

FIRST DATA CORP
Form 10-Q
July 30, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 001-11073

FIRST DATA CORPORATION
(Exact name of registrant as specified in its charter)
www.firstdata.com

DELAWARE 47-0731996
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
225 LIBERTY STREET, 29th FLOOR, NEW YORK, NEW YORK 10281
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code (800) 735-3362

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

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

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

Large accelerated filer Accelerated filer Smaller reporting company

Non-accelerated filer (Do not check if a smaller reporting company) Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

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Class	Outstanding at June 30, 2018
Class A Common Stock, \$0.01 par value per share	490,515,429 shares
Class B Common Stock, \$0.01 par value per share	443,214,625 shares

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Unless otherwise indicated or the context otherwise requires, financial data in this Form 10-Q reflects the consolidated business and operations of First Data Corporation and its consolidated subsidiaries. Unless the context otherwise requires, all references herein to “First Data,” “FDC,” the “Company,” “we,” “our,” or “us” refer to First Data Corporation and consolidated subsidiaries.

Amounts in this Form 10-Q and the unaudited consolidated financial statements included in this Form 10-Q are presented in U.S. Dollars rounded to the nearest million, unless otherwise noted.

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Forward-Looking Statements

Certain matters we discuss in this Form 10-Q 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,” “intends,” “plans,” “estimates,” or “anticipates” or similar expressions which concern our strategy, projections or intentions. Examples of forward-looking statements include, but are not limited to, all statements we make relating to revenue, earnings before net interest expense, income taxes, depreciation, and amortization (EBITDA), earnings, margins, growth rates, and other financial results for future periods. By their nature, forward-looking statements speak only as of the date they are made; are not statements of historical fact or guarantees of future performance; and are subject to risks, uncertainties, assumptions or changes in circumstances that are difficult to predict or quantify. Actual results could differ materially and adversely from our forward-looking statements due to a variety of factors, including the following: (1) adverse impacts from global economic, political, and other conditions affecting trends in consumer, business, and government spending; (2) our ability to anticipate and respond to changing industry trends, including technological changes and increasing competition; (3) our ability to successfully renew existing client contracts on favorable terms and obtain new clients; (4) our ability to prevent a material breach of security of any of our systems; (5) our ability to implement and improve processing systems to provide new products, improve functionality, and increase efficiencies; (6) the successful management of our merchant alliance program which involves several alliances not under our sole control and each of which acts independently of the others; (7) our successful management of credit and fraud risks in our business units and merchant alliances, particularly in the context of eCommerce and mobile markets; (8) consolidation among financial institution clients or other client groups that impacts our client relationships; (9) our ability to use our net operating losses without restriction to offset income for US tax purposes; (10) our ability to improve our profitability and maintain flexibility in our capital resources through the implementation of cost savings initiatives; (11) the acquisition or disposition of a material business or assets; (12) our ability to successfully value and integrate acquired businesses; (13) our high degree of leverage; (14) adverse impacts from currency exchange rates or currency controls imposed by any government or otherwise; (15) changes in the interest rate environment that increase interest on our borrowings or the interest rate at which we can refinance our borrowings; (16) the impact of new or changes in current laws, regulations, credit card association rules, or other industry standards; and (17) new lawsuits, investigations, or proceedings, or changes to our potential exposure in connection with pending lawsuits, investigations or proceedings, and various other factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2017, including but not limited to, Item 1 - Business, Item 1A - Risk Factors, and Item 7 - Management’s Discussion and Analysis of Financial Condition and Results of Operations. Except as required by law, we do not intend to revise or update any forward-looking statement as a result of new information, future developments or otherwise.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FIRST DATA CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended		Six months ended	
	June 30,		June 30,	
(in millions, except per share amounts)	2018	2017	2018	2017
Revenues:				
Revenues excluding reimbursable items ^(a)	\$2,244	\$2,035	\$4,328	\$3,917
Reimbursable items	204	990	402	1,909
Total revenues	2,448	3,025	4,730	5,826
Expenses:				
Cost of revenues (exclusive of items shown below)	751	782	1,530	1,562
Selling, general, and administrative	683	520	1,330	1,046
Depreciation and amortization	255	237	505	465
Other operating expenses	17	29	77	51
Total expenses excluding reimbursable items	1,706	1,568	3,442	3,124
Reimbursable items	204	990	402	1,909
Total expenses	1,910	2,558	3,844	5,033
Operating profit	538	467	886	793
Interest expense, net	(234)	(236)	(467)	(469)
Loss on debt extinguishment	(1)	(15)	(1)	(71)
Other income (expense)	2	(2)	(1)	(3)
Income before income taxes and equity earnings in affiliates	305	214	417	250
Income tax (benefit) expense	(37)	28	(10)	40
Equity earnings in affiliates	60	57	109	112
Net income	402	243	536	322
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	61	58	94	101
Net income attributable to First Data Corporation	\$341	\$185	\$442	\$221
Net income attributable to First Data Corporation per share:				
Basic	\$0.37	\$0.20	\$0.48	\$0.24
Diluted	\$0.36	\$0.20	\$0.47	\$0.24
Weighted-average common shares outstanding:				
Basic	928	915	926	913
Diluted	954	938	950	935

