser impairment of Student Loan Auction Rate Securities (SLARS) recognized in 2011 compared to 2010 as discussed below. In addition, foreign currency exchange rate movements positively impacted the product sales and other growth rate in 2011 compared to 2010 by approximately 1 percentage point. Partially offsetting these increases were decreased contract termination fees mostly related to Financial Services and a decrease in professional services revenue due to the completion of prior year projects in Financial Services and All Other and Corporate

Reimbursable debit network fees, postage and other. Revenue and expense decreased in 2012 compared to 2011 due to the cap on debit interchange rates imposed by the Dodd-Frank Act in October 2011 partially offset by growth of PIN debit transaction and dollar volumes. The cap on debit interchange rates imposed by the Dodd-Frank Act impacted the reimbursable debit network fees, postage and other growth rate in 2012 compared to 2011 by approximately 13 percentage points.

Revenue and expense increased in 2011 compared to 2010 due to growth of PIN-debit transaction volumes as well as an increase in debit network fees resulting from rate increases imposed by the debit networks. Partially offsetting these increases was a decrease due to the cap on debit interchange rates imposed by the Dodd-Frank Act described above which impacted the reimbursable debit network fees, postage and other growth rate by approximately 5%.

Operating expenses overview.

Cost of services. Expenses decreased slightly in 2012 compared to 2011 due most significantly to cost efficiencies as a result of the shift in processing from the alliance partner to the Company related to the Banc of America Merchant Services, LLC (BAMS) alliance beginning in October 2011 and the impact of foreign currency exchange rate movements. In addition, the expense growth rate in 2012 benefited from the 2011 error correction described below. Partially offsetting these decreases were increases in outside professional services expenses. Foreign currency exchange rate movements benefited the Cost of services expense growth rate in 2012 compared to 2011 by 1 percentage point.

Expenses decreased in 2011 compared to 2010 due most significantly to decreases in certain costs associated with the BAMS alliance and net check warranty expense. Certain costs associated with the BAMS alliance decreased due to lower technology costs and improved expense management. Net check warranty expense decreased due to lower check volumes and better risk assessment data. Expenses associated with outside professional services and lower merchant credit losses also contributed to the decrease. Partially offsetting these decreases was the 2011 correction of cumulative errors in the amortization of initial payments for new contracts related to purchase accounting associated with the Company s 2007 merger with an affiliate of Kohlberg Kravis and Roberts & Co. (KKR) which totaled a $10.2 million expense in Cost of services (the correction of related errors totaled a $58.5 million benefit in aggregate) and occurred over a four year period. Foreign currency exchange rate movements also partially offset the aforementioned decreases by approximately 1 percentage point.

Cost of products sold. Expenses decreased in 2012 compared to 2011 driven by the International segment due most significantly to lower terminal sales, lower cost terminal replacements, the write-off of capitalized commissions in 2011 relating to the international leasing business and foreign currency exchange rate movements. Foreign currency exchange rate movements positively impacted the growth rate in 2012 compared to 2011 by approximately 2 percentage points. The impact of the write-off benefited the growth rate by approximately 2 percentage points.

Expenses decreased in 2011 compared to 2010 resulting mostly from the write-off of international terminal inventory and leasing receivables in 2010 as well as exiting low margin businesses in 2011. These decreases are partially offset by the write-off of capitalized commissions related to the international leasing business in 2011, growth in the leasing business both domestically and internationally and foreign currency exchange rate movements. The net impact of the 2010 and 2011 write-offs benefited the cost of products sold growth rate by 4 percentage points while foreign currency exchange rate movements had an approximate 1 percentage point offsetting impact.

Selling, general and administrative. Expenses increased in 2012 compared to 2011 due most significantly to growth in outside commissions, primarily payments made to independent sales organizations (ISO s). Growth in outside commissions resulted mostly from the Company increasing the number of ISO s and an increase in ISO transaction volumes which negatively impacted the selling, general and administrative growth rate for 2012 versus 2011 by approximately 4 percentage points. Additionally, expenses increased due to legal fees related primarily to the debt restructurings that occurred during the third quarter of 2012 as well as increased employee related expenses. Partially offsetting these increases was a decrease resulting from the impact of foreign currency exchange rate movements which benefited the growth rate in 2012 compared to 2011 by 1 percentage point.

Expenses increased in 2011 compared to 2010 due to growth in payments made to ISO s as a result of the Company increasing its number of ISO partners as well as an increase in ISO transaction volumes, higher incentive compensation expense and net increases in various expense items that were not individually significant. The payments to ISO s impacted the selling, general and administrative growth rate by approximately 5 percentage points. Foreign currency exchange rate movements also contributed to the increase in expenses by approximately 1 percentage point.

Depreciation and amortization. Expenses decreased in 2012 compared to 2011 due to decreases in amortization of certain intangible assets that are being amortized on an accelerated basis resulting in higher amortization in the prior periods, certain other intangible assets that have been fully amortized and decreases resulting from foreign currency exchange rate movements. These decreases were partially offset by an increase driven by the benefit recorded in 2011 related to the correction of errors described below. The error corrections adversely impacted the depreciation and amortization growth rate in 2012 versus 2011 by 5 percentage points.

Expenses decreased in 2011 compared to 2010 due most significantly to the 2011 correction of cumulative depreciation and amortization errors related to purchase accounting associated with the Company s 2007 merger with an affiliate of KKR and certain assets becoming fully amortized. The errors and the cumulative correction, which totaled a $57.7 million benefit in Depreciation and amortization (the correction of total depreciation and amortization errors was a $58.5 million benefit in aggregate) and occurred over a four year period, were deemed immaterial to prior years and the current year, respectively. In addition, depreciation and amortization declined due to a decrease in the amortization of certain intangible assets that are being amortized on an accelerated basis resulting in higher amortization in the prior period. These decreases were partially offset by increases due to newly capitalized assets and foreign currency exchange rate movements. The error corrections benefited the depreciation and amortization growth rate by 4 percentage points in 2011 compared to 2010.

Other operating expenses, net.

<u>2012 Activities</u>

			Pretax Benefit (Charge)		
Year ended December 31, 2012	**Retail and**	**Financial**	**International**	**All Other**	**Totals**
(in millions)	**Alliance**	**Services**		**and**	

	Services			Corporate	
Restructuring charges	$ (7.5)	$	$ (18.5)	$ (2.2)	$ (28.2)
Restructuring accrual reversals	1.0		2.8	1.3	5.1
Impairments		(5.1)			(5.1)
Total pretax charge, net of reversals	$ (6.5)	$ (5.1)	$ (15.7)	$ (0.9)	$ (28.2)

The Company recorded restructuring charges during 2012 primarily related to employee reduction and certain employee relocation efforts in Germany. The Company expects to record approximately $2 million of additional restructuring charges in 2013 in connection with the restructuring event in Germany. Additional restructuring charges were recorded in 2012 in connection with management s alignment of the business with strategic objectives as well as refinements of estimates. Approximately 650 employees were impacted by the 2012 restructurings. The Company expects to record additional restructuring charges in 2013 associated with similar events and the departure of executive officers.

The Company estimates cost savings resulting from restructuring activities recorded during 2012 of approximately $11 million in 2012 and approximately $31 million on an annual basis.

During 2012, within Financial Services, the Company recorded approximately $5.1 million in impairment charges related to an adjustment to fair value of an investment.

The following table summarizes the Company s utilization of restructuring accruals for the years ended December 31, 2011 and 2012 (in millions):

		Employee Severance		**Facility Closure**
Remaining accrual as of January 1, 2011	$	38.7	$	0.2
Expense provision		45.0		6.3
Cash payments and other		(62.2)		(5.5)
Changes in estimates		(4.8)		(0.1)
		16.7		0.9
Remaining accrual as of December 31, 2011				
Expense provision		28.2		
Cash payments and other		(26.8)		(0.8)
Changes in estimates		(5.0)		(0.1)
Remaining accrual as of December 31, 2012	$	13.1	$	

2011 Activities

	Pretax Benefit (Charge)									
Year ended December 31, 2011 (in millions)		**Retail and Alliance Services**		**Financial Services**		**International**		**All Other and Corporate**		**Totals**
Restructuring charges	$	(2.8)	$	(10.5)	$	(34.2)	$	(3.8)	$	(51.3)
Restructuring accrual reversals		1.1				2.5		1.3		4.9
Litigation and regulatory settlements								2.5		2.5
Total pretax charge, net of reversals	$	(1.7)	$	(10.5)	$	(31.7)	$		$	(43.9)

The 2011 restructurings resulted from the elimination of management and other positions, approximately 750 employees, as part of the Company aligning the business with strategic objectives. Partially offsetting the charges were reversals of excess 2009 and 2010 restructuring accruals as well as reversals resulting from the refinement of 2011 estimates.

2010 Activities

[redacted]					
Restructuring charges	$ (20.3)	$ (11.3)	$ (28.2)	$ (27.7)	$ (87.5)
Restructuring accrual reversals	0.7	0.8	10.9	3.1	15.5
Impairments	(1.6)		(9.9)		(11.5)
Litigation and regulatory settlements		2.0			2.0
Total pretax charge, net of reversals	$ (21.2)	$ (8.5)	$ (27.2)	$ (24.6)	$ (81.5)

The 2010 restructurings resulted from the elimination of management and other positions, approximately 1,200 employees, as part of the Company aligning the business with strategic objectives as well as domestic site consolidations and the reorganization of executive officers. Partially offsetting the charges were reversals of excess 2008 and 2009 restructuring accruals as well as reversals resulting from the refinement of 2010 estimates.

In the fourth quarter of 2010, within Retail and Alliance Services, the Company recorded approximately $1.6 million in impairment charges related to other intangibles. Also during the fourth quarter of 2010, the Company recorded approximately $9.9

million in asset impairment charges related to the International segment. Approximately $6.2 million of the total impairment occurred because the Company did not complete a software project and determined that there were no likely alternative uses for the software. The remaining $3.7 million of impairment charges resulted from the write off of assets the Company determined have no future use or value.

Interest expense. Interest expense increased in 2012 compared to 2011 due to higher average interest rates resulting primarily from the March 2012, August 2012 and April 2011 debt modifications and amendments partially offset by a decrease due to the expiration of certain interest rate swaps which were replaced by swaps with lower fixed interest rates.

Interest expense increased in 2011 compared to 2010 due to higher average interest rates resulting primarily from the August 2010 and April 2011 debt modifications and amendments as well as the December 2010 debt exchange and higher debt balances due to payment-in-kind (PIK) interest accretion. Partially offsetting these increases was a decrease resulting from the expiration of interest rate swaps with a notional balance of $2.5 billion.

The Company utilizes interest rate swaps to hedge its interest payments on a portion of its variable rate debt from fluctuations in interest rates. While these swaps do not qualify for hedge accounting, they continue to be effective economically in eliminating variability in interest rate payments. Additionally, the Company utilizes a fixed to floating interest rate swap, which does not qualify for hedge accounting, to maintain a desired ratio of fixed rate and floating rate debt. The fair value adjustments for interest rate swaps that do not qualify for hedge accounting as well as interest rate swap ineffectiveness are recorded in the Other income (expense) line item of the Consolidated Statements of Operations and totaled charges of $89.9 million, benefits of $55.7 million and charges of $67.9 million for the years ended December 31, 2012, 2011 and 2010, respectively

Other income (expense).

	Year ended December 31,		
(in millions)	**2012**	**2011**	**2010**
Investment gains (losses)	$ (7.7)	$	$ 2.5
Derivative financial instruments gains (losses)	(91.4)	58.2	(58.3)
Divestitures, net		57.4	18.7
Non-operating foreign currency gains	4.8	5.3	21.2
Other		3.2	
Other income (expense)	$ (94.3)	$ 124.1	$ (15.9)

Investment losses. The net investment losses in 2012 relate primarily to the impairment of a strategic investment.

Derivative financial instruments gains and (losses). The net gains and losses for the periods presented were due most significantly to the fair value adjustments for cross currency swaps and interest rate swaps that are not designated as accounting hedges. The loss in 2012 compared to the gain in 2011 was primarily driven by fair value adjustments related to new interest rate swaps entered into during 2012 and 2011. The gain in 2011 compared to the loss in 2010 was mostly driven by a new interest rate swap entered into in conjunction with the April 2011 debt modifications and amendments as well as the expiration of interest rate swaps noted above in the Interest expense discussion.

Divestitures, net. The gain recognized in 2011 resulted most significantly from the contribution of the Company s transportation business to an alliance in exchange for a 30% interest in that alliance. The 2010 gain related most significantly to a contingent payment received in connection with the Company s November 2009 sale of a merchant acquiring business in Canada.

Non-operating foreign currency gains and (losses). Amounts represent net gains and losses related to currency translations on the Company s intercompany loans and its euro-denominated debt.

