FIRST DATA CORP
Form 10-Q
November 09, 2016

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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
(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 ý 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer 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 Exchange Act). Yes o No ý

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

Class	Outstanding at November 1, 2016
Class A Common Stock, $0.01 par value per share	357,100,865 shares
Class B Common Stock, $0.01 par value per share	553,883,262 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, p 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) our merchant alliance program which involves several alliances not under our sole control and each of which acts independently of the others; (7) 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 improve our profitability and maintain flexibility in our capital resources through the implementation of cost savings initiatives; (10) our ability to successfully value and integrate acquired businesses, including those outside of the United States; (11) our high degree of leverage; (12) adverse impacts from currency exchange rates or currency controls imposed by any government or otherwise; (13) changes in the interest rate environment that increase interest on our borrowings or the interest rate at which we can refinance our borrowings; (14) the impact of new laws, regulations, credit card association rules, or other industry standards; and (15) 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 period ended December 31, 2015, 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 and Item 1A- Risk Factors in the quarterly report on Form 10-Q for the period ended June 30, 2016. 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 OPERATIONS
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(in millions, except per share and share amounts)	2016	2015	2016	2015
Revenues:				
Transaction and processing service fees (a)	$1,693	$1,673	$4,953	$4,906
Product sales and other (a)	307	309	893	844
Total revenues (excluding reimbursable items)	2,000	1,982	5,846	5,750
Reimbursable PIN debit fees, postage, and other	936	938	2,795	2,737
Total revenues	2,936	2,920	8,641	8,487
Expenses:				
Cost of services (exclusive of items shown below)	711	686	2,140	2,055
Cost of products sold	87	96	251	257
Selling, general, and administrative	499	521	1,563	1,567
Depreciation and amortization	237	257	713	760
Other operating expenses	12	20	57	40
Total expenses (excluding reimbursable items)	1,546	1,580	4,724	4,679
Reimbursable PIN debit fees, postage, and other	936	938	2,795	2,737
Total expenses	2,482	2,518	7,519	7,416
Operating profit	454	402	1,122	1,071
Interest expense, net	(263)	(388)	(810)	(1,199)
Loss on debt extinguishment	(3)	(108)	(58)	(108)
Other income (expense)	(30)	(10)	14	1
Income (loss) before income taxes and equity earnings in affiliates	158	(104)	268	(235)
Income tax expense	24	32	57	45
Equity earnings in affiliates	66	61	198	175
Net income (loss)	200	(75)	409	(105)
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	68	51	181	159
Net income (loss) attributable to First Data Corporation	$132	$(126)	$228	$(264)
Net income (loss) per share:				
Basic	$0.15	$(126,000)	$0.25	$(264,000)
Diluted	$0.14	$(126,000)	$0.25	$(264,000)
Weighted-average common shares outstanding:				
Basic	904,738,175	1,000	900,128,754	1,000
Diluted	922,818,219	1,000	918,301,729	1,000

(a) Includes processing fees, administrative service fees, and other fees charged to merchant alliances accounted for under the equity method of $52 million and $150 million for the three and nine months ended September 30, 2016, respectively, and $55 million and $153 million for the comparable periods in 2015.

See notes to unaudited consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Net income (loss)	$200	$(75)	$409	$(105)
Other comprehensive income (loss), net of tax:				
Unrealized (losses) gains on securities	—	(2)	—	3
Foreign currency translation adjustment	61	(85)	(44)	(221)
Pension liability adjustments	—	—	—	2
Total other comprehensive income (loss), net of tax	61	(87)	(44)	(216)
Comprehensive income (loss)	261	(162)	365	(321)
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest, net of tax	69	51	183	151
Comprehensive income (loss) attributable to First Data Corporation, net of tax	$192	$(213)	$182	$(472)

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS
(Unaudited)