Includes processing fees, administrative service fees, and other fees charged to merchant alliances accounted for (a) under the equity method of \$51 million and \$103 million for the three and six months ended June 30, 2018, respectively, and \$54 million and \$106 million for the comparable periods in 2017.

The 2018 results include the impact of adopting ASC 606 and ASC 340-40 (collectively, the New Revenue Standard). Refer to note 1 "Basis of Presentation and Summary of Significant Accounting Policies" to the Company's unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q for more information.

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

(in millions)	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Net income	\$402	\$243	\$536	\$322
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(174)	18	(84)	108
Pension liability adjustments	—	19	—	19
Derivative instruments	(9)	(2)	—	(1)
Total other comprehensive income, net of tax	(183)	35	(84)	126
Comprehensive income	219	278	452	448
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest	53	62	90	108
Comprehensive income attributable to First Data Corporation	\$166	\$216	\$362	\$340

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions, except par value)	As of June 30, 2018	As of December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$544	\$ 498
Accounts receivable, net of allowance for doubtful accounts of \$45 and \$45	2,200	2,176
Settlement assets	16,982	20,363
Prepaid expenses and other current assets	475	335
Total current assets	20,201	23,372
Property and equipment, net of accumulated depreciation of \$1,537 and \$1,588	866	951
Goodwill	17,648	17,710
Customer relationships, net of accumulated amortization of \$5,331 and \$5,940	1,951	2,184
Other intangibles, net of accumulated amortization of \$2,197 and \$2,665	1,890	1,935
Investment in affiliates	1,049	1,054
Other long-term assets	842	1,063
Total assets	\$44,447	\$ 48,269
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$1,674	\$ 1,659
Short-term and current portion of long-term borrowings	900	1,271
Settlement obligations	16,982	20,363
Total current liabilities	19,556	23,293
Long-term borrowings	17,717	17,927
Deferred tax liabilities	92	77
Other long-term liabilities	597	886
Total liabilities	37,962	42,183
Commitments and contingencies (See note 12)		
Redeemable noncontrolling interest	78	72
First Data Corporation stockholders' equity:		
Class A Common stock, \$0.01 par value; 1,600 shares authorized as of June 30, 2018 and December 31, 2017; 506 shares and 493 shares issued as of June 30, 2018 and December 31, 2017, respectively; and 491 shares and 482 shares outstanding as of June 30, 2018 and December 31, 2017, respectively	5	5
Class B Common stock, \$0.01 par value; 523 shares authorized as of June 30, 2018 and December 31, 2017; 443 shares issued and outstanding as of June 30, 2018 and December 31, 2017	4	4
Preferred stock, \$0.01 par value; 100 shares authorized as of June 30, 2018 and December 31, 2017; no shares issued and outstanding as of June 30, 2018 and December 31, 2017	—	—
Class A Treasury stock, at cost, 15 shares and 11 shares as of June 30, 2018 and December 31, 2017, respectively	(220)	(149)
Additional paid-in capital	13,648	13,495
Accumulated loss	(8,630)	(9,059)
Accumulated other comprehensive loss	(1,224)	(1,144)
Total First Data Corporation stockholders' equity	3,583	3,152

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Noncontrolling interests	2,824	2,862
Total equity	6,407	6,014
Total liabilities and equity	\$44,447	\$ 48,269