Income taxes. The Company s effective tax rates on pretax loss from continuing operations were tax benefits of 29.8% in 2012, 44.6% in 2011, and 27.7% in 2010. 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 2012 was less than the statutory rate primarily due to an increase in the Company s valuation allowance against foreign tax credits, foreign and state net operating losses and capital losses. The negative adjustment was partially offset by net income attributable to noncontrolling interests from pass through entities for which there was no tax expense provided, lower tax earnings and profits than book income for foreign entities, a decrease in the Company s liability for unrecognized tax benefits, discussed below, and state tax benefits. The 2012 effective income tax rate was negatively impacted by approximately 9 percentage points due to the current year cumulative correction of immaterial prior year errors.

The effective tax rate benefit in 2011 was greater than the statutory rate due primarily to net income attributable to noncontrolling interests from pass through entities for which there was no tax expense provided, state tax benefits, lower tax earnings and profits than book income for foreign entities, a decrease in the Company s liability for unrecognized tax benefits, a net benefit relating to tax effects of foreign exchange gains and losses on intercompany notes and prior year income tax return true-ups. These positive adjustments were partially offset by an increase in the Company s valuation allowance against foreign tax credits and the tax impact of a contribution of the Company s transportation business in exchange for a 30% interest in an alliance.

The effective tax rate benefit in 2010 was less than the statutory rate primarily due to an increase in the Company s valuation allowance against foreign tax credits. This negative adjustment was partially offset by state tax benefits, net income attributable to noncontrolling interests for which there was no tax expense provided and a decrease in the Company s liability for unrecognized tax benefits.

As a result of the Company recording pretax losses in each of the periods, the favorable impacts caused increases to the effective tax rate, while the unfavorable impacts caused decreases to the effective tax rate.

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 currently anticipates being able to utilize in the future most of its existing federal net operating loss carryforwards due to the existence of significant deferred tax liabilities established in connection with purchase accounting for the merger and the Company s consideration of a tax planning strategy related to its investments in affiliates. Implementation of this tax planning strategy would result in the immediate reversal of temporary differences associated with the excess of book basis over tax basis in the investments. Accordingly, the Company has not established valuation allowances against these loss carryforwards. The Company, however, may not be able to realize a benefit related to losses in most states and certain foreign countries, requiring the establishment of valuation allowances. The Company currently anticipates that it will be required to establish a valuation allowance against its federal net operating loss carryforwards in 2013.

Despite the net operating loss position discussed above, the Company 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 would result in a foreign tax credit in the U.S. to the extent of any U.S. income taxes on the income upon repatriation. However, the Company does not generate sufficient foreign source income to be able to fully utilize its foreign tax credits. As a result, the Company has established valuation allowances, including $182 million in 2010 upon enactment of federal legislation which changed tax law, against that portion of the credits for which it is likely that no benefit will be realized in the future.

During the year ended December 31, 2012, the Company s liability for unrecognized tax benefits was reduced by $52 million upon closure of the 2003 and 2004 federal tax years and the resolution of certain state audit issues. As of December 31, 2012, the Company anticipates it is reasonably possible that its liability for unrecognized tax benefits may decrease by approximately $126 million within the next twelve months as the result of the possible closure of its 2005 through 2007 federal tax years, potential settlements with certain states and foreign countries and the lapse of the statute of limitations in various state and foreign jurisdictions. The potential decrease relates to various federal, state and foreign tax benefits including research and experimentation credits, transfer pricing adjustments and certain amortization and loss deductions.

The Company or one or more of its subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of December 31, 2012, the Company was no longer subject to income tax examination by the U.S. federal jurisdiction for years before 2005. State and local examinations are substantially complete through 2002. Foreign jurisdictions generally remain subject to examination by their respective authorities from 2005 forward, none of which are considered major jurisdictions.

Under the Tax Allocation Agreement executed at the time of the spin-off of The Western Union Company (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. 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, 2012, the

Company had approximately $110 million of income taxes payable, including approximately $4 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, 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. During the year ended December 31, 2012, the uncertain income tax liabilities related to Western Union decreased by approximately $14 million as a result of the closure of the 2003-2004 federal tax years. As of December 31, 2012, the Company anticipates it is reasonably possible that the uncertain tax liabilities related to Western Union may decrease by approximately $4 million within the next twelve months as the result of the possible closure of its 2005 and 2006 federal tax years. 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 Internal Revenue Service (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. The Western Union contingent liability is in addition to the Company s liability for unrecognized tax benefits discussed above.

The IRS completed its examination of the U.S. federal consolidated income tax returns of the Company for 2005 through 2007 and issued a 30-Day letter on October 31, 2012. The 30-Day letter claims that the Company and its subsidiaries, which included Western Union during some of the years at issue, owe additional taxes with respect to a variety of adjustments. The Company and Western Union agree with several of the adjustments in the 30-Day letter, such adjustments representing tax due of approximately $40 million. This undisputed tax and associated interest due (pretax) of approximately $16 million through December 31, 2012, have been fully reserved. The undisputed tax for which Western Union would be required to indemnify the Company is greater than the total tax due, such that settlement of the undisputed tax would result in a net refund to the Company. As to the adjustments that are disputed, such issues represent total taxes allegedly due of approximately $59 million, of which $40 million relates to the Company and $19 million relates to Western Union. The Company estimates that total interest due (pretax) on the disputed amounts is approximately $16 million through December 31, 2012, of which $9 million relates to the Company and $7 million relates to Western Union. As to the disputed issues, the Company and Western Union have contested the adjustments by filing a protest with the IRS. The IRS has prepared a rebuttal to the protest and has forwarded the case to Appeals. The Company believes that it has adequately reserved for the disputed issues in its liability for unrecognized tax benefits described above and that final resolution of those issues will not have a material adverse effect on its financial position or results of operations.

Equity earnings in affiliates. Equity earnings in affiliates increased in 2012 compared to 2011 due mostly to transaction growth, dollar volume growth, pricing increases and the positive impact of lower debit interchange rates as a result of the Dodd-Frank Act. These increases were partially offset by a decrease resulting from the 2011 error correction described below which adversely impacted the equity earnings in affiliates growth rate for 2012 compared to 2011 by 7 percentage points.

Equity earnings in affiliates increased in 2011 compared to 2010 mostly due to the 2011 correction of cumulative depreciation and amortization errors related to purchase accounting associated with the Company s 2007 merger with an affiliate of KKR. The error corrections, which totaled an $11 million benefit in Equity earnings in affiliates (a $58.5 million benefit in aggregate) and occurred over a four year period, benefited the equity earnings in affiliates growth rate in 2011 compared to 2010 by 9 percentage points.

Net income attributable to noncontrolling interests and redeemable noncontrolling interests. Most of the net income attributable to noncontrolling interests and redeemable noncontrolling interests relates to the Company s consolidated merchant alliances. Net income attributable to noncontrolling interests and redeemable noncontrolling interests decreased in 2012 compared to 2011 due to increased processing expense in the BAMS alliance resulting from a shift in processing from the alliance partner to FDC partially offset by the impact of lower debit interchange rates as a result of the Dodd-Frank Act, transaction and dollar volume growth and pricing increases.

Segment results. FDC classifies its businesses into three segments: Retail and Alliance Services, Financial Services and International. All Other and Corporate is not discussed separately as its results that had a significant impact on operating results are discussed in the Consolidated Results discussion above.

The business segment measurements provided to and evaluated by the chief operating decision maker are computed in accordance with the principles listed below.

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

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

- 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 and related expense is excluded;

- official check and money order businesses EBITDA are excluded;

- expenses related to the reorganization of global application development resources (applicable to 2010), expenses associated with domestic data center consolidation initiatives and planned workforce reduction expenses (applicable to 2010), certain platform development and other costs directly associated with the termination of the Chase Paymentech Solutions alliance, and expenses related to the conversion of certain BAMS alliance merchant clients onto the Company s platforms all of which are considered nonrecurring projects (excludes costs accrued in purchase accounting). Effective October 1, 2011, First Data and Bank of America N.A. (the Bank) jointly decided to have First Data operate the Bank s legacy settlement platform. Transition costs associated with the revised strategy are also excluded from segment EBITDA.

- debt issuance costs are excluded and represent costs associated with issuing debt and modifying the Company s debt structure;

- KKR related items including annual sponsor and other fees for management, consulting, financial and other advisory services are excluded.

- 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, shared service and certain information technology costs are retained by Corporate.

Retail and Alliance Services segment results.

Revenues:					
Transaction and processing service fees	$ 3,198.8	$ 2,974.5	$ 2,923.9	8%	2%
Product sales and other	404.0	407.5	390.9	(1)%	4%
Segment revenue	$ 3,602.8	$ 3,382.0	$ 3,314.8	7%	2%
Segment EBITDA	$ 1,594.8	$ 1,407.5	$ 1,322.3	13%	6%
Segment margin	44%	42%	40%	2pts	2pts
Key indicators:					
Domestic merchant transactions (a)	37,362.6	35,619.8	33,543.8	5%	6%

(a) Domestic merchant transactions include acquired VISA and MasterCard credit and signature debit, PIN-debit, electronic benefits transactions, processed-only and gateway customer transactions at the POS. Domestic merchant transactions reflect 100% of alliance transactions.

Transaction and processing service fees revenue.

	Year ended December 31,			Percent Change	
(in millions)	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Acquiring revenue	$ 2,368.7	$ 2,204.4	$ 2,169.7	7%	2%
Check processing revenue	306.1	330.1	370.7	(7)%	(11)%
Prepaid revenue	306.5	291.1	263.2	5%	11%
Processing fees and other revenue from alliance partners	217.5	148.9	120.3	46%	24%
Total transaction and processing service fees revenue	$ 3,198.8	$ 2,974.5	$ 2,923.9	8%	2%

Acquiring revenue. Acquiring revenue increased in 2012 compared to 2011 and 2011 compared to 2010 mainly from lower debit interchange rates as a result of the Dodd-Frank Act described in the Regulatory Reform section above which benefited growth for acquiring revenue by an estimated $75 million or 3 percentage points and $26 million or 1 percentage point, respectively. Acquiring revenue also benefited from increases in merchant transactions and dollar volumes, new sales and pricing increases for a certain segment of merchants. These increases were partially offset by decreases resulting from the impact of merchant mix on transactions and dollar volumes, the affect of shifts in pricing mix, merchant attrition and price compression. In addition, acquiring revenue in 2011 was adversely impacted compared to 2010 by a card association fee increase which only benefited the third quarter of 2010 and impacted the acquiring revenue growth rate in 2011 compared to 2010 by 1 percentage point.

Revenue growth outpaced transaction growth in 2012 compared to 2011 driven most significantly by the impact of lower debit interchange rates discussed above partially offset by merchant mix, pricing mix and price compression. Revenue per transaction increased 4% for 2012 compared to 2011 driven by the items impacting acquiring revenue discussed above as well as the shift in processing described in the Processing fees and other revenue from alliance partners section below.

Transaction growth outpaced revenue growth in 2011 compared to 2010 driven by the factors noted above, particularly merchant mix, pricing mix and price compression. A greater proportion of transaction growth was driven by the Company s national merchants which contributed to lower revenue per transaction. The average ticket size of signature based transactions decreased slightly in 2012 as compared to 2011. The average ticket size of signature based transactions was flat in 2011 as compared to 2010.

Check processing revenue. Check processing revenue decreased in 2012 versus 2011 and in 2011 versus 2010 due most significantly to lower overall check volumes from check writer and merchant attrition and the impact of merchant mix resulting from a shift in regional to national merchants.

Prepaid revenue. Prepaid revenue increased in 2012 compared to 2011 due most significantly to higher transaction volumes within the open loop payroll distribution program related to existing customers and new business.

Prepaid revenue increased in 2011 compared to 2010 due mostly to higher transaction volumes within the open loop payroll distribution program related to new and existing customers. In addition, sales of gift cards increased in 2011 compared to the prior year related to a large sale to a national retailer associated with an incentive program as well as volume growth from existing clients and new clients. These increases were partially offset by sales of promotional gift cards in 2010 driven by a specific direct marketing campaign. Additionally, 2011 was impacted by a change in merchant mix resulting from increased card shipments to merchants that generate less revenue per card.

Processing fees and other revenue from alliance partners. The increases in processing fees and other revenue from alliance partners in 2012 compared to 2011 and in 2011 compared to 2010 resulted from increased fees from the BAMS alliance due to a shift of processing from the alliance partner to the Company beginning in October 2011, as well as increased transaction and dollar volumes within the Company s merchant alliances. The impact of the shift in processing benefited the 2012 and 2011 revenue and growth rates by approximately $55 million or 37 percentage points and approximately $18 million or 15 percentage points, respectively.

Product sales and other revenue. Product sales and other revenue decreased in 2012 compared to 2011 primarily due to a decline in equipment sales including lower bulk sales and a gain on the sale of a portfolio in 2011 partially offset by growth in leasing revenue resulting from increased lease originations and lease renewals.

Product sales and other revenue increased in 2011 compared to 2010 primarily due to increases in the leasing business resulting from new clients as well as increased fees from lease renewals. Equipment sales decreased slightly in 2011 compared to 2010 resulting from higher terminal demand in the prior year due to new regulations and a shift in the mix of terminals in 2011 to lower cost, proprietary models.