(in millions, except common stock share amounts)	As of September 30, 2016	As of December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 475	$ 429
Accounts receivable, net of allowance for doubtful accounts of $75 and $71	1,714	1,826
Settlement assets	8,705	8,150
Other current assets	460	381
Total current assets	11,354	10,786
Property and equipment, net of accumulated depreciation of $1,442 and $1,367	896	951
Goodwill	16,825	16,846
Customer relationships, net of accumulated amortization of $5,592 and $5,299	1,845	2,136
Other intangibles, net of accumulated amortization of $2,322 and $2,134	1,793	1,783
Investment in affiliates	1,003	1,048
Other long-term assets	728	812
Total assets	$ 34,444	$ 34,362
LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 1,556	$ 1,639
Short-term and current portion of long-term borrowings	377	856
Settlement obligations	8,705	8,150
Total current liabilities	10,638	10,645
Long-term borrowings	18,514	18,737
Deferred tax liabilities	410	431
Other long-term liabilities	836	812
Total liabilities	30,398	30,625
Commitments and contingencies (See note 10)		
Redeemable noncontrolling interest	73	77
First Data Corporation stockholders' equity:		
Class A Common stock, $0.01 par value; 1,600,000,000 shares authorized as of September 30, 2016 and December 31, 2015; 352,407,420 shares and 179,873,244 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	4	2
Class B Common stock, $0.01 par value; 639,311,146 shares and 800,000,000 shares authorized as of September 30, 2016 and December 31, 2015, respectively; 558,596,918 shares and 719,330,114 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively	5	7
Additional paid-in capital	13,098	12,910
Accumulated loss	(10,804)	(11,032)
Accumulated other comprehensive loss	(1,265)	(1,219)
Total First Data Corporation stockholders' equity	1,038	668
Noncontrolling interests	2,935	2,992
Total equity	3,973	3,660
Total liabilities and equity	$ 34,444	$ 34,362

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(in millions)	Nine months ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	$409	$(105)
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization (including amortization netted against equity earnings in affiliates and revenues)	793	843
Charges related to other operating expenses and other income (expense)	43	39
Loss on debt extinguishment	58	108
Stock-based compensation expense	214	31
Other non-cash and non-operating items, net	30	50
(Decrease) increase in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable, current and long-term	115	(66)
Other assets, current and long-term	20	(110)
Accounts payable and other liabilities, current and long-term	5	(71)
Income tax accounts	(27)	(32)
Net cash provided by operating activities	1,660	687
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(168)	(213)
Payments to secure customer service contracts, including outlays for conversion, and capitalized systems development costs	(183)	(244)
Acquisitions, net of cash acquired	(6)	(89)
Other investing activities, net	19	(8)
Net cash used in investing activities	(338)	(554)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	234	219
Proceeds from issuance of long-term debt	2,377	2,206
Payment of call premiums and debt issuance costs	(52)	(104)
Principal payments on long-term debt	(3,544)	(2,185)
Payment of taxes related to net settlement of equity awards	(59)	—
Distributions and dividends paid to noncontrolling interests and redeemable noncontrolling interest	(240)	(232)
Other financing activities, net	26	(13)
Net cash used in financing activities	(1,258)	(109)
Effect of exchange rate changes on cash and cash equivalents	(18)	(14)
Change in cash and cash equivalents	46	10
Cash and cash equivalents at beginning of period	429	358
Cash and cash equivalents at end of period	$475	$368
NON-CASH TRANSACTIONS		
Capital leases, net of trade-ins	$119	$33

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited)

(in millions, except common stock share amounts)	First Data Corporation Stockholders Common Stock Class A Shares	Class A Amount	Class B Shares	Class B Amount	Additional Paid-In Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance, December 31, 2015	179,873,244	$ 2	719,330,114	$ 7	$ 12,910	$ (11,032)	$ (1,219)	$ 2,992	$ 3,660
Dividends and distributions paid to noncontrolling interests	—	—	—	—	—	—	—	(215)	(215)
Net income (a)	—	—	—	—	—	228	—	156	384
Other comprehensive (loss) income	—	—	—	—	—	—	(46)	2	(44)
Adjustment to redemption value of redeemable noncontrolling interest	—	—	—	—	4	—	—	—	4
Stock compensation expense	—	—	—	—	214	—	—	—	214
Stock activity under stock compensation plans and other	172,534,176	2	(160,733,196)	(2)	(30)	—	—	—	(30)
Balance, September 30, 2016	352,407,420	$ 4	558,596,918	$ 5	$ 13,098	$ (10,804)	$ (1,265)	$ 2,935	$ 3,973

(in millions, except common stock share amounts)	First Data Corporation Stockholders Common Stock Class A Shares	Class A Amount	Class B Shares	Class B Amount	Additional Paid-In Capital	Accumulated Loss	Accumulated Other Comprehensive Loss	Noncontrolling Interest	Total
Balance, December 31, 2014 (b)	1,000	$ —	—	$ —	$ 9,906	$ (9,547)	$ (929)	$ 3,100	$ 2,530
Dividends and distributions paid to noncontrolling interests	—	—	—	—	—	—	—	(206)	(206)
Net (loss) income (a)	—	—	—	—	—	(264)	—	133	(131)
Other comprehensive loss	—	—	—	—	—	—	(208)	(8)	(216)
Adjustment to redemption value of redeemable noncontrolling interest	—	—	—	—	(8)	—	—	—	(8)
Stock compensation expense	—	—	—	—	31	—	—	—	31
Stock activity under stock compensation plans and other	—	—	—	—	(10)	—	—	—	(10)
Cash dividends paid by First Data Corporation to Parent	—	—	—	—	—	(4)	—	—	(4)
Balance, September 30, 2015	1,000	$ —	—	$ —	$ 9,919	$ (9,815)	$ (1,137)	$ 3,019	$ 1,986