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six months ended June 30,	
(in millions)	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$536	\$322
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	546	526
Deferred income taxes	(80)	10
Charges related to other operating expenses and other income	78	54
Loss on debt extinguishment	1	71
Stock-based compensation expense	133	121
Other non-cash and non-operating items, net	12	4
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	50	110
Other assets, current and long-term	(1)	(19)
Accounts payable and other liabilities, current and long-term	(139)	(165)
Income tax accounts	2	(33)
Net cash provided by operating activities	1,138	1,001
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(139)	(123)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(151)	(133)
Acquisitions, net of cash acquired	(17)	(85)
Proceeds from the maturity of net investment hedges	26	90
Other investing activities, net	(9)	10
Net cash used in investing activities	(290)	(241)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	(364)	(160)
Proceeds from issuance of long-term debt	—	3,548
Payment of call premiums and debt issuance cost	—	(63)
Principal payments on long-term debt	(246)	(3,811)
Payment of taxes related to settlement of equity awards	(79)	(83)
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interest	(128)	(126)
Other financing activities, net	33	33
Net cash used in financing activities	(784)	(662)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(18)	8
Change in cash, cash equivalents and restricted cash	46	106
Cash, cash equivalents and restricted cash at beginning of period	525	414
Cash, cash equivalents and restricted cash at end of period	\$571	\$520
NON-CASH TRANSACTIONS		
Capital leases, net of trade-ins	\$15	\$50

Other financing arrangements

\$— \$103

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(in millions)	First Data Corporation Stockholders										
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Loss	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total		
	Class A	Class B	Class A	Class A							
Shares	Amount	Shares	Amount	Shares	Amount						
Balance, December 31, 2017	482	\$ 5	443	\$ 4	11	\$(149)	\$13,495	\$(9,059)	\$(1,144)	\$ 2,862	\$6,014
Adoption of New Revenue Standard	—	—	—	—	—	—	—	(13)	—	—	(13)
Dividends and distributions paid to noncontrolling interests ^(a)	—	—	—	—	—	—	—	—	—	(112)	(112)
Net income ^(b)	—	—	—	—	—	—	442	—	—	78	520
Other comprehensive income	—	—	—	—	—	—	—	—	(80)	(4)	(84)
Adjustment to redemption value of redeemable noncontrolling interest	—	—	—	—	—	—	(6)	—	—	—	(6)
Stock compensation expense	—	—	—	—	—	—	133	—	—	—	133
Stock activity under stock compensation plans and other	9	—	—	—	4	(71)	26	—	—	—	(45)
Balance, June 30, 2018	491	\$ 5	443	\$ 4	15	\$(220)	\$13,648	\$(8,630)	\$(1,224)	\$ 2,824	\$6,407

(in millions)	First Data Corporation Stockholders										
	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total		
	Class A	Class B	Class A	Class A							
Shares	Amount	Shares	Amount	Shares	Amount						
Balance, December 31, 2016	368	\$ 4	544	\$ 5	5	\$(61)	\$13,210	\$(10,524)	\$(1,414)	\$ 2,911	\$4,131
Dividends and distributions paid to noncontrolling interests ^(a)	—	—	—	—	—	—	—	—	—	(110)	(110)
Net income ^(b)	—	—	—	—	—	—	221	—	—	85	306
Other comprehensive income	—	—	—	—	—	—	—	—	119	7	126
Adjustment to redemption value of redeemable noncontrolling interest	—	—	—	—	—	—	1	—	—	—	1
Stock compensation expense	—	—	—	—	—	—	121	—	—	—	121
Stock activity under stock compensation plans and other	12	—	(1)	—	5	(77)	30	—	—	—	(47)

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Balance, June 30, 2017 380 \$ 4 543 \$ 5 10 \$(138) \$ 13,362 \$(10,303) \$ (1,295) \$ 2,893 \$ 4,528

The total distribution presented in the unaudited consolidated statements of equity for the six months ended (a) June 30, 2018 and 2017 excludes \$16 million and \$16 million, respectively, in distributions paid to redeemable noncontrolling interest not included in equity.

The total net income presented in the unaudited consolidated statements of equity for the six months ended (b) June 30, 2018 and 2017 is \$16 million and \$16 million different, respectively, than the amounts presented in the unaudited consolidated statements of operations due to the net income attributable to the redeemable noncontrolling interest not included in equity.

consolidated financial statements. See notes to unaudited

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FIRST DATA CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (Unaudited)

Note 1: Basis of Presentation and Summary of Significant Accounting Policies

Business Description

FDC is a global leader in commerce-enabling technology and solutions for merchants, financial institutions, and card issuers. The Company provides merchant transaction processing and acquiring; credit, retail, and debit card processing; prepaid and payroll services; check verification; settlement and guarantee services; statement printing and remittance services; as well as solutions to help clients grow their businesses including the Company's Clover line of payment solutions and related applications.