Segment EBITDA. The impact of the revenue items noted above primarily contributed to the increase in Retail and Alliance Services segment EBITDA in 2012 compared 2011. The Dodd-Frank Act benefited the segment EBITDA growth rate in 2012 compared to the prior year by an estimated $70 million or 5 percentage points. The impact from the shift in processing related to the BAMS alliance positively impacted the segment EBITDA growth rate for 2012 compared to 2011 by approximately $44 million or 3 percentage points.

Retail and Alliance Services segment EBITDA in 2011 compared to 2010 was positively impacted by the revenue items noted above in the revenue discussion. The decrease in debit interchange rates positively impacted the segment EBITDA growth rate in 2011 compared to 2010 by approximately $24 million or 2 percentage points. Expense reductions also benefited Retail and Alliance Services segment EBITDA in 2011 compared to the prior year. Also contributing to the increase in segment EBITDA for 2011 compared to 2010 was decreased credit losses due to a lower level of merchant delinquencies which benefited the segment EBITDA growth rate by 1 percentage point. The card association fee noted above negatively impacted the segment EBITDA growth rate in 2011 compared to 2010 by 2 percentage points.

Financial Services segment results.

Revenues:					
Transaction and processing service fees	$ 1,350.0	$ 1,350.0	$ 1,362.2	0%	(1)%
Product sales and other	40.1	29.5	46.8	36%	(37)%
Segment revenue	$ 1,390.1	$ 1,379.5	$ 1,409.0	1%	(2)%
Segment EBITDA	$ 603.1	$ 593.5	$ 553.0	2%	7%
Segment margin	43%	43%	39%	0pts	4pts
Key indicators:					
Domestic debit issuer transactions (a)	12,113.8	13,042.6	12,201.2	(7)%	7%
Domestic active card accounts on file (end of period) (b)					
Bankcard	55.4	50.5	47.8	10%	6%
Retail	89.3	72.6	70.7	23%	3%
Total	144.7	123.1	118.5	18%	4%
Domestic card accounts on file (end of period) (c)					
Bankcard	152.2	137.2	127.3	11%	8%
Retail	492.2	423.0	398.4	16%	6%
Debit	93.7	146.5	129.9	(36)%	13%
Total	738.1	706.7	655.6	4%	8%

(a) Domestic debit issuer transactions include signature and PIN-debit transactions, STAR and non-STAR branded.

(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 day of the last month of the period.

Transaction and processing service fees revenue.

Components of transaction and processing service fees revenue.

	Year ended December 31,			Percent Change	
(in millions)	**2012**	**2011**	**2010**	**2012 vs. 2011**	**2011 vs. 2010**
Credit card, retail card and debit processing	$ 911.5	$ 907.2	$ 924.7	0%	(2)%
Output services	229.8	225.3	219.5	2%	3%
Other revenue	208.7	217.5	218.0	(4)%	0%
Total transaction and processing service fees revenue	$ 1,350.0	$ 1,350.0	$ 1,362.2	0%	(1)%

Credit card, retail card and debit processing revenue. Credit card and retail card processing revenue increased for 2012 compared to 2011 due to net new business and volume growth from existing customers mostly offset by price compression on contract renewals as well as volume based pricing incentives. Growth in domestic active card accounts on file in 2012 versus 2011 benefited primarily from net new account conversions, mostly retail accounts; the substantial majority of which were converted in March 2012. Credit card and retail card processing revenue declined in 2011 versus 2010 with net new account conversions more than offset by price compression, declines in revenue from existing customers and the loss of call center business not driven by active accounts on file. Growth in domestic active card accounts on file in 2011 compared to 2010 benefited primarily from net new account conversions.

Debit processing revenue decreased for 2012 compared to 2011 due primarily to net lost business and price compression on contract renewals as well as other net contractual pricing incentives partially offset by new fees implemented in 2011, primarily regulatory compliance fees and volume growth from existing customers. Debit processing revenue increased slightly in 2011 compared to 2010 due to debit issuer transaction growth from existing customers substantially offset by net lost business and price compression.

Debit issuer transactions in 2012 decreased compared to 2011 due to lost business, including the loss of a large financial institution that completed its deconversion in the third quarter of 2012. This decrease was partially offset by net impacts from the implementation of the Dodd-Frank Act discussed below and growth of existing clients due in part to the shift to debit cards from cash and checks. The deconversion noted above also impacted domestic card accounts on file in 2012 versus 2011. Debit issuer transactions grew in 2011 compared to 2010 resulted from growth of existing clients due in part to the shift to debit cards from cash and checks, and new business partially offset by lost business.

The implementation of the Dodd-Frank Act described in the Regulatory Reform section above resulted in a net increase in debit issuer transactions in 2012 compared to 2011. Growth benefited from new contracts with financial institutions and transactions routed on behalf of other networks through the Company s gateway. This growth was partially offset by losses in the existing customer base from merchant routing decisions. The net revenue impact in 2012 from the implementation of the Dodd-Frank Act was minimal because of lower rates on new transactions from regulated financial institutions and gateway transactions compared to rates on transactions lost due to routing decisions.

Output services revenue. Output services revenue increased in 2012 compared to 2011 due to growth from existing customers and net new business which was partially offset by price compression on contract renewals as well as volume based pricing incentives.

Output services revenue increased in 2011 compared to 2010 due to net new plastic and print business and growth in plastics volumes from existing customers partially offset by lower print volumes from existing customers and price compression.

Other revenue. Other revenue consists mostly of revenue from remittance processing, online banking and bill payment services, voice services as well as information services. Other revenue for 2012 decreased compared to 2011 due to decreases in information services, voice services and check clearing driven by lost or disposed business and decreases in volumes from existing customers partially offset by increases in online banking and bill payment services driven by new business and growth from existing customers. A substantial portion of the information services as well as the check clearing services businesses had been divested as of December 31, 2012.

Other revenue was flat in 2011 compared to 2010 due to a decrease in volumes related to remittance processing and information services mostly offset by an increase in online banking and bill payment services volumes as well as net new business primarily in remittance processing.

Product sales and other revenue. Product sales and other revenue increased in 2012 compared to 2011 primarily due to new software license sales and professional services for programming.

Product sales and other revenue decreased in 2011 compared to 2010 due most significantly to higher contract termination fees recognized in 2010 as well as a decline in professional services revenue resulting from projects that were completed in 2010.

Segment EBITDA. Financial Services segment EBITDA increased in 2012 compared to 2011 due most significantly to the revenue items noted above partially offset by a sales tax recovery recorded in 2011.

Financial Services segment EBITDA increased in 2011 compared to 2010 due most significantly to decreased technology and operations costs resulting from reduced headcount and operational efficiencies, and a sales tax recovery. In addition, 2011 also benefited compared to 2010 from higher expenses in the prior year due to a billing adjustment recorded in the second quarter of 2010. These increases were partially offset by the adverse impact of the items noted in the revenue discussion above. The decrease in technology and operations costs, the sales tax recovery and the prior year billing adjustment benefited the segment EBITDA growth rate in 2011 versus 2010 by 11, 2 and 1 percentage points, respectively.

International segment results.

(in millions)	Year ended December 31, 2012	2011	2010	Percent Change 2012 vs. 2011	2011 vs. 2010
Revenues:					
Transaction and processing service fees	$ 1,291.2	$ 1,337.9	$ 1,237.5	(3)%	8%
Product sales and other	391.0	388.8	353.9	1%	10%
Equity earnings in affiliates	36.2	34.6	29.4	5%	18%
Segment revenue	$ 1,718.4	$ 1,761.3	$ 1,620.8	2%	9%
Segment EBITDA	$ 483.8	$ 454.3	$ 329.8	6%	38%
Segment margin	28%	26%	20%	2pts	6pts
Key indicators:					
International transactions (a)	8,458.4	7,637.9	6,777.8	11%	13%
International card accounts on file (end of period) (b)	73.6	75.0	88.8	(2)%	(16)%

(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. International transactions for the years ended December 31, 2011 and December 31, 2010 reflect an updated count of international transactions.

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

Summary. Segment revenue in 2012 compared to 2011 was impacted by the items discussed below as well as foreign currency exchange rate movements. Foreign currency exchange rate movements negatively impacted the total segment revenue growth rate in 2012 by 4 percentage points compared to 2011 and benefited the total segment revenue growth rate in 2011 by 4 percentage points compared to 2010.

Transaction and processing service fee revenue. Transaction and processing service fees revenue includes merchant related services and card services revenue. Merchant related services revenue encompasses merchant acquiring and processing revenue, debit transaction revenue, POS/ATM transaction revenue and fees from switching services. Card services revenue represents monthly managed service fees for issued cards. Merchant related services transaction and processing service fees revenue represented approximately 60% for the periods presented and card services revenue represented approximately 40% of total transaction and processing service fees revenue for the periods presented.

Transaction and processing service fees revenue decreased in 2012 compared to 2011 due to the impact of foreign currency exchange rate movements. In addition, declines in the card issuing businesses were partially offset by growth in the merchant acquiring businesses. Revenue in the card issuing businesses declined primarily due to lost business in Germany, Australia, the United Kingdom and China as well as lower revenue in Greece driven by the economic recession and a strategic decision to exit low-margin businesses. Partially offsetting these decreases were increased transaction volumes in the card issuing business primarily in Argentina and new business in Canada. Increases in the merchant acquiring businesses resulted from growth in the merchant acquiring alliances and direct sales channels primarily in the United Kingdom and Canada. Foreign currency exchange rate movements negatively impacted the transaction and processing service fees revenue growth rate in 2012 versus 2011 by 4 percentage points.

Transaction and processing service fees revenue increased in 2011 compared to 2010 due to growth in the merchant acquiring businesses resulting from growth from existing clients in the merchant acquiring alliances and the direct sales channel in the United Kingdom. The card issuing businesses grew due to new business primarily in the United Kingdom as well as transaction growth in Argentina and pricing in Australia. Partially offsetting these increases were lost business and lower revenue in Greece driven by the economic recession and a strategic decision to exit low-margin businesses. Foreign currency exchange rate movements benefited the transaction and processing service fees growth rate in 2011 versus 2010 by 5 percentage points.

Transaction and processing service fees revenue is driven by accounts on file and transactions. The spread between growth in these two indicators and revenue growth was impacted by foreign currency exchange rate movements, the mix of transaction types and price compression. International card accounts on file decreased in 2011 compared to the 2010 primarily due to lost business in China and the United Kingdom that deconverted in the fourth quarter of 2011.

Product sales and other revenue. Product sales and other revenue increased in 2012 compared to 2011 due to new software license fees and new sales, price increases and higher terminal installations in Argentina. Partially offsetting these increases are declines in terminal sales and lease originations in Germany, a decrease resulting from contract termination fees recognized in 2011 as well as a decrease resulting from the strategic decision to exit a line of business in Greece. Foreign currency exchange rate movements negatively impacted the growth rate for product sales and other revenue in 2012 compared to 2011 by 5 percentage points.

Product sales and other revenue increased in 2011 compared to 2010 due to growth in terminal sales and leasing revenue as a result of new clients and growth from existing clients in Argentina and the United Kingdom as well as new terminal requirements and lease renewals in the United Kingdom.

Segment EBITDA. Segment EBITDA increased in 2012 compared to 2011 due primarily to the revenue items noted above. In addition, International segment EBITDA benefited in 2012 from the 2011 correction of cumulative errors in the amortization of initial payments for new contracts related to purchase accounting associated with the KKR merger and the write-off of capitalized commissions related to terminal leases which adversely impacted 2011 results by $14.3 million and benefited the growth rate for 2012 compared to 2011 by 3 percentage points. Segment EBITDA also benefited from decreased expenses, principally operations and technology costs, driven by cost savings initiatives. The segment EBITDA growth rate for 2012 compared to 2011 benefited from decreased operations and technology costs by 4 percentage points. The increases in segment EBITDA for 2012 compared to 2011 were partially offset by foreign currency exchange rate movements which adversely impacted the segment EBITDA growth rate by 4 percentage points.

Segment EBITDA increased in 2011 compared to 2010 due to the impact of the revenue items noted above, decreased operating expenses driven by cost reduction initiatives, a benefit resulting from the write-off of leasing receivables and terminal inventory in 2010 and the impact of foreign currency exchange rate movements. The 2010 write-off of leasing receivables and terminal inventory benefited the segment EBITDA growth rate in 2011 compared to 2010 by 6 percentage points. Segment EBITDA growth also benefited 5 percentage points in 2011 compared to 2010 from the impact of foreign currency exchange rate movements. Partially offsetting the increases described above was a decrease resulting from the correction of cumulative errors in the amortization of initial payments for new contracts related to purchase accounting associated with the KKR merger and the write-off of capitalized commissions related to terminal leases which, together, adversely impacted International segment EBITDA by $14.3 million and the growth rate for 2011 compared to 2010 by 4 percentage points.

Capital Resources and Liquidity

FDC s source of liquidity is principally cash generated from operating activities supplemented as necessary on a short-term basis by borrowings against its revolving credit facility. The Company believes its current level of cash and short-term financing capabilities along with future cash flows from operations are sufficient to meet the needs of the business. The following discussion highlights changes in the Company s debt structure as well as the Company s cash flow activities and the sources and uses of funding during the years ended December 31, 2012, 2011 and 2010.