(a) The total net income (loss) presented in the unaudited consolidated statements of equity for the nine months ended September 30, 2016 and 2015 is $25 million lower and $26 million higher, 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.

(b) 1,000 shares relates to common stock without a class that was eliminated upon the merger with First Data Holdings during the fourth quarter of 2015.

See notes to unaudited consolidated financial statements.

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FIRST DATA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
Note 1: Basis of Presentation and Summary of Significant Accounting Policies

Business Description

First Data Corporation (FDC or the Company) 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 issuing and processing; prepaid services; and check verification, settlement and guarantee 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, 2015. Significant accounting policies disclosed therein have not changed.

The accompanying consolidated financial statements are unaudited; however, in the opinion of management, they include all normal recurring adjustments necessary for a fair presentation of the consolidated financial position of the Company, the consolidated results of the Company's operations, comprehensive income (loss), 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 “Transaction and processing service fees.” 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 periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Amortization of initial payments for new contracts	$ 16	$ 14	$ 47	$ 38
Amortization related to equity method investments	12	15	33	45

Revenue Recognition

The majority of the Company’s revenues are comprised of: 1) transaction-based fees, which typically constitute a percentage of dollar volume processed; 2) fees per transaction processed; 3) fees per account on file during the period; or 4) some combination thereof.

The Company’s arrangements with clients often consist of multiple services and products (multiple-element arrangements). In accounting for multiple-element arrangements, the Company assesses the elements of the contract and whether each element has standalone value and allocates revenue to the various elements based on their estimated selling price as a component of total consideration for the arrangement. The selling price is based on current selling prices offered by the Company or another party for current products or management's best estimate of a selling price.

In the case of contracts that the Company owns and manages, revenue is comprised of fees charged to the client, net of interchange fees and assessments charged by the credit card associations, and is recognized at the time the client accepts a point of sale transaction. The fees charged to the client are a percentage of the credit card and signature-based debit card transaction’s dollar value, a fixed amount, or a combination of the two. Personal identification number based debit (PIN-debit) and PINless-debit network fees are recognized in “Reimbursable PIN debit fees, postage, and other” revenues and expenses in the unaudited consolidated statements of operations. STAR Network access fees charged to clients are assessed on a per transaction basis. Interchange fees and assessments charged by credit card associations to the Company’s consolidated subsidiaries and network fees related to PIN-debit and PINless-debit transactions charged by debit networks were as follows for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Interchange fees and assessments	$6,184	$5,598	$17,406	$16,089
PIN-Debit fees	753	757	2,255	2,227

Deferred Revenue

The Company records deferred revenue when it receives payments in advance of the delivery of products or the performance of services. The deferred revenue is recognized into earnings when underlying performance obligations are achieved. As of September 30, 2016 and December 31, 2015, current deferred revenue included within "Accounts payable and accrued liabilities" in the Company's unaudited consolidated balance sheets was $148 million and $140 million, respectively, and noncurrent deferred revenue included within "Other long-term liabilities" in the Company's unaudited consolidated balance sheets was $170 million and $146 million, respectively.

A major component of the Company's deferred revenue represents certain Clover terminal devices which do not have standalone value as of September 30, 2016. The Company will continue to assess in the future whether an adequate secondary market is capable of developing or has developed for these devices to establish standalone value. If a secondary market is deemed capable of developing or develops whereby clients are able to substantially recover their original purchase price, the Company will recognize revenue for Clover terminal devices upon delivery.

Common Stock

For the nine months ended September 30, 2016, 160.7 million shares of Class B common stock were converted to 160.7 million shares of Class A common stock. The majority of the shares converted shortly after the expiration of the Company's initial public offering lockup period which ended on April 11, 2016.

Reclassifications

Certain amounts for prior years have been reclassified to conform with the current-year financial statement presentation. Specifically, the unaudited consolidated balance sheet as of September 30, 2016 reflects a $123 million reclassification related to settlement activities to conform certain international joint ventures to our global policies, which increased "Cash and cash equivalents" and decreased "Accounts receivable". The unaudited consolidated statements of cash flows for the nine months ended September 30, 2016 reflects the reclassification of $123 million within “Net Cash provided by operating activities”.