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2017. Significant accounting policies disclosed therein have not changed, except for those disclosed below in the recently adopted section.

The accompanying consolidated financial statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company, the consolidated results of the Company's operations, comprehensive income, consolidated cash flows and changes in equity as of and for the periods presented. Results of operations reported for interim periods are not necessarily indicative of results for the entire year due in part to the seasonality of certain business units.

Use of Estimates

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

Presentation

Depreciation and amortization, presented as a separate line item on the Company's unaudited consolidated statements of operations, does not include amortization of initial payments for new contracts which is recorded as contra-revenue within "Revenues excluding reimbursable items." Also not included is amortization related to equity method investments which is netted within "Equity earnings in affiliates."

The following table presents the amounts associated with such amortization for the three and six months ended June 30, 2018 and 2017:

	Three months ended June 30, 2018		Six months ended June 30, 2017	
(in millions)	2018	2017	2018	2017
Amortization of initial payments for new contracts	\$ 13	\$ 19	\$ 26	\$ 38
Amortization related to equity method investments	7	12	15	23

Treasury Stock

In connection with the vesting of restricted stock awards or exercise of stock options, shares of Class A and Class B common stock are delivered to the Company by employees to satisfy tax withholding obligations. The Company accounts for treasury stock activities under the cost method whereby the cost of the acquired stock is recorded as treasury stock. Because Class B common stock converts automatically to Class A common stock upon any transfer, whether or not for value, except for certain transactions described in the Company's amended and restated certificate of incorporation, all shares of treasury stock reside as Class A.

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Foreign Currency Translation

There has been a steady devaluation of the Argentine peso relative to the United States dollar in recent years, primarily due to inflation. A highly inflationary economy is defined as an economy with a cumulative inflation rate of approximately 100 percent or more over a three-year period. If a country's economy is classified as highly inflationary, the functional currency of the foreign entity operating in that country must be remeasured to the functional currency of the reporting entity. As of June 30, 2018, the Argentine economy has been designated as highly inflationary for accounting purposes. Accordingly, the Company will report the financial results of its operations in Argentina at the functional currency of the parent, which is the U.S. dollar, beginning in the third quarter of 2018.

Reclassifications

Certain amounts for prior years have been reclassified to conform with the current year financial statement presentation.

New Accounting Guidance

Recently Adopted Accounting Guidance

Stock-based Compensation

In May 2017, the FASB issued guidance that clarifies when changes to terms or conditions of a stock-based payment award must be accounted for as a modification. Under the new guidance, companies only apply modification accounting guidance if the fair value, vesting conditions or classification of an award changes. The guidance was adopted prospectively to awards modified on or after the adoption date. The Company adopted the new guidance on January 1, 2018. The impact of adoption on the Company's consolidated financial statements is dependent on future changes to share-based compensation awards.

Statement of Cash Flows

In November 2016, the FASB issued guidance that changes the presentation of restricted cash and restricted cash equivalents on the statement of cash flows. Under the new guidance, companies are required to include restricted cash and restricted cash equivalents with the cash and cash equivalents line item when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. Given this change, transfers between cash, cash equivalents, and restricted cash and cash equivalents are no longer reported as cash flow activities on the statement of cash flows. The guidance was applied using a retrospective transition method to each period presented. The Company adopted the new guidance on January 1, 2018 with no material impact to its statement of cash flows. The Company held \$27 million in restricted cash within "Other long-term assets" in the unaudited consolidated balance sheets as of June 30, 2018 and 2017.

Pension Costs

In March 2017, the FASB issued guidance that requires employers that sponsor defined benefit plans for pensions and/or other post-retirement benefits to present the service cost component of net periodic benefit cost in the same income statement line item as other employee compensation costs arising from services rendered during the period. Only the service cost component will be eligible for capitalization in assets. Employers will present the other components of the net periodic benefit cost separately from the line item that includes the service cost and outside of any subtotal of operating income, if one is presented. These components will not be eligible for capitalization in

assets. The Company adopted the new guidance on January 1, 2018, using a retrospective approach. The impact on the Company's financial statements for the three and six months ended June 30, 2018 was an increase in operating expense and a decrease in "Interest expense, net" of \$2 million and \$4 million, respectively, and \$2 million and \$3 million for the comparable periods in 2017.