During 2012, 2011 and 2010, the Company completed various amendments and modifications to certain of its debt agreements, several debt offerings and a debt exchange in an effort to extend its debt maturities. Additionally, in February 2013, FDC issued $785 million aggregate principal amount of 11.25% senior unsecured notes due January 15, 2021. The proceeds from the offering were used to repurchase FDC s outstanding 10.55% senior unsecured notes and to pay related fees and expenses. Also in February 2013, FDC entered into a Joinder Agreement relating to its credit agreement, pursuant to which FDC incurred $258 million in new term loans maturing on September 24, 2018. The net cash proceeds from the new term loans were used to repay all of its outstanding term loan borrowings maturing in 2014 and to pay related fees and expenses.

Details regarding the Company s debt structure are provided in Note 8 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K. The Company intends to extend additional debt maturity dates as opportunities allow.

Cash and cash equivalents. Investments (other than those included in settlement assets) with original maturities of three months or less (that are readily convertible to cash) are considered to be cash equivalents and are stated at cost, which approximates market value. At December 31, 2012 and 2011, the Company held $608.3 million and $485.7 million in cash and cash equivalents, respectively.

Included in cash and cash equivalents are amounts held by Integrated Payment Systems Inc. (IPS) and the BAMS alliance, that are not available to fund operations outside of those businesses. At December 31, 2012 and 2011, the cash and cash equivalents held by IPS and the BAMS alliance totaled $85.8 million and $75.2 million, respectively. All other domestic cash balances, to the extent available, are used to fund the Company s short-term liquidity needs.

Cash and cash equivalents also includes amounts held outside of the U.S. at December 31, 2012 and 2011 totaling $268.4 million and $216.0 million, respectively. As of December 31, 2012, there was approximately $70 million of cash and cash equivalents held outside of the U.S. that could be used for general corporate purposes. FDC plans to fund any cash needs in 2013 within the International segment with cash held by the segment, but if necessary, could fund such needs using cash from the U.S., subject to satisfying debt covenant restrictions.

Cash flows from operating activities.

	Year ended December 31,		
Source/(use) (in millions)	**2012**	**2011**	**2010**
Net loss	$ (527.3)	$ (336.1)	$ (846.9)
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1,330.9	1,344.2	1,526.0
Charges (gains) related to other operating expenses and other income (expense)	122.5	(77.7)	97.4
Other non-cash and non-operating items, net	(40.2)	27.7	265.6
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:			
Accounts receivable, current and long-term	(49.8)	256.7	224.7
Other assets, current and long-term	260.0	239.3	298.3
Accounts payable and other liabilities, current and long-term	(34.6)	(1.2)	(386.1)
Income tax accounts	(294.1)	(337.3)	(424.3)
Net cash provided by operating activities	$ 767.4	$ 1,115.6	$ 754.7

Cash flows provided by operating activities for the periods presented resulted from normal operating activities and reflect the timing of the Company s working capital requirements.

FDC s operating cash flow is significantly impacted by its level of debt. Approximately $1,793.9 million, $1,458.2 million and $1,494.9 million in cash interest, including interest on lines of credit and capital leases, was paid during 2012, 2011 and 2010, respectively. The increase in cash interest in 2012 compared to 2011 is due primarily to the debt exchanges referred to above resulting in seven months of interest payments in 2011 compared to twelve months of interest payments in 2012 for the notes issued in the exchange as well as an increase in the interest coupon rate.

The timing of quarterly interest payments in 2013 will be impacted by when payment dates occur, shifting payments normally included in the first quarter to the second quarter. The Company estimates that its 2013 quarterly cash interest payments, excluding interest on lines of credit and capital leases, will be as follows:

Three months ended	Estimated cash interest payments on Long-term Debt (a) (Unaudited)

March 31, 2013	$	440
June 30, 2013		465
September 30, 2013		665
December 31, 2013		225
	$	1,795

(a) The Company has an option to pay certain portions of its interest obligations in kind as an increase in principal rather than in cash. These amounts represent the amount of cash projected to be paid if the Company opts to pay its entire interest obligation for 2013 in cash.

Using December 31, 2012 balances for variable rate debt and applicable interest rate swaps, a 10 percent increase in the applicable LIBOR index on an annualized basis would increase interest expense by approximately $1.1 million.

The Company s operating cash flows are impacted by fluctuations in working capital. Cash flows from operating activities in 2012 decreased compared to 2011 primarily due to the increase in cash interest payments as well as an increase in prefunding settlement volumes and timing partially offset by increased operating income. Cash flows from operating activities increased in 2011 compared to 2010 due to the flow through of operating activity which included higher revenues and lower expenses. Additionally, the increase was partially due to sources of cash related to lower prefunding of settlement arrangements.

FDC anticipates funding operations throughout 2013 primarily with cash flows from operating activities and by closely managing discretionary capital and other spending; however, any shortfalls would be supplemented as necessary by borrowings against its revolving credit facility.

Cash flows from investing activities.

	Year ended December 31,		
Source/(use) (in millions)	**2012**	**2011**	**2010**
Current year acquisitions, net of cash acquired	$ (32.9)	$ (19.2)	$ (1.8)
Contributions to equity method investments	(7.9)	(161.5)	(1.4)
Payments related to other businesses previously acquired	(4.4)	3.2	(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed		1.7	21.2
Proceeds from sale of property and equipment	8.0	17.1	5.5
Additions to property and equipment	(193.1)	(202.9)	(210.1)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(177.2)	(201.9)	(159.6)
Other investing activities	10.4	4.9	18.4
Net cash used in investing activities	$ (397.1)	$ (558.6)	$ (329.2)

Acquisitions and dispositions. The Company may finance acquisitions through a combination of internally generated funds, reinvestment of proceeds from asset sales, short-term borrowings and equity of its parent company. The Company may also consider using long-term borrowings subject to restrictions in its debt agreements. All acquisitions during the periods presented were funded from cash flows from operating activities or from the reinvestment of cash proceeds from the sale of other assets. Purchases of noncontrolling interests are classified as financing activities as noted below. Although the Company considers potential acquisitions from time to time, the Company s plan for 2013 does not include funding of material acquisitions.

In December 2012, the Company acquired 100% of Clover Network, Inc., a provider of payment network services for total consideration of $56.1 million. The transaction called for cash consideration of $36.1 million as well as a series of contingent payments based on the achievement of specified sales targets. These contingent payments are classified as purchase consideration if made to outside investors and compensation if made to current and future employees. As part of the purchase price the Company recorded a $20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company s estimate of the future payments.

In the fourth quarter of 2011, the Company funded $160 million to one of its merchant alliance partners for referrals from bank branches contributed to the alliance as called for by the agreement that extended the term of the alliance in 2008.

During 2010, proceeds from dispositions related most significantly to the receipt of a contingent payment associated with the Company s sale of a merchant acquiring business in Canada in the fourth quarter of 2009.

The Company continues to manage its portfolio of businesses and evaluate the possible divestiture of businesses that do not match its long-term growth objectives. For a more detailed discussion on acquisitions and dispositions in 2012, 2011 and 2010 refer to Note 3 to the Consolidated Financial Statements included in Item 8 of this Form 10-K.

Capital expenditures. Capital expenditures are estimated to be approximately $425 to $475 million in 2013 and are expected to be funded by cash flows from operations. If, however, cash flows from operating activities are insufficient, the Company will decrease its discretionary capital expenditures or utilize its revolving credit facility.

During the periods presented, net proceeds were received for the sale of certain assets, including buildings and equipment in 2011.

Other investing activities. The source of cash in 2010 related to a decrease in regulatory, restricted and escrow cash balances.

Cash flows from financing activities.

Source/(use) (in millions)	Year ended December 31, 2012	2011	2010
Short-term borrowings, net	$ 99.1	$ (107.3)	$ 75.1
Accrued interest funded upon issuance of notes	6.5		
Debt modification proceeds (payments) and related financing costs	10.8	(39.7)	(61.2)
Principal payments on long-term debt	(83.3)	(104.5)	(220.4)
Proceeds from sale-leaseback transactions	13.8	14.2	
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(261.9)	(327.3)	(216.1)
Contributions from noncontrolling interests		0.8	
Purchase of noncontrolling interests	(25.1)		(213.3)
Redemption of Parent s redeemable common stock	(1.7)	(0.5)	(2.5)
Cash dividends	(6.7)	(0.2)	(14.9)
Net cash used in financing activities	$ (248.5)	$ (564.5)	$ (653.3)

Short-term borrowings, net. The cash activity related to short-term borrowings in 2012 and 2011 resulted primarily from net borrowings and paydowns on FDC s international credit lines used principally to prefund settlement activity. In 2010, the cash activity related to short-term borrowings resulted primarily from net borrowings on FDC s senior secured revolving credit facility.

As of December 31, 2012, FDC s senior secured revolving credit facility had commitments from financial institutions to provide $1,515.3 million of credit, $499.1 million of which is due to expire on September 24, 2013 with the remainder due to expire between June 24, 2015 and September 24, 2016. Besides the letters of credit discussed below, FDC had no amount outstanding against this facility as of December 31, 2012 and 2011. Therefore, as of December 31, 2012, $1,470.2 million remained available under this facility. Excluding the letters of credit, the maximum amount outstanding against this facility during 2012 was approximately $295 million while the average amount outstanding during 2012 was approximately $27 million.

FDC utilizes its revolving credit facility on a short-term basis to fund investing or operating activities when cash flows from operating activities are not sufficient. The Company believes the capacity under its senior secured revolving credit facility, both before and after the expiration of the commitments due to expire in 2013, will be sufficient to meet its short-term liquidity needs. FDC s senior secured revolving credit facility can be used for working capital and general corporate purposes.

There are multiple institutions that have commitments under this facility with none representing more than approximately 14% of the remaining capacity.

Debt modification proceeds (payments) and related financing costs. The Company s debt modifications and amendments noted above were accounted for as modifications resulting in only the net effect of the transactions being reflected as a source or use of cash excluding certain fees included in the Company s results of operations.

During 2012, FDC received net cash proceeds of $10.8 million related to the 2012 debt modifications and offerings referred to above, a substantial portion of which were used to pay related expenses that were included in the Company s results of operations.

During the year ended December 31, 2011, FDC paid $18.6 million in fees related to the December 2010 debt exchange and $21.1 million in fees related to the April 2011 debt modification and amendments.

The Company paid a net amount of $24.1 million in fees related to the August 2010 debt modification. The Company also paid a net amount of $37.1 million for costs incurred during the fourth quarter of 2010 related to the December 2010 debt exchange.

Principal payments on long-term debt. In conjunction with the debt modifications and amendments discussed above, proceeds from the issuance of new notes were used to prepay portions of the principal balances of FDC s senior secured term loans which satisfied the future quarterly principal payments until September 2018. Prior to the modifications, during 2010, the Company made principal payments of $96.2 million related to its senior secured term loan facility.

During 2011 and 2010, the Company paid notes that came due totaling $32.6 million and $13.1 million, respectively. In addition, the Company paid $34.1 million in debt restructuring fees in 2010.

Payments for capital leases totaled $80.2 million, $71.9 million and $76.9 million for 2012, 2011 and 2010, respectively.

As of March 19, 2013, FDC s long-term corporate family rating from Moody s was B3 (stable). The long-term local issuer credit rating from Standard and Poor s was B (stable). The long-term issuer default rating from Fitch was B (stable). The Company s current level of debt may impair its ability to get additional funding beyond its revolving credit facility if needed.

Proceeds from sale-leaseback transactions. The Company may, from time to time, enter into sale-leaseback transactions as a means of financing previously or recently acquired fixed assets, primarily equipment.

Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests. Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests primarily represent distributions of earnings. The activity in all periods presented was primarily the result of distributions associated with the BAMS alliance including an incremental distribution in 2011 of approximately $64 million related to both working capital initiatives and an extra quarterly distribution due to a change in the timing of such distributions.

Purchase of noncontrolling interest. In April 2012, the Company acquired the remaining approximately 30 percent noncontrolling interest in Omnipay, a provider of card and electronic payment processing services to merchant acquiring banks, for approximately 37.1 million euro, of which 19.0 million euro ($25.1 million) was paid in April 2012 with the remainder to be paid in April 2013. The use of cash in 2010 relates to the redemption amount paid to the third-party investor to redeem its interest in the BAMS alliance.

Cash dividends. The Company paid cash dividends to First Data Holdings Inc. in the periods presented.

Letters, lines of credit and other.

	Total Available (a) As of December 31,		Total Outstanding As of December 31,	
(in millions)	**2012**	**2011**	**2012**	**2011**
Letters of credit (b)	$ 500.0	$ 500.0	$ 45.1	$ 45.0
Lines of credit and other (c)	$ 346.0	$ 341.2	$ 177.2	$ 76.4

(a) Total available without giving effect to amounts outstanding.