New Accounting Guidance

In May 2014, the Financial Accounting Standards Board (FASB) issued guidance 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 guidance applies to any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. As amended in August 2015, the guidance is effective for public companies for annual periods beginning after December 15, 2017 as well as interim periods within those annual periods using either the full retrospective approach or modified retrospective approach. The FASB also permitted early adoption of the standard, but not before December 15, 2016. The Company is currently evaluating the impacts of the new guidance on its consolidated financial statements.

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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 proceeding revenue recognition guidance. The Company is currently evaluating the impact of adoption of the new guidance on its consolidated financial statements.

In March 2016, the FASB issued guidance that will change some aspects of the accounting for stock-based payments to employees. Under the new guidance, companies will be required to record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement and to present excess tax benefits as an operating activity on the statement of cash flows. The guidance may also change how companies account for forfeitures and an employee’s use of shares to satisfy the employer’s statutory income tax withholding obligation. The new guidance will be effective for public companies for fiscal years beginning after December 15, 2016 as well as interim periods within those annual periods. Early adoption is permitted in any interim or annual period. The Company has evaluated the guidance and determined adoption will not have a material impact to its consolidated financial statements.

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 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.

In August 2016, the FASB issued guidance which clarifies the treatment of several cash flow categories. In addition, the guidance clarifies that when cash receipts and cash payments have aspects of more than one class of cash flows and cannot be separated, classification will depend on the predominant source or use. This update is effective for annual periods beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted, including adoption in an interim period. The Company's early adoption of the guidance in the third quarter of 2016 did not have an impact on the Company's financial statements or disclosures.

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FIRST DATA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 2: Borrowings

(in millions)	As of September 30, 2016	As of December 31, 2015
Short-term borrowings:		
Foreign lines of credit and other arrangements	$ 71	$ 43
Accounts receivable securitized loan at LIBOR plus 200 basis points 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%	208	—
Unamortized deferred financing costs (a)	(2)	—
Total Short-term borrowings	277	43
Current portion of long-term borrowings:		
8.75% Senior secured second lien notes due 2022	—	750
Unamortized discount and unamortized deferred financing costs	—	(10)
Other arrangements	16	—
Capital lease obligations	84	73
Total Current portion of long-term borrowings	100	813
Total Short-term and current portion of long-term borrowings	377	856
Long-term borrowings:		
Senior secured term loan facility due March 2018 at LIBOR and euro LIBOR plus 3.5% or, solely with respect to U.S. dollar-denominated term loans, a base rate plus 2.5%	—	4,938
Senior secured term loan facility due September 2018 at LIBOR plus 3.5% or a base rate plus 2.5%	—	1,008
Senior secured term loan facility due March 2021 at LIBOR and euro LIBOR plus 4.0% or, solely with respect to U.S. dollar-denominated term loans, a base rate plus 3.0%	4,541	1,171
Senior secured term loan facility due July 2022 at LIBOR and euro LIBOR plus 3.75% or, solely with respect to U.S. dollar-denominated term loans, a base rate plus 2.75%	3,838	2,464
6.75% Senior secured first lien notes due 2020	1,398	1,398
5.375% Senior secured first lien notes due 2023	1,210	1,210
5.0% Senior secured first lien notes due 2024	1,900	1,000
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)	(171)	(174)
Other arrangements	27	—
Capital lease obligations	171	122
Total Long-term borrowings (b)	18,514	18,737
Total Borrowings (c)	$ 18,891	$ 19,593

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

(b) As of September 30, 2016 and December 31, 2015, the fair value of the Company's long-term borrowings was $19.1 billion and $19.6 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.

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FIRST DATA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Foreign Lines of Credit and Other Arrangements

As of September 30, 2016 and December 31, 2015, the Company had $344 million and $245 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 September 30, 2016 and December 31, 2015, this includes a $165 million and $75 million, respectively, committed line of credit for one of the Company's U.S. 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 September 30, 2016 and December 31, 2015, $19 million and $17 million, respectively, were uncommitted.

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 $43 million and $42 million of letters of credit were issued under these facilities as of September 30, 2016 and December 31, 2015, respectively. As of September 30, 2016, $1.2 billion remained available.

Accounts Receivable Securitization Agreement

On December 31, 2015, the Company established 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 September 30, 2016, the Company transferred $326 million in receivables to FDR as part of the securitization program and FDR utilized the receivables as collateral in borrowings of $208 million. As of September 30, 2016, the receivables held by FDR are recorded within “Accounts receivable, net” in the Company's unaudited consolidated balance sheets.