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Derivatives and Hedging

In August 2017, the FASB issued guidance to simplify the current application of hedge accounting. This standard is intended to better align a company's risk management strategies and financial reporting for hedging relationships through changes to both designation and measurement for qualifying hedging relationships and more accurately presenting the economic effects in the financial statements. In addition, the new guidance establishes flexibility in the requirements to qualify and maintain hedge accounting. The Company adopted the new guidance on January 1, 2018 with no material impact to the Company's consolidated financial statements.

Revenue Recognition

In May 2014, the FASB issued ASC 606 and ASC 340-40 (collectively, the New Revenue Standard) that requires companies to recognize revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration to which the company expects to be entitled in an exchange for those goods or services. It also requires enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively, and improves guidance for multiple-element arrangements. The FASB has subsequently issued several amendments to the New Revenue Standard, including clarification on accounting for licenses, identifying performance obligations, and principal versus agent consideration (reporting revenue gross vs. net).

The Company adopted the New Revenue Standard using a modified retrospective basis on January 1, 2018 to all contracts that were not completed. The adoption resulted in a decrease to retained earnings of \$13 million for the cumulative effect of applying the New Revenue Standard. This impact was principally driven by certain software arrangements being recognized sooner; changes related to costs to obtain customers, including the related amortization period; and the release of deferred revenue associated with Clover terminals that had previously lacked standalone value. Under the modified retrospective basis, the Company did not restate its comparative consolidated financial statements for these effects.

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

The following tables present the impact of adopting the New Revenue Standard on the Company's unaudited consolidated financial statements for the three and six months ended June 30, 2018:

(in millions, except per share amounts)	Three months ended June 30, 2018		
	As Reported	Adjustments	Balances Without Adoption of ASC 606
Revenues:			
Revenues excluding reimbursable items	\$2,244	\$ (42)	\$ 2,202
Reimbursable items	204	903	1,107
Total revenues	2,448	861	3,309
Expenses:			
Total expenses excluding reimbursable items	1,706	(27)	1,679
Reimbursable items	204	903	1,107
Total expenses	1,910	876	2,786
Operating profit	538	(15)	523
Interest expense, net	(234)	—	(234)
Loss on debt extinguishment	(1)	—	(1)
Other income	2	—	2
Income before income taxes and equity earnings in affiliates	305	(15)	290
Income tax (benefit)	(37)	(4)	(41)
Equity earnings in affiliates	60	—	60
Net income	402	(11)	391
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	61	—	61
Net income attributable to First Data Corporation	\$341	\$ (11)	\$ 330
Net income attributable to First Data Corporation per share:			
Basic	\$0.37	\$ (0.01)	\$ 0.36
Diluted	\$0.36	\$ (0.01)	\$ 0.35

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FIRST DATA CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(in millions, except per share amounts)	Six months ended June 30, 2018		
	As Reported	Adjustments	Balances Without Adoption of ASC 606
Revenues:			
Revenues excluding reimbursable items	\$4,328	\$ (85)	\$ 4,243
Reimbursable items	402	1,721	2,123
Total revenues	4,730	1,636	6,366
Expenses:			
Total expenses excluding reimbursable items	3,442	(61)	3,381
Reimbursable items	402	1,721	2,123
Total expenses	3,844	1,660	5,504
Operating profit	886	(24)	862
Interest expense, net	(467)	—	(467)
Loss on debt extinguishment	(1)	—	(1)
Other expense	(1)	—	(1)
Income before income taxes and equity earnings in affiliates	417	(24)	393
Income tax (benefit)	(10)	(6)	(16)
Equity earnings in affiliates	109	—	109
Net income	536	(18)	518
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	94	—	94
Net income attributable to First Data Corporation	\$442	\$ (18)	\$ 424
Net income attributable to First Data Corporation per share:			
Basic	\$0.48	\$ (0.02)	\$ 0.46
Diluted	\$0.47	\$ (0.02)	\$ 0.45

The adoption of the New Revenue Standard had an immaterial impact on the Company's unaudited consolidated balance sheet and unaudited consolidated statement of cash flows as of and for the three and six months ended June 30, 2018. Refer to note 3 "Revenue Recognition" to the Company's unaudited consolidated financial statements included in Part I, Item 1 of this Form 10-Q for more information.