(b) Up to $500 million of the Company s senior secured revolving credit facility is available for letters of credit. Outstanding letters of credit are held in connection with lease arrangements, bankcard association agreements and other security agreements. The maximum amount of letters of credit outstanding during 2012 was approximately $52 million. All letters of credit expire prior to December 10, 2013 with a one-year renewal option. FDC expects to renew most of the letters of credit prior to expiration.

(c) As of December 31, 2012, represents $216.0 million of committed lines of credit as well as certain uncommitted lines of credit and other agreements that are available in various currencies to fund settlement and other activity for the Company s international operations. FDC cannot use these lines of credit for general corporate purposes. Certain of these arrangements are uncommitted but, as of the dates presented, FDC had borrowings outstanding against them.

In the event one or more of the aforementioned lines of credit becomes unavailable, FDC will utilize its existing cash, cash flows from operating activities or its revolving credit facility to meet its liquidity needs.

Significant non-cash transactions. During 2011 and 2010, the principal amount of FDC s senior notes due 2015 increased by $73.1 million and $362.5 million, respectively, resulting from the payment of accrued interest expense. The decrease in the amount of interest expense accrued during 2011 is due to the December 2010 exchange of notes discussed below. The terms of FDC s senior unsecured notes due 2015 require interest to be paid in cash for all periods after October 1, 2011.

In December 2011, the Company exchanged substantially all of its aggregate principal amounts of $3.0 billion of its 12.625% senior notes due 2021 for publicly tradable notes having substantially identical terms and guarantees, except that the exchange notes will be freely tradable.

In December 2010, the Company exchanged $3.0 billion of its 9.875% senior notes due 2015 and $3.0 billion of its 10.550% senior PIK notes due 2015 for $2.0 billion of 8.25% senior second lien notes due 2021, $1.0 billion of 8.75%/10.00% PIK toggle senior second lien notes due 2022 and $3.0 billion of 12.625% senior notes due 2021.

There were no expenditures, other than professional fees, or receipts of cash associated with the registration statement or exchange offer described above.

During 2012, 2011 and 2010, the Company entered into capital leases, net of trade-ins, totaling approximately $55 million, $106 million and $65 million, respectively.

As discussed above, the Company acquired 100% of Clover Network, Inc. and recorded a $20 million liability for the contingent consideration due to outside investors based upon the net present value of the Company s estimate of the future payments.

Also discussed above, the Company acquired the remaining approximately 30 percent noncontrolling interest in Omnipay for approximately 37.1 million euro, of which 19.0 million euro ($25.1 million) was paid in April 2012 with the remainder to be paid in April 2013.

In November 2011, the Company contributed the assets of its transportation business to an alliance in exchange for a 30% noncontrolling interest in the alliance. Refer to Note 18 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information.

Guarantees and covenants. All obligations under the senior secured revolving credit facility and senior secured term loan facility are unconditionally guaranteed by substantially all existing and future, direct and indirect, wholly owned, material domestic subsidiaries of the Company other than IPS. The senior secured facilities contain a number of covenants that, among other things, restrict the Company s ability to incur additional indebtedness; create liens; enter into sale-leaseback transactions; engage in mergers or consolidations; sell or transfer assets; pay dividends and distributions or repurchase the Company s or its parent company s capital stock; make investments, loans or advances; prepay certain indebtedness; make certain acquisitions; engage in certain transactions with affiliates; amend material agreements governing certain indebtedness; and change its lines of business. The senior secured facilities also require the Company to not exceed a maximum senior secured leverage ratio and contain certain customary affirmative covenants and events of default, including a change of control. The senior secured term loan facility also requires mandatory prepayments based on a percentage of excess cash flow generated by the Company.

All obligations under the senior secured notes, senior second lien notes, PIK toggle senior second lien notes, senior notes and senior subordinated notes are similarly guaranteed in accordance with their terms by each of the Company s domestic subsidiaries that guarantee obligations under the Company s senior secured term loan facility described above. These notes and facilities also contain a number of covenants similar to those described for the senior secured obligations noted above. The Company is in compliance with all applicable covenants as of December 31, 2012 and anticipates it will remain in compliance in future periods.

Although all of the above described indebtedness contain restrictions on the Company s ability to incur additional indebtedness, these restrictions are subject to numerous qualifications and exceptions, including the ability to incur indebtedness in connection with the Company s settlement operations. The Company believes that the indebtedness that can be incurred under these exceptions as well as additional credit under the existing senior secured revolving credit facility are sufficient to satisfy the Company s intermediate and long-term needs.

Covenant compliance. Under the senior secured revolving credit and term loan facilities, certain limitations, restrictions and defaults could occur if the Company is not able to satisfy and remain in compliance with specified financial ratios. The Company has agreed that it will not permit the Consolidated Senior Secured Debt to Consolidated EBITDA (both as defined in the agreement) Ratio for any 12 month period (last four fiscal quarters) ending during a period set forth below to be greater than the ratio set forth below opposite such period:

Period	Ratio
October 1, 2012 to September 30, 2013	6.25 to 1.00
Thereafter	6.00 to 1.00

The breach of this covenant could result in a default under the senior secured revolving credit facility and the senior secured term loan credit facility and the lenders could elect to declare all amounts borrowed due and payable. Any such acceleration could also result in a default under the indentures for the senior secured notes, senior second lien notes, PIK toggle senior second lien notes, senior notes and senior subordinated notes. As of December 31, 2012, the Company is in compliance with this covenant with Consolidated Senior Secured Debt of $11,985.1 million, Consolidated EBITDA of $2,913.8 million and a Ratio of 4.11 to 1.00.

In determining Consolidated EBITDA, EBITDA is calculated by reference to net income (loss) from continuing operations plus interest and other financing costs, net, provision for income taxes, and depreciation and amortization. Consolidated EBITDA as defined in the agreements (also referred to as debt covenant EBITDA) is calculated by adjusting EBITDA to exclude unusual items and other adjustments permitted in calculating covenant compliance under the indentures and the credit facilities. The Company believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Consolidated EBITDA are appropriate to provide additional information to investors to demonstrate the Company s ability to comply with its financing covenants.

The calculation of Consolidated EBITDA under FDC s senior secured term loan facility is as follows:

(in millions)		**Last twelve months ended December 31, 2012**
Net loss attributable to First Data Corporation	$	(700.9)
Interest expense, net (1)		1,889.0
Income tax benefit		(224.0)
Depreciation and amortization (2)		1,330.9
EBITDA (15)		2,295.0
Stock based compensation (3)		11.8
Restructuring, net (4)		37.7
Derivative financial instruments (gains) and losses (5)		91.3
Official check and money order EBITDA (6)		(6.4)
Cost of alliance conversions and other technology initiatives (7)		79.9
KKR related items (8)		21.3
Debt issuance costs (9)		13.7
Projected near-term cost savings and revenue enhancements (10)		151.0
Net income attributable to noncontrolling interests and redeemable noncontrolling interests (11)		173.6
Equity entities taxes, depreciation and amortization (12)		15.0
Impairments (13)		22.1
Other (14)		7.8
Consolidated EBITDA (15)	$	2,913.8

(1) Includes interest expense and interest income.

(2) Includes amortization of initial payments for new contracts which is recorded as a contra-revenue within Transaction and processing service fees of $44.5 million and amortization related to equity method investments, which is netted within the Equity earnings in affiliates line of $94.8 million.

(3) Stock based compensation recognized as expense.

(4) Restructuring charges in connection with management s alignment of the business with strategic objectives and employee reduction and certain employee relocation efforts in Germany.

(5) Represents fair market value adjustments for cross currency swaps and interest rate swaps that are not designated as accounting hedges.

(6) Represents an adjustment to exclude the official check and money order businesses from EBITDA due to FDC s wind down of these businesses.

(7) Represents costs directly associated with the termination of the Chase Paymentech alliance, expenses related to First Data taking over operations of Banc of America N.A. s legacy settlement platform in connection with the Banc of America Merchant Services alliance and conversion of certain BAMS merchants onto First Data platforms, all of which are considered business optimization projects, and other technology initiatives.

(8) Represents KKR annual sponsorship fees for management, consulting, financial and other advisory services.

(9) Debt issuance costs represent non-capitalized costs associated with issuing debt and modifying FDC s debt structure.

(10)

Reflects cost savings and revenue enhancements projected to be realized as a result of specific actions as if they were achieved on the first day of the period. Includes cost savings initiatives associated with the business optimization projects and other technology initiatives described in Note 7, the BAMS alliance, operations and technology initiatives, headcount reductions and other addressable spend reductions.

(11) Net income attributable to noncontrolling interests and redeemable noncontrolling interests in restricted subsidiaries.

(12) Represents FDC s proportional share of income taxes, depreciation and amortization on equity method investments.

(13) Represents impairment of certain equipment, land and a building.

(14) Includes items such as litigation and regulatory settlements, investment gains and losses, non-operating foreign currency gains and losses and other as applicable to the period presented.

(15) EBITDA is defined as net income (loss) attributable to First Data Corporation before net interest expense, income taxes, depreciation and amortization. EBITDA is not a recognized term under U.S. generally accepted accounting principles (GAAP) and does not purport to be an alternative to net income (loss) attributable to First Data Corporation as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Additionally, EBITDA is not intended to be a measure of free cash flow available for management s discretionary use as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. The presentation of EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of FDC s results as reported under GAAP. Management believes EBITDA is helpful in highlighting trends because EBITDA excludes the results of decisions that are outside the control of operating management and can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Management compensates for the limitations of using non-GAAP financial measures by using them to supplement GAAP results to provide a more complete understanding of the factors and trends affecting the business than GAAP results alone.

Consolidated EBITDA (or debt covenant EBITDA) is defined as EBITDA adjusted to exclude certain non-cash items, non-recurring items that FDC does not expect to continue at the same level in the future and certain items management believes will impact future operating results and adjusted to include near-term cost savings projected to be achieved within twelve months on an annualized basis (see Note 10 above). Consolidated EBITDA is further adjusted to add net income attributable to noncontrolling interests and redeemable noncontrolling interests of certain non-wholly-owned subsidiaries and exclude other miscellaneous adjustments that are used in calculating covenant compliance under the agreements governing FDC s senior unsecured debt and/or senior secured credit facilities. The Company believes that the inclusion of supplementary adjustments to EBITDA are appropriate to provide additional information to investors about items that will impact the calculation of EBITDA that is used to determine covenant compliance under the agreements governing FDC s senior unsecured debt and/or senior secured credit facilities. Since not all companies use identical calculations, this presentation of Consolidated EBITDA may not be comparable to other similarly titled measures of other companies.

Off-balance sheet arrangements

During 2012, 2011 and 2010, the Company did not engage in any off-balance sheet financing activities other than those included in the Contractual obligations discussion below and those reflected in Note 11 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

Contractual obligations

The Company s contractual obligations as of December 31, 2012 are as follows:

	Payments Due by Period				
(in millions)	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Borrowings (a)	$ 34,012.8	$ 1,982.5	$ 5,362.9	$ 7,878.2	$ 18,789.2
Capital lease obligations (b)	145.2	71.7	65.9	7.6	
Operating leases	293.3	57.3	84.9	61.2	89.9
Pension plan contributions (c)	147.3	42.4	64.6	40.3	
Purchase obligations (d):					
Technology and telecommunications (e)	1,496.2	768.1	411.8	116.8	199.5
All other (f)	521.5	119.2	128.7	119.2	154.4

Other long-term liabilities		131.4		10.8		42.1		75.6	2.9
	$	36,747.7	$	3,052.0	$	6,160.9	$	8,298.9	$ 19,235.9

(a) Includes future principal and cash interest payments on long-term borrowings through scheduled maturity dates. Includes $992.7 million of PIK toggle notes for which it is assumed the Company will pay interest in cash. Also includes $4.1 billion of variable rate debt (including the impact of interest rate swaps). Borrowings and interest rate swaps are discussed in Note 8 and Note 6, respectively, to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K. Interest payments for the variable rate debt and the associated interest rate swaps were calculated using interest rates as of December 31, 2012.

(b) Represents future payments on existing capital leases, including interest expense, through scheduled expiration dates.

(c) Includes future pension plan contributions for all plans in 2013 and future contractual commitments for the United Kingdom (U.K.) plan through 2017 which are subject to change. The amount of pension plan contributions depends upon various factors that cannot be accurately estimated beyond a one-year time frame other than the U.K. plan.

(d) Many of the Company s contracts contain clauses that allow the Company to terminate the contract with notice, and with or without a termination penalty. Termination penalties are generally an amount less than the original obligation. Certain contracts also have an automatic renewal clause if the Company does not provide written notification of its intent to terminate the contract. Obligations under certain contracts are usage-based and are, therefore, estimated in the above amounts. Historically, the Company has not had any significant defaults of its contractual obligations or incurred significant penalties for termination of its contractual obligations.

(e) Technology and telecommunications represents obligations related to hardware purchases, including purchases of ATMs and terminals, as well as software licenses, hardware and software maintenance and support, technical consulting services and telecommunications services.

(f) Other includes obligations related to materials, data, non-technical contract services, facility security, investor management fees, maintenance and marketing promotions.