Recent Events

On January 1, 2016, the Company designated the euro-denominated portions of the senior secured term loan facility due March 2018, senior secured term loan facility due March 2021, and the senior secured term loan facility due July 2022 as non-derivative hedges of net investments in foreign operations. As such, foreign currency gains and losses on the euro-denominated portions of these terms loans is recorded within "Foreign currency translation adjustment" in the Company's unaudited consolidated statements of comprehensive income (loss) to the extent the hedges are effective. Foreign currency gains and losses on the euro-denominated portions of these term loans were previously recorded within "Other income (expense)" in the Company's unaudited consolidated statements of operations.

On January 15, 2016, the Company redeemed its 8.75% senior secured second lien notes due 2022. Associated with the redemption, the Company recorded $43 million in loss on debt extinguishment.

On March 29, 2016, the Company issued and sold $900 million aggregate principal amount of additional 5.0% senior secured notes due 2024, which mature on January 15, 2024, pursuant to the indenture governing the 5.0% senior secured notes due 2024 that were issued on November 25, 2015. The additional notes are treated as a single series with the existing 5.0% senior secured first lien notes due 2024 and have the same terms as the existing 5.0% notes.

The Company used the net proceeds from the issue and sale of the additional notes to repay a portion of its U.S. dollar-denominated senior secured term loan facility due March 2018 and to pay related fees and expenses. Associated with the partial redemption of the U.S. dollar-denominated senior secured term loan facility, the Company recorded $3 million in loss on debt extinguishment.

On April 13, 2016, the Company refinanced its U.S. dollar-denominated senior secured term loan due March 2018 through new and existing lenders to provide approximately $3.7 billion of U.S. dollar-denominated senior secured term loans due March 2021. The senior secured term loan due March 2021 bears interest at a rate of LIBOR plus 400 basis points or a base rate plus 300 basis points. In connection with this transaction, the Company recorded approximately $5 million in loss on debt extinguishment and expensed approximately $11 million in debt issuance costs, which is included within "Interest expense, net" in the unaudited consolidated statements of operations.

On June 2, 2016, the Company refinanced its senior secured term loan due September 2018 and euro-denominated senior secured term loan due March 2018 through new and existing lenders to provide approximately $1.0 billion and €311 million ($342 million equivalent), respectively, of senior secured term loans due July 2022. The senior secured term loans due July 2022 bear interest at a rate of LIBOR plus 375 basis points or, solely with respect to the U.S. dollar denominated term loans, a base rate plus 275 basis points. In connection with this transaction, the Company recorded approximately $4 million in loss on debt extinguishment and expensed $4 million in debt issuance costs, which is included within "Interest expense, net" on the unaudited consolidated statements of operations. The euro-denominated senior secured term loan facility remains designated as a non-derivative hedge of net investment in foreign operations.

During the current quarter, the Company paid down $350 million aggregate principal amount of the Company's March 2021 senior secured term loans. In connection with the transactions, the Company recorded $3 million in loss on debt extinguishment.

On October 14, 2016, the Company refinanced, through new and existing lenders, to lower the interest rate on approximately $4.5 billion (including €0.2 billion of euro denominated term loans) of senior secured term loans due March 2021 from LIBOR plus 400 basis points to LIBOR plus 300 basis points or, solely with respect to the U.S. dollar denominated term loans, the Company's option of either LIBOR plus 300 basis points or the base rate plus 200 basis points.

Subsequent to the end of the third quarter of 2016, the Company paid down $100 million aggregate principal amount of its March 2021 senior secured term loans. The Company recorded an immaterial amount of loss on debt extinguishment in connection with this transaction.

Note 3: Stock Compensation Plans

The Company provides stock-based compensation awards to its employees under the 2015 Omnibus Incentive Plan (stock plan), which the Company adopted in conjunction with its initial public offering on October 15, 2015.

Total stock-based compensation expense recognized in "Cost of services" and “Selling, general, and administrative” in the unaudited consolidated statements of operations resulting from stock options, non-vested restricted stock awards, and non-vested restricted stock units was as follows for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Cost of services	$ 19	$ —	$ 91	$ —
Selling, general, and administrative	24	8	123	31
Total	$ 43	$ 8	$ 214	$ 31

Substantially all of the Company's employees are granted restricted stock awards or units on an annual basis, which generally vest 20% after the first anniversary, 40% after the second anniversary, and the remaining 40% on the third anniversary. For the nine months ended September 30, 2016, 18 million restricted stock awards and