Recently Issued Accounting Guidance

Leases

In February 2016, the FASB issued guidance which requires lessees to put most leases on their balance sheets. The guidance also modifies the classification criteria and the accounting for sales-type and direct financing leases for lessors and provides new presentation and disclosure requirements for both lessees and lessors. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period subsequent to adoption of the preceding revenue recognition guidance. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements and will adopt January 1, 2019.

Credit Losses

In June 2016, the FASB issued guidance that will change the accounting for credit impairment. Under the new guidance, companies are required to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. This new guidance will be effective for public companies for fiscal years beginning after December 15, 2019, including interim

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periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating the impact of the new guidance on its consolidated financial statements.

Note 2: Borrowings

(in millions)	As of June 30, 2018	As of December 31, 2017
Short-term borrowings:		
Foreign lines of credit and other arrangements	\$ 147	\$ 205
Senior secured revolving credit facility due 2020 at LIBOR plus 3.50% or a base rate plus 2.50%	—	272
Receivable securitized loan at LIBOR plus 1.5% or a base rate equal to the highest of (i) the applicable lender's prime rate, or (ii) the federal funds rate plus 0.50%	565	600
Unamortized deferred financing costs ^(a)	(2)	(3)
Total short-term borrowings	710	1,074
Current portion of long-term borrowings:		
Senior secured term loan facility due 2020 at LIBOR plus 1.75% or a base rate plus 0.75%	78	78
Other arrangements and capital lease obligations	112	119
Total current portion of long-term borrowings	190	197
Total short-term and current portion of long-term borrowings	900	1,271
Long-term borrowings:		
Senior secured term loan facility due 2024 at LIBOR plus 2.0% or a base rate plus 1.0%	3,892	3,892
Senior secured term loan facility due 2022 at LIBOR plus 2.0% or a base rate plus 1.0%	3,608	3,758
Senior secured term loan facility due 2020 at LIBOR plus 1.75% or a base rate plus 0.75%	1,365	1,404
5.375% Senior secured first lien notes due 2023	1,210	1,210
5.0% Senior secured first lien notes due 2024	1,900	1,900
5.75% Senior secured second lien notes due 2024	2,200	2,200
7.0% Senior unsecured notes due 2023	3,400	3,400
Unamortized discount and unamortized deferred financing costs ^(a)	(110)	(123)
Other arrangements and capital lease obligations	252	286
Total long-term borrowings ^(b)	17,717	17,927
Total borrowings ^(c)	\$ 18,617	\$ 19,198

Unamortized deferred financing costs and certain lenders' fees associated with debt transactions were capitalized as (a) discounts and are amortized on a straight-line basis, which approximates the effective interest method, over the remaining term of the respective debt.

As of June 30, 2018 and December 31, 2017, the fair value of the Company's long-term borrowings was \$17.7 (b) billion and \$18.2 billion, respectively. The estimated fair value of the Company's long-term borrowings was primarily based on market trading prices and is considered to be a Level 2 measurement.

(c) The effective interest rate is not substantially different than the coupon rate on any of the Company's debt tranches.

Foreign Lines of Credit and Other Arrangements

As of June 30, 2018 and December 31, 2017, the Company had \$375 million and \$546 million, respectively, available under short-term lines of credit and other arrangements with foreign banks and alliance partners primarily to fund settlement activity. As of June 30, 2018 and December 31, 2017, this includes a \$165 million and \$355 million, respectively, committed line of credit for one of the Company's consolidated alliances. The remainder of these arrangements are primarily associated with international operations and are in various functional currencies, the most

significant of which are the Australian dollar, the Polish zloty, and the Euro. Of the amounts outstanding as of June 30, 2018 and December 31, 2017, \$0 million and \$15 million, respectively, were uncommitted. As of June 30, 2018 and December 31, 2017, the weighted average interest rate associated with foreign lines of credit and other arrangements was 3.2% and 2.9%, respectively.

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Senior Secured Revolving Credit Facility

The Company has a \$1.25 billion senior secured revolving credit facility maturing on June 2, 2020 subject to certain earlier springing maturity provisions in certain circumstances. Up to \$250 million of the senior secured revolving credit facility is available for letters of credit, of which \$4 million and \$29 million of letters of credit were issued under the facilities as of June 30, 2018 and December 31, 2017, respectively. As of June 30, 2018, \$1.25 billion remained available.