As of December 31, 2012, the Company had approximately $317 million of tax contingencies comprised of approximately $279 million reported in long-term income taxes payable in the Other long-term liabilities line of the Consolidated Balance Sheets, including approximately $4 million of income tax liabilities for which Western Union is required to indemnify the Company, and approximately $38 million recorded as an increase of the Company s deferred tax liability. Timing of tax payments is dependent upon various factors which cannot be reasonably estimated at this time.

In February 2013, as discussed in Note 8 to the Company s Consolidated Financial Statements included in Item 8 of this Form 10-K, FDC issued $785 million aggregate principal amount of 11.25% senior unsecured notes due January 15, 2021. The proceeds from the offering were used to repurchase FDC s outstanding 10.55% senior unsecured notes and pay related fees and expenses. Additionally, in February 2013, FDC entered into a Joinder Agreement relating to its credit agreement, pursuant to which FDC incurred $258 million in new term loans maturing on September 24, 2018. The net cash proceeds from the new term loans were used to repay all of its outstanding term loan borrowings maturing in 2014 and to pay related fees and expenses.

The combined effect of these events did not materially impact the total amount of the Company s outstanding obligations but increased future interest payments and extended the maturity of $0.3 billion of obligations from 2014 to 2018 and $0.8 billion of obligations from 2015 to 2021.

Critical Accounting Policies

Stock-based compensation. The Company has a stock incentive plan for certain management employees of FDC and its affiliates (stock plan). This stock plan is at the Holdings level which owns 100% of FDC s equity interests. The stock plan provides the opportunity for certain management employees to purchase shares in Holdings and then receive a number of stock options or restricted stock based on a multiple of their investment in such shares. The plan also allows for the Company to award shares and options to certain management employees. The expense associated with this plan is recorded by FDC. FDC uses the Black-Scholes option pricing model to measure the fair value of stock option awards. The Company chose the Black-Scholes model based on the Company s experience with the model and the determination that the model could be used to provide a reasonable estimate of the fair value of awards with terms such as those issued by Holdings. Option-pricing models require estimates of a number of key valuation inputs including expected volatility, expected dividend yield, expected term and risk-free interest rate. Certain of these inputs are more subjective due to Holdings being privately held and thus not having objective historical or public information. The most subjective inputs are the expected term, expected volatility and determination of share value. The expected term is determined using probability weighted expectations and expected volatility is determined using a selected group of guideline companies as surrogates for Holdings.

On a quarterly basis, the Company estimates the fair value of Holdings common stock. Periodically, a third-party valuation firm provides assistance with certain key assumptions and performs calculations using the valuation methods discussed below. All key assumptions and valuations were determined by and are the responsibility of management. The Company relies on the results of a discounted cash flow analysis but also considers the results of a market approach. The discounted cash flow analysis is dependent on a number of significant management assumptions regarding the expected future financial results of the Company and Holdings as well as upon estimates of an appropriate cost of capital. A sensitivity analysis is performed in order to establish a narrow range of estimated fair values for the shares of Holdings common stock. The market approach consists of identifying a set of guideline public companies.

Multiples of historical and projected EBITDA determined based on the guideline companies is applied to Holdings EBITDA in order to establish a range of estimated fair value for the shares of Holdings common stock. The Company considers the results of both of these approaches, placing primary reliance on the discounted cash flow analysis. The concluded range of fair values is also compared to the value determined by the Board of Directors for use in transactions, including stock sales and repurchases. After considering all of these estimates of fair value, the Company then determines a single estimated fair value of the stock to be used in accounting for stock-based compensation.

During the years ended December 31, 2012, 2011 and 2010, time-based options were granted under the stock plan and during the years ended December 31, 2011 and 2010, performance-based options were granted under the stock plan. The time options and performance options have a contractual term of 10 years. Time options vest equally over a three to five year period from the date of issuance and performance options vest based upon the Company achieving certain EBITDA targets. The options also have certain accelerated vesting provisions upon a change in control, a qualified public offering, or certain termination events.

The assumptions used in estimating the fair value of share-based payment awards represent management s best estimates, but these estimates involve inherent uncertainties and the application of management judgment. As a result, if factors change and the Company uses different assumptions, stock-based compensation expense could be different in the future.

Refer to Note 13 to the Consolidated Financial Statements included in Item 8 of this Form 10-K for details regarding the Company s stock-based compensation plan.

Reserve for merchant credit losses and check guarantees. With respect to the merchant acquiring business, the Company s merchant customers (or those of its unconsolidated alliances) have the liability for any charges properly reversed by the cardholder. In the event, however, that the Company is not able to collect such amounts from the merchants due to merchant fraud, insolvency, bankruptcy or another reason, the Company may be liable for any such reversed charges. The Company s risk in this area primarily relates to situations where the cardholder has purchased goods or services to be delivered in the future such as airline tickets.

The Company s obligation to stand ready to perform is minimal in relation to the total dollar volume processed. The Company requires cash deposits, guarantees, letters of credit or other types of collateral from certain merchants to minimize this obligation. Collateral held by the Company is classified within Settlement assets and the obligation to repay the collateral if it is not needed is classified within Settlement obligations on the Company s Consolidated Balance Sheets. The amounts of collateral held by the Company and its unconsolidated alliances are as follows:

	As of December 31,	
(in millions)	**2012**	**2011**
Cash and cash equivalents collateral	$ 470.0	$ 473.2
Collateral in the form of letters of credit	120.9	112.5
Total collateral	$ 590.9	$ 585.7

The Company also utilizes a number of systems and procedures to manage merchant risk. Despite these efforts, the Company historically has experienced some level of losses due to merchant defaults.

The Company s contingent obligation relates to imprecision in its estimates of required collateral. A provision for this obligation is recorded based primarily on historical experience of credit losses and other relevant factors such as economic downturns or increases in merchant fraud. Merchant credit losses are included in Cost of services in the Company s Consolidated Statements of Operations. The following table presents the aggregate merchant credit losses incurred compared to total dollar volumes processed:

	Year ended December 31,		
	2012	2011	2010
FDC and consolidated and unconsolidated alliances credit losses (in millions)	$ 50.0	$ 63.6	$ 78.2
FDC and consolidated alliances credit losses (in millions)	$ 43.3	$ 54.3	$ 71.3
Total dollar volume acquired (in billions)	$ 1,725.4	$ 1,643.2	$ 1,520.4

The reserve recorded on the Company s Consolidated Balance Sheets only relates to the business conducted by its consolidated subsidiaries. The reserve for unconsolidated alliances is recorded only in the alliances respective financial statements. The Company has not recorded any reserve for estimated losses in excess of reserves recorded by the unconsolidated alliances nor has the Company identified needs to do so. The following table presents the aggregate merchant credit loss reserves:

(in millions)	As of December 31, 2012		2011	
FDC and consolidated and unconsolidated alliances merchant credit loss reserves	$	26.1	$	35.5
FDC and consolidated alliances merchant credit loss reserves	$	23.4	$	31.6

The credit loss reserves, both for the unconsolidated alliances and the Company, are comprised of amounts for known losses and a provision for losses incurred but not reported (IBNR). These reserves primarily are determined by performing a historical analysis of chargeback loss experience. Other factors are considered that could affect that experience in the future. Such items include the general economy and economic challenges in a specific industry or those affecting certain types of clients. Once these factors are considered, the Company or the unconsolidated alliance establishes a rate (percentage) that is calculated by dividing the expected chargeback (credit) losses by dollar volume processed. This rate is then applied against the dollar volume processed each month and charged against earnings. The resulting reserve balance is then compared to requirements for known losses and estimates for IBNR items. Historically, this estimation process has proven to be materially accurate and the Company believes the recorded reserve approximates the fair value of the contingent obligation.

The majority of the TeleCheck Services, Inc. (TeleCheck) business involves the guarantee of checks received by merchants. If the check is returned, TeleCheck is required to purchase the check from the merchant at its face value and pursue collection from the check writer. A provision for estimated check returns, net of anticipated recoveries, is recorded at the transaction inception based on recent history. The following table presents the accrued warranty and recovery balances:

(in millions)	As of December 31, 2012		2011	
Accrued warranty balances	$	10.9	$	11.4
Accrued recovery balances	$	24.8	$	26.8

Accrued warranties are included in Other current liabilities and accrued recoveries are included in Accounts receivable in the Consolidated Balance Sheets.

The Company establishes an incremental liability (and deferred revenue) for the fair value of the check guarantee. The liability is relieved and revenue is recognized when the check clears, is presented to TeleCheck, or the guarantee period expires. The majority of the guarantees are settled within 30 days. The incremental liability was approximately $1.1 million and $1.3 million as of December 31, 2012 and 2011, respectively. The following table details the check guarantees of TeleCheck.

	Year ended December 31, 2012		2011		2010	
Aggregate face value of guaranteed checks (in billions)	$	42.9	$	45.6	$	47.6
Aggregate amount of checks presented for warranty (in millions)	$	318.8	$	351.8	$	405.3
Warranty losses net of recoveries (in millions)	$	75.9	$	85.1	$	110.8

The maximum potential future payments under the guarantees were estimated by the Company to be approximately $1.3 billion as of December 31, 2012 which represented an estimate of the total uncleared checks at that time.

Income taxes. The determination of the Company s provision for income taxes requires management s judgment in the use of estimates and the interpretation and application of complex tax laws. Judgment is also required in assessing the timing and amounts of deductible and taxable items. The Company establishes 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. The Company s reserves reflect its judgment as to the resolution of the issues involved if subject to judicial review. Several years may elapse before a particular matter, for which the Company has established a reserve, is audited and finally resolved or clarified. While the Company believes that its reserves are adequate to cover reasonably expected tax risks, issues raised by a tax authority may be finally resolved at an amount different than the related reserve. Such differences could materially increase or decrease the Company s income tax provision in the current and/or future periods. When facts and circumstances change (including a resolution of an issue or statute of limitations expiration), these reserves are adjusted through the provision for income taxes in the period of change. As the result of interest and amortization expenses that the Company incurs, the Company is currently in a tax net operating loss position. Judgment is required to determine whether some portion or all of the deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, then these assets will be adjusted through the Company s provision for income taxes in the period in which this determination is made. Refer to Note 17 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company s income tax provision.

Estimating fair value. The Company has investment securities and derivative financial instruments that are carried at fair value.

Fair value is defined by accounting guidance as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company s approach to estimating the fair value of its financial instruments varies depending upon the nature of the instrument. In estimating fair values for investment securities and derivative financial instruments, the Company believes that third-party market prices are the best evidence of exit price and where available, bases its estimates on such prices. If such prices are unavailable for the instruments held by the Company, fair values are estimated using market prices of similar instruments, third-party broker quotes or a probability weighted discounted cash flow analysis. Where observable market data is unavailable or impracticable to obtain, the valuation involves substantial judgment by the Company. All key assumptions and valuations are the responsibility of management. Refer to Note 7 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company s Fair Value Measurements.

Investment securities. Due to the lack of observable market activity for the SLARS held by the Company, the valuation of the SLARS is highly judgmental. The Company, with the assistance of a third-party valuation firm upon which the Company in part relied, made certain assumptions, primarily relating to estimating probabilities of certain outcomes for the securities held by the Company and assessing the risk factors inherent in each. All key assumptions and valuations were determined by and are the responsibility of management. The securities were valued using an income approach based on a probability weighted discounted cash flow analysis. The Company considered each security s key terms including date of issuance, date of maturity, auction intervals, scheduled auction dates, maximum auction rates, as well as underlying collateral, ratings, and guarantees or insurance. Substantially all SLARS held by the Company have collateral backed by the Federal Family Education Loan Program (FFELP). The probabilities of auction failure, a successful auction or repurchase at par, or default by the issuer for each future period were forecasted. Default recovery rates were forecasted. The Company assumed that the issuers will continue to pay maximum interest rates on the securities until the event of either a successful auction or repurchase by the issuer, at par. To determine the fair value of each security, the weighted average cash flows for each period were discounted back to present value at the determined discount rate for each security. The discount rates used in the valuation were a combination of the liquidity risk premium assigned to the security (which ranged from 3.5% to 4.5%) plus the treasury strip yield (zero coupon treasury bond) for the individual period for which a cash flow was being discounted. The liquidity risk premiums on the SLARS have decreased by 50 basis points from December 31, 2011 due to decreasing spreads on asset backed and municipal securities and successful auction rate security transactions. A 50 basis point change in liquidity risk premium, as well as slight changes in other unobservable inputs including default probability and default recovery rate assumptions and the probability of an issuer call prior to maturity, would impact the value of the SLARS by approximately $1 million.

As of December 31, 2012 and 2011, the Company also held investments in short-term debt securities. Many of these securities are considered cash equivalents. Prices for these securities are not quoted on active exchanges but are priced through an independent third-party pricing service based on quotations from market-makers in the specific instruments or, where appropriate, other market inputs including interest rates, benchmark yields, reported trades, issuer spreads, two sided markets, benchmark securities, bids, offers, and reference data. In certain instances, amortized cost is considered an appropriate approximation of market value. Other investments are valued based upon either quoted prices from active exchanges or available third-party broker quotes.