Senior Unsecured Revolving Credit Facility

On December 14, 2017 the Company executed a \$33 million senior unsecured revolving credit facility maturing December 20, 2019, available for letters of credit. As of June 30, 2018, the Company issued \$31 million of letters of credit with an interest rate of 1.85%.

Receivable Securitization Agreement

The Company has a fully consolidated and wholly-owned subsidiary, First Data Receivables, LLC (FDR). FDR and FDC entered into an agreement where certain wholly-owned subsidiaries of FDC agreed to transfer and contribute receivables to FDR. FDR's assets are not available to satisfy obligations of any other entities or affiliates of FDC. FDR's creditors will be entitled, upon its liquidation, to be satisfied out of FDR's assets prior to any assets or value in FDR becoming available to FDR's equity holders. As of June 30, 2018, the maximum borrowing capacity, subject to collateral availability, under the agreement is \$600 million. The term of the receivables securitization agreement is through June 2020. The receivables held by FDR are recorded within "Accounts receivable, net" in the Company's unaudited consolidated balance sheets.

Note 3: Revenue Recognition

Revenues are recognized when control of the promised goods or services is transferred to the Company's customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To achieve this core principle, the Company applies the following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when or as the entity satisfies a performance obligation

Revenue is recognized net of taxes collected from customers, which are subsequently remitted to governmental authorities. The Company has elected to present shipping and handling costs associated with its products as a cost of fulfilling the Company's promise to transfer its products and services.

Nature of Products and Services

Transaction and Processing Services

The vast majority of the Company's revenues are comprised of: 1) fees calculated based on a percentage of dollar volume of transactions processed; 2) fees calculated based on number of transactions processed; 3) fees calculated based on number of accounts on file during a period; or 4) some combination thereof that are associated with transaction and processing services.

The Company typically contracts with financial institutions, merchants, or affiliates of those parties. Contracts stipulate the types of processing services and articulate how fees will be incurred and calculated.

The Company's core performance obligations are to stand ready to provide holistic electronic payment processing services consisting of a series of distinct elements that are substantially the same and have the same pattern of transfer

over time. The Company's promise to its customers is to perform an unknown or unspecified quantity of tasks and the consideration received is contingent upon the customers' use (i.e., number of payment transactions processed, number of cards on file, etc.); as such, the total transaction price is variable. The Company allocates the variable fees charged to the day in which it has the contractual right to bill under the contract.

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Revenue is comprised of fees charged to the Company's customers, net of interchange fees and assessments charged by the credit card associations and debit networks, which are pass-through charges collected on behalf of the card issuers and payment networks. Interchange fees and assessments charged by credit card and debit networks to the Company's consolidated subsidiaries were as follows for the three and six months ended June 30, 2018 and 2017.

	Three months ended		Six months ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
(in millions)				
Interchange fees and assessments	\$7,164	\$6,592	\$13,640	\$12,631
Debit network fees ^(a)	903	819	1,721	1,564

^(a) Prior to the adoption of the New Revenue Standard, debit network fees were reported on a gross basis in revenues and expenses.

Hardware Revenues

The Company may sell or lease hardware (POS devices) and other peripherals as part of its contract with customers. Hardware typically consists of terminals or Clover devices. The Company does not manufacture hardware, but purchases hardware from third-party vendors and holds the hardware in inventory until purchased by a customer. The Company accounts for hardware as a separate performance obligation and recognizes the revenue at its standalone selling price when the customer obtains control of the hardware.

Professional Services Revenues

The Company's professional services generally consist of professional services sold as part of a new or existing agreement or sold as a separate service. The Company's professional services may or may not be considered distinct based on the nature of the services being provided. Professional services are recognized over time as control is transferred to the customer, either as the professional services are performed or as the services from a combined performance obligation are transferred to the customer (over the term of the related transaction and processing agreement).

Other

Other revenues principally include software licensing (fixed and usage based) and maintenance as well as interest on hardware leases. The Company's software licensing and maintenance is considered distinct and is generally recognized over the implementation period and over time, respectively, at their standalone selling prices.

Contracts with Multiple Performance Obligations

The Company's contracts with its customers can consist of multiple performance obligations, for example in the case of hardware sold with transaction and processing services. For these contracts, the Company accounts for individual performance obligations separately if they are distinct. The transaction price is allocated to the separate performance obligations on a relative standalone selling price basis. The Company determines the standalone selling prices based on its overall pricing objectives, taking into consideration market conditions and other factors, including the customer class.

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Disaggregation of Revenue

The following tables present revenues disaggregated by primary geographical regions and product types for the three and six months ended June 30, 2018:

(in millions)	Three months ended June 30, 2018			
	Global Business Solutions	Global Financial Solutions	Network & Security Solutions	Total
North America	\$ 1,161	\$ 432	\$ 359	\$ 1,952
EMEA	172	121	5	298
LATAM	84	37	1	122
APAC	50	25	1	76
Total Revenue ^{(a)(b)}	\$ 1,467	\$ 615	\$ 366	\$ 2,448

(in millions)	Six months ended June 30, 2018			
	Global Business Solutions	Global Financial Solutions	Network & Security Solutions	Total
North America	\$ 2,194	\$ 855	\$ 710	\$ 3,759
EMEA	334	233	7	574
LATAM	171	68	1	240
APAC	98	56	3	157
Total Revenue ^{(a)(b)}	\$ 2,797	\$ 1,212	\$ 721	\$ 4,730

(in millions)	Three months ended June 30, 2018		Six months ended June 30, 2018	
	Total	Total	Total	Total
Transaction and processing services	\$ 2,160	\$ 4,171		
Hardware, Professional Services, and Other	288	559		
Total Revenue ^(a)	\$ 2,448	\$ 4,730		

(a) Refer to note 6 "Segment Information" of these unaudited consolidated financial statements for the reconciliation to segment revenues.

(b) Global Business Solutions includes non wholly-owned entities and Global Financial Solutions includes reimbursable items, which includes postage and customized orders.

Contract Balances

Accounts Receivable and Leasing Receivables

Accounts receivable balances are stated net of allowance for doubtful accounts. The Company records allowances for doubtful accounts when it is probable that the accounts receivable balance will not be collected. Long-term accounts receivable balances are included in "Other long-term assets" in the unaudited consolidated balance sheets.

The Company has receivables associated with its POS terminal leasing businesses. Leasing receivables are included in "Accounts receivable" and "Other long-term assets" in the unaudited consolidated balance sheets. The Company recognizes interest income on its leasing receivables using the effective interest method. For direct financing leases, the interest rate used incorporates initial direct costs included in the net investment in the lease. For sales type leases,

initial direct costs are expensed as incurred.

As of June 30, 2018 and December 31, 2017, long-term accounts receivable, net of allowance for doubtful accounts, included within "Other long-term assets" in the unaudited consolidated balance sheets was \$254 million and \$272 million, respectively.

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Contract liabilities

The Company records deferred revenue when it receives payments or invoices in advance of delivery of products or the performance of services. A significant portion of this balance relates to service contracts where the Company received payments for upfront conversions/implementation type activities which do not transfer a service to the customer but rather are used in fulfilling the related performance obligations that transfer over time. The advance consideration received from customers is deferred over the contract term or a longer period if it provides the customer with a material right.

The following table presents the changes in deferred revenue for the six months ended June 30, 2018:

(in millions)	Six months ended June 30, 2018
Balance, beginning of the period	\$ 344
New Revenue Standard adjustments	(39)
Deferral of revenue	120
Recognition of unearned revenue	(109)
Other (primarily foreign currency)	(22)
Balance, end of period	\$ 294

Remaining Performance Obligation

Over 95% of the Company's performance obligations relate to transaction and processing services or hardware that are subject to a practical expedient (e.g., variable consideration) or point in time recognition, respectively. The Company's contracts with customers typically do not specify fixed revenues to be realized. Certain customer contracts contain fixed minimums and non-refundable up-front fees (fixed price guarantees). However, the amounts which are considered fixed price guarantees are not material to total consolidated revenue. The Company's contracts with Small Medium Business (SMB) merchants typically have a contractual duration of less than one year. Larger contracts in the Global Business Solutions, Global Financial Solutions, and Network & Security Solutions segments typically have contractual terms ranging from one to fifteen years with variability being resolved on a daily basis.

Costs to Obtain and Fulfill a Contract

The Company capitalizes initial payments for new contracts and contract renewals. These costs are amortized as a reduction of revenue over the benefit period, which is generally the contract term, unless a commensurate payment is not expected at renewal. As of June 30, 2018 and December 31, 2017, the Company had \$147 million and \$145 million, respectively, of capitalized contract costs included with Other Intangibles, net. For the three and six months ended June 30, 2018