Changes in fair value of investment securities are recorded through the Other comprehensive income (OCI) component of equity with the exception of investment partnerships which are recorded through Investment income in the Consolidated Statements of Operations. Regardless of investment type, declines in the fair value of the investments are reviewed to determine whether they are other than temporary in nature. Absent any other indications of a decline in value being temporary in nature, the Company s policy is to treat a decline in an equity investment s quoted market price that has lasted for more than six months as an other-than-temporary decline in value. For equity securities, declines in value that are judged to be other than temporary in nature are recognized in the Consolidated Statements of Operations. For debt securities, when the

Company intends to sell an impaired debt security or it is more likely than not it will be required to sell prior to recovery of its amortized cost basis, an other-than-temporary-impairment (OTTI) has occurred. The impairment is recognized in earnings equal to the entire difference between the debt security s amortized cost basis and its fair value. When the Company does not intend to sell an impaired debt security and it is not more likely than not it will be required to sell prior to recovery of its amortized cost basis, the Company assesses whether it will recover its amortized cost basis. If the entire amortized cost will not be recovered, a credit loss exists resulting in the credit loss portion of the OTTI being recognized in earnings and the amount related to all other factors recognized in OCI. Refer to Note 7 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company s Fair Value Measurements.

Derivative financial instruments. The Company uses derivative financial instruments to enhance its ability to manage its exposure to certain financial and market risks, primarily those related to changes in interest rates and foreign currency exchange rates. Interest rate swaps are entered into to manage interest rate risk associated with the Company s variable-rate borrowings. Cross-currency swaps for various foreign currencies are entered into to manage foreign currency exchange risk associated with the Company s initial investments in certain foreign subsidiaries or certain intercompany loans to foreign subsidiaries. Forward contracts on various foreign currencies are entered into to manage foreign currency exchange risk associated with the Company s forecasted foreign currency denominated sales or purchases. The Company s policy is to minimize its cash flow and net investment exposures related to adverse changes in interest rates and foreign currency exchange rates. The Company s objective is to engage in risk management strategies that provide adequate downside protection.

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

The Company designated interest rate swaps as cash flow hedges of forecasted interest rate payments related to its variable rate borrowings and certain of the cross-currency swaps as foreign currency hedges of its net investment in a foreign subsidiary. During 2012, 2011 and 2010, certain of the Company s interest rate swaps previously designated as hedges for accounting purposes ceased to be highly effective and the Company discontinued hedge accounting for the affected derivatives. Additionally, certain other interest rate swaps, cross-currency swaps and forward contracts on various foreign currencies did not qualify or were not designated as accounting hedges and did not receive hedge accounting treatment.

Derivative financial instruments are recognized in the Company s Consolidated Balance Sheets at their fair value. The Company s derivatives are not exchange listed and therefore the estimated fair value of derivative financial instruments is modeled in Bloomberg using the Bloomberg reported market data and the actual terms of the derivative contracts. These models reflect the contractual terms of the derivatives, such as notional value and expiration date, as well as market-based observable inputs including interest and foreign currency exchange rates, yield curves and the credit quality of the counterparties along with the Company s creditworthiness in order to appropriately reflect non-performance risk. The Company s counterparties also provide it with the indicative fair values of its derivative instruments which it compares to the results obtained using Bloomberg software. Considering Bloomberg software is a widely accepted financial modeling tool and there is limited visibility to the preparation of the third-party quotes, the Company chooses to rely on the Bloomberg software in estimating the fair value of its derivative financial instruments. Inputs to the derivative pricing models are generally observable and do not contain a high level of subjectivity. While the Company believes its estimates result in a reasonable reflection of the fair value of these instruments, the estimated values may not be representative of actual values that could have been realized as of December 31, 2012 or that will be realized in the future. All key assumptions and valuations are the responsibility of management.

With respect to derivative financial instruments that are afforded hedge accounting, the effective portion of changes in the fair value of a derivative that is designated and qualifies as a cash flow hedge is recorded in OCI and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The effective portion of changes in the fair value of a net investment hedge is recorded as part of the cumulative translation adjustment in OCI. Any ineffectiveness associated with the aforementioned derivative financial instruments as well as the periodic change in the mark-to-market of the derivative financial instruments not designated as accounting hedges are recorded immediately in Other income (expense) in the Consolidated Statements of Operations. Refer to Note 6 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding the Company s derivatives.

Intangible assets. FDC capitalizes initial payments for new contracts, contract renewals and conversion costs associated with customer contracts and system development costs. Capitalization of such costs is subject to strict accounting policy criteria and requires management judgment as to the appropriate time to initiate capitalization. Capitalization of initial payments for contracts and conversion costs only occurs when management is satisfied that such costs are recoverable through future operations, contractual minimums and/or penalties in case of early termination.

The Company s accounting policy is to limit the amount of capitalized costs for a given contract to the lesser of the estimated ongoing future cash flows from the contract or the termination fees the Company would receive in the event of early termination of the contract by the customer. The Company s entitlement to termination fees may, however, be subject to challenge if a customer were to allege that the Company was in breach of contract. This entitlement is also subject to the customer s ability to pay.

The Company develops software that is used in providing processing services to customers. To a lesser extent, the Company also develops software to be sold or licensed to customers. Capitalization of internally developed software, primarily associated with operating platforms, occurs only upon management s estimation that the likelihood of successful development and implementation reaches a probable level. Currently unforeseen circumstances in software development could require the Company to implement alternative plans with respect to a particular effort, which could result in the impairment of previously capitalized software development costs.

In addition to the internally generated intangible assets discussed above, the Company also acquires intangible assets through business combinations and asset acquisitions. In these transactions, the Company typically acquires and recognizes intangible assets such as customer relationships, software, and trade names. Acquired customer relationships consist of customer contracts that are within their initial terms as well as those in renewal status. The amounts recorded for these relationships include both the value of remaining contractual terms and the value of potential future renewals. These relationships are with customers such as merchants and financial institutions.

In a business combination, each intangible asset is recorded at its fair value. In an asset acquisition, the cost of the acquisition is allocated among the acquired assets, generally by their relative fair values. The Company generally estimates the fair value of acquired intangible assets using the excess earnings method, royalty savings method, or cost savings method, all of which are a form of a discounted cash flow analysis. These estimates require various assumptions about the future cash flows associated with the assets, appropriate costs of capital and other inputs such as an appropriate royalty rate. Changes to these estimates would materially impact the value assigned to the assets as well as the amounts subsequently recorded as amortization expense.

The Company tests contract and conversion costs greater than $1 million for recoverability on an annual basis by comparing the remaining expected undiscounted cash flows under the contract to the net book value. Any assets that are determined to be unrecoverable are written down to fair value. This analysis requires significant assumptions regarding the future profitability of the customer contract during its remaining term. Additionally, contracts, conversion costs and all other long lived assets (including customer relationships) are tested for impairment upon an indicator of potential impairment. Such indicators include, but are not limited to: a current period operating or cash flow loss associated with the use of an asset or asset group, combined with a history of such losses and/or a forecast anticipating continued losses; a significant adverse change in the business, legal climate, market price of an asset or manner in which an asset is being used; an accumulation of costs for a project significantly in excess of the amount originally expected; or an expectation that an asset will be sold or otherwise disposed of at a loss.

Goodwill. Goodwill represents the excess of cost over the fair value of net assets acquired, including identifiable intangible assets, and has been allocated to reporting units. The Company s reporting units are businesses at the operating segment level or one level below the operating segment level for which discrete financial information is prepared and regularly reviewed by management.

The Company tests goodwill annually for impairment, as well as upon an indicator of impairment, using a fair value approach at the reporting unit level. In 2011, the Company adopted new accounting guidance that provides the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If it is determined that the fair value is more likely than not greater than the carrying amount then the two-step impairment test is unnecessary. After performing a qualitative assessment, the Company proceeded to step one of its 2011 and 2012 impairment tests. In step one of the impairment test, the Company estimates the fair value of each reporting unit using a discounted cash flow analysis. The Company believes that this methodology provides the Company with a reasonable estimate of each reporting unit s fair value. The estimate of fair value requires various assumptions about a reporting unit s future financial results and cost of capital. The Company determines the cost of capital for each reporting unit giving consideration to a number of factors including the discount rates estimated by a third-party valuation firm. All key assumptions and valuations are determined by and are the responsibility of management. If it is determined that the fair value of the reporting unit is less than its carrying value, the Company proceeds to step two of the impairment test which requires the Company to estimate the fair value of all of the reporting unit s assets and liabilities and calculate an implied fair value of goodwill, which is the difference between the reporting unit s fair value and the fair value of all its other assets and liabilities. If the implied fair value of goodwill is less than its carrying value, the shortfall is recognized as an impairment. The methodology for estimating fair value in step two varies by asset; however, the most significant assets are intangible assets. The Company estimates the fair value of the intangible assets using the excess earnings method, royalty savings method, or cost savings method, all of which are a form of a discounted cash flow analysis. An impairment charge of a reporting unit s goodwill could have a material adverse effect on the Company s financial results. Changes in the underlying business and economic conditions could affect these estimates used in the analysis discussed above, which in turn could affect the fair value of the reporting unit. Thus, it is possible for reporting units that record impairments to record additional impairments in the future.

The Company did not record any goodwill impairment charges in 2011 or 2010. As of October 1, 2012, the most recent impairment analysis date, the fair value of each reporting unit substantially exceeded its carrying value. As of December 31, 2012, these balances had not materially changed.

Discussion of impairments that were recorded is included in Note 7 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K.

Transactions with related parties. A substantial portion of the Company s business within the Retail and Alliance Services and International segments is conducted through merchant alliances. Merchant alliances are alliances between the Company and financial institutions. If the Company has majority ownership and management control over an alliance, then the alliance s financial statements are consolidated with those of the Company and the related processing fees are treated as an intercompany transaction and eliminated upon consolidation. If the Company does not have a controlling ownership interest in an alliance, it uses the equity method of accounting to account for its investment in the alliance. As a result, the Company s consolidated revenues include processing fees charged to alliances accounted for under the equity method. No directors or officers of the Company have ownership interests in any of the alliances. The formation of each of these alliances generally involves the Company and the bank contributing contractual merchant relationships to the alliance and a cash payment from one owner to the other to achieve the desired ownership percentage for each. The Company and the bank contract a long-term processing service agreement as part of the negotiation process. This agreement governs the Company s provision of transaction processing services to the alliance.

The Company negotiated all agreements with the alliance banks. Therefore, all transactions between the Company and its alliances were conducted at arm s length; nevertheless, accounting guidance defines a transaction between the Company and an equity method investee as a related party transaction requiring separate disclosure in the financial statements of the Company. Accordingly, the revenue associated with these related party transactions are presented on the face of the Consolidated Statements of Operations.

All members of the Company s Board of Directors are affiliated with KKR. In addition, First Data has a management agreement with affiliates of KKR pursuant to which such entities or their affiliates provide management services to the Company. Pursuant to such agreement, the Company pays an aggregate annual base management fee and reimburses out-of-pocket expenses incurred in connection with the provision of services pursuant to the agreement. The agreement provides that the Company will pay fees in connection with certain subsequent financing, acquisition, disposition and change of control transactions, as well as a termination fee based on the net present value of future payment obligations under the management agreement, in the event of an initial public offering or under certain other circumstances. The agreement also includes customary exculpation and indemnification provisions in favor of KKR and its affiliates. The Company also paid fees to an affiliate of KKR for services in extending maturities under its senior secured lending facility and issuing new secured notes.

Refer to Note 10 to the Company s Consolidated Financial Statements in Item 8 of this Form 10-K for additional information regarding transactions with related parties.

New Accounting Guidance

In July 2012, the Financial Accounting Standards Board issued guidance related to testing indefinite-lived intangibles for impairment. Under the amended guidance, an entity has the option of first assessing qualitative factors to determine whether events and circumstances indicate that it is more likely than not that the fair value of an indefinite-lived intangible asset is less than its carrying amount. If it is determined that the fair value is more likely than not greater than the carrying amount, then quantitative impairment testing is unnecessary. The Company adopted the amendments for its 2012 annual impairment test. After performing a qualitative assessment, the Company proceeded to a quantitative impairment test.

Forward-Looking Statements

Certain matters the Company discusses in this Annual Report on Form 10-K and in other public statements may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, seeks, plans, estimates, or anticipates or similar expressions which concern the Company s strategy, plans, projections or intentions. Examples of forward-looking statements include, but are not limited to, all statements the Company makes relating to revenue, EBITDA, earnings, margins, growth rates and other financial results for future periods. Forward-looking statements are based on the Company s current expectations and assumptions regarding its business, the economy and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict. The Company s actual results may differ materially from those contemplated by the forward-looking statements, which are neither statements of historical fact nor guarantees or assurances of future performance. Important factors that could cause actual results to differ materially from those in the forward-looking statements include:

(a) no adverse impact on the Company s business as a result of its high degree of leverage;

(b) no adverse impacts from any increase or spread of the European crisis involving sovereign debt and the Euro;

(c) no adverse impacts from currency exchange rates or currency controls imposed by any government or otherwise;

(d) successful conversions under service contracts with major clients;

(e) successfully adjusting to the new U.S. financial regulatory reform legislation and regulations;

(f) successful implementation and improvement of processing systems to provide new products, improved functionality and increased efficiencies;

(g) anticipation of and response to technological changes, particularly with respect to e-commerce and mobile commerce;

(h) no further consolidation among client financial institutions or other client groups which has a significant impact on Company client relationships and no material loss of business from significant customers of the Company;

(i) achieving planned revenue growth throughout the Company, including in the merchant alliance program which involves several alliances not under the sole control of the Company and each of which acts independently of the others, and successful management of pricing pressures through cost efficiencies and other cost-management initiatives;

(j) successfully managing the credit and fraud risks in the Company s business units and the merchant alliances, particularly in e-commerce and mobile markets;

(k) no material breach of security of any of the Company s systems;

(l) continuing development and maintenance of appropriate business continuity plans for the Company s processing systems based on the needs and risks relative to each such system;

(m) no unanticipated changes in laws, regulations, credit card association rules or other industry standards affecting the Company s businesses which require significant product redevelopment efforts, reduce the market for or value of its products or render products obsolete;

(n) continuation of the existing interest rate environment so as to avoid unanticipated increases in interest on the Company s borrowings;

(o) no significant adverse movement in foreign currency exchange rates;

(p) no unanticipated developments relating to lawsuits, investigations or similar matters;

(q) no catastrophic events that could impact the Company s or its major customer s operating facilities, communication systems and technology or that has a material negative impact on current economic conditions or levels of consumer spending; and

(r) successfully managing the potential both for patent protection and patent liability.

Variations from these assumptions or failure to achieve these objectives could cause actual results to differ from those projected in the forward-looking statements. Factors or events that could cause the Company s actual results to differ may emerge from time to time, and it is not possible for the Company to predict all of them. Any forward-looking statement made by the Company speaks only as of the date on which it was made. The Company assumes no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events, or changes to projections over time, except as may be required by law. Due to the uncertainties inherent in forward-looking statements, readers are urged not to place undue reliance on these statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The Company is exposed to market risk from changes in interest rates. The Company s assets include both fixed and floating rate interest-bearing securities. These investments arise primarily from settlement funds held by the Company associated with the official check business and merchant acquiring business. The Company invests these funds pending settlement. The Company has classified these investments as available-for-sale. Accordingly, they are carried on the Company s Consolidated Balance Sheets at fair market value. The continued wind-down of the official check business resulted in a decrease in its investment portfolio balance during the year ended December 31, 2012.

The Company s interest rate-sensitive liabilities are its debt instruments. The Company s senior secured term loan facility is subject to variable interest rates. The Company has interest rate swaps on $5.0 billion of the variable rate debt that convert it to fixed rates that expire in September 2016. In addition, the Company has a fixed to floating interest rate swap with a notional value of $750 million expiring in June 2019, to maintain its ratio of fixed to floating rate debt. Therefore, as of December 31, 2012, the Company had approximately $4.1 billion of variable rate debt that is not subject to a fixed rate swap and includes the fixed to floating interest rate swap.

Using the December 31, 2012 balances, a 10% proportionate increase in short-term interest rates on an annualized basis compared to the interest rates as of December 31, 2012, which for the three month LIBOR was 0.3060%, and a corresponding and parallel shift in the remainder of the yield curve, would result in a decrease to pretax income of $0.5 million. The $0.5 million decrease to pretax income (due to a 10% increase in variable rates as of December 31, 2012) is a combination of the following: a) $1.1 million increase in interest expense related to the Company s balance of variable interest rate debt, net of interest rate swaps, and b) $0.6 million increase in interest income associated with operating cash balances, settlement related cash balances, and investment positions. Conversely, a corresponding decrease in interest rates would result in a comparable increase to pretax income. Actual interest rates could change significantly more than 10%. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that interest rate movements are linear and instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, which may positively or negatively affect income.

Foreign Currency Risk

The Company is exposed to changes in currency rates as a result of its investments in foreign operations, revenues generated in currencies other than the U.S. dollar and foreign currency denominated loans. 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.

A hypothetical uniform 10% weakening in the value of the U.S. dollar relative to all the currencies in which the Company s revenues and profits are denominated would result in a decrease to pretax income of approximately $0.2 million. The decrease results from an $80.1 million decrease related to a euro-denominated term loan held by the Company as well as a $12.2 million decrease related to three euro-denominated cross-currency swaps held by the Company, assuming consistent operating results as the twelve months preceding December 31, 2012. This decrease is partially offset by a $77.3 million increase related to foreign exchange on intercompany loans and a $14.8 million increase related to foreign exchange on foreign currency earnings. There are inherent limitations in the sensitivity analysis presented, primarily due to the assumption that foreign exchange rate movements are linear and instantaneous. As a result, the analysis is unable to reflect the potential effects of more complex market changes that could arise, which may positively or negatively affect income.

Regulatory

Through its merchant alliances, the Retail and Alliance Services segment 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

FIRST DATA CORPORATION

INDEX TO FINANCIAL STATEMENTS

COVERED BY REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

(Item 15(a))

All other schedules for First Data Corporation and subsidiaries have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the respective financial statements or notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholder of First Data Corporation

We have audited the accompanying consolidated balance sheets of First Data Corporation as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income (loss), cash flows and equity for each of the three years in the period ended December 31, 2012. Our audits also include the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of First Data Corporation at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), First Data Corporation s internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 19, 2013 expressed an adverse opinion thereon.

/s/ Ernst & Young LLP

Denver, Colorado

March 19, 2013

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year ended December 31,		
(in millions)	**2012**	**2011**	**2010**
Revenues:			
Transaction and processing service fees:			
Merchant related services (a)	$ 3,896.3	$ 3,692.8	$ 3,521.3
Check services	313.9	338.2	378.8
Card services	1,737.7	1,750.6	1,735.8
Other services	504.2	548.4	545.6
Product sales and other (a)	866.7	852.1	809.3
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6
	10,680.3	10,713.6	10,380.4
Expenses:			
Cost of services (exclusive of items shown below)	2,863.5	2,888.4	3,023.3
Cost of products sold	336.3	369.6	375.2
Selling, general and administrative	1,825.4	1,693.7	1,579.7
Reimbursable debit network fees, postage and other	3,361.5	3,531.5	3,389.6
Depreciation and amortization	1,191.6	1,245.0	1,414.4
Other operating expenses:			
Restructuring, net	23.1	46.4	72.0
Impairments	5.1		11.5
Litigation and regulatory settlements		(2.5)	(2.0)
	9,606.5	9,772.1	9,863.7
Operating profit	1,073.8	941.5	516.7
Interest income	8.8	7.9	7.8
Interest expense	(1,897.8)	(1,833.1)	(1,796.6)
Other income (expense)	(94.3)	124.1	(15.9)
	(1,983.3)	(1,701.1)	(1,804.7)
Loss before income taxes and equity earnings in affiliates	(909.5)	(759.6)	(1,288.0)
Income tax benefit	(224.0)	(270.1)	(323.8)
Equity earnings in affiliates	158.2	153.4	117.3
Net loss	(527.3)	(336.1)	(846.9)
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interests	173.6	180.0	174.9
Net loss attributable to First Data Corporation	$ (700.9)	$ (516.1)	$ (1,021.8)

(a) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of $159.8 million, $146.0 million and $134.6 million for the years ended December 31, 2012, 2011 and 2010, respectively.

See Notes to Consolidated Financial Statements.

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year ended December 31,		
(in millions)	**2012**	**2011**	**2010**
Net loss	$ (527.3)	$ (336.1)	$ (846.9)
Other comprehensive income (loss), net of tax:			
Unrealized gains on securities	0.2	0.8	27.5
Unrealized gains on hedging activities	72.2	99.6	70.3
Pension liability adjustments	(38.6)	(23.9)	28.5
Foreign currency translation adjustment	15.7	(44.9)	(84.6)
Total other comprehensive income, net of tax	49.5	31.6	41.7
Comprehensive loss	(477.8)	(304.5)	(805.2)
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interests	176.9	173.1	171.8
Comprehensive loss attributable to First Data Corporation	$ (654.7)	$ (477.6)	$ (977.0)

See Notes to Consolidated Financial Statements.

FIRST DATA CORPORATION

CONSOLIDATED BALANCE SHEETS

	As of December 31,	
(in millions, except common stock share amounts)	**2012**	**2011**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 608.3	$ 485.7
Accounts receivable, net of allowance for doubtful accounts of $33.3 (2012) and $18.1 (2011)	1,847.7	1,848.6
Settlement assets	9,173.8	10,658.3
Other current assets	253.6	322.9
Total current assets	11,883.4	13,315.5
Property and equipment, net of accumulated depreciation of $1,024.3 (2012) and $842.9 (2011)	855.8	935.9
Goodwill	17,282.5	17,204.6
Customer relationships, net of accumulated amortization of $3,839.0 (2012) and $3,212.7 (2011)	3,756.3	4,425.4
Other intangibles, net of accumulated amortization of $1,544.0 (2012) and $1,282.2 (2011)	1,828.6	1,879.2
Investment in affiliates	1,413.1	1,490.6
Long-term settlement assets	54.3	181.0
Other long-term assets	825.0	844.1
Total assets	$ 37,899.0	$ 40,276.3
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 260.9	$ 205.9
Short-term and current portion of long-term borrowings	257.1	133.4
Settlement obligations	9,226.3	10,837.8
Other current liabilities	1,600.6	1,643.1
Total current liabilities	11,344.9	12,820.2
Long-term borrowings	22,528.9	22,521.7
Long-term deferred tax liabilities	509.5	695.4
Other long-term liabilities	821.9	763.6
Total liabilities	35,205.2	36,800.9
Commitments and contingencies (See Note 11)		
Redeemable noncontrolling interest	67.4	67.4
First Data Corporation stockholder s (deficit) equity:		
Common stock, $.01 par value; authorized and issued 1,000 shares (2012 and 2011)		
Additional paid-in capital	7,341.5	7,375.2
Paid-in capital	7,341.5	7,375.2
Accumulated loss	(7,387.8)	(6,680.2)
Accumulated other comprehensive loss	(552.2)	(598.4)
Total First Data Corporation stockholder s (deficit) equity	(598.5)	96.6
Noncontrolling interests	3,224.9	3,311.4
Total equity	2,626.4	3,408.0
Total liabilities and equity	$ 37,899.0	$ 40,276.3

See Notes to Consolidated Financial Statements.

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	Year ended December 31, 2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES			
Net loss	$ (527.3)	$ (336.1)	$ (846.9)
Adjustments to reconcile to net cash provided by operating activities:			
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	1,330.9	1,344.2	1,526.0
Charges (gains) related to other operating expenses and other income (expense)	122.5	(77.7)	97.4
Other non-cash and non-operating items, net	(40.2)	27.7	265.6
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:			
Accounts receivable, current and long-term	(49.8)	256.7	224.7
Other assets, current and long-term	260.0	239.3	298.3
Accounts payable and other liabilities, current and long-term	(34.6)	(1.2)	(386.1)
Income tax accounts	(294.1)	(337.3)	(424.3)
Net cash provided by operating activities	767.4	1,115.6	754.7
CASH FLOWS FROM INVESTING ACTIVITIES			
Current year acquisitions, net of cash acquired	(32.9)	(19.2)	(1.8)
Contributions to equity method investments	(7.9)	(161.5)	(1.4)
Payments related to other businesses previously acquired	(4.4)	3.2	(1.4)
Proceeds from dispositions, net of expenses paid and cash disposed		1.7	21.2
Proceeds from sale of property and equipment	8.0	17.1	5.5
Additions to property and equipment	(193.1)	(202.9)	(210.1)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(177.2)	(201.9)	(159.6)
Other investing activities	10.4	4.9	18.4
Net cash used in investing activities	(397.1)	(558.6)	(329.2)
CASH FLOWS FROM FINANCING ACTIVITIES			
Short-term borrowings, net	99.1	(107.3)	75.1
Accrued interest funded upon issuance of notes	6.5		
Debt modification proceeds (payments) and related financing costs	10.8	(39.7)	(61.2)
Principal payments on long-term debt	(83.3)	(104.5)	(220.4)
Proceeds from sale-leaseback transactions	13.8	14.2	
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interests	(261.9)	(327.3)	(216.1)
Contributions from noncontrolling interests		0.8	
Purchase of noncontrolling interests	(25.1)		(213.3)
Redemption of Parent s redeemable common stock	(1.7)	(0.5)	(2.5)
Cash dividends	(6.7)	(0.2)	(14.9)
Net cash used in financing activities	(248.5)	(564.5)	(653.3)
Effect of exchange rate changes on cash and cash equivalents	0.8	(16.3)	0.3
Change in cash and cash equivalents	122.6	(23.8)	(227.5)
Cash and cash equivalents at beginning of period	485.7	509.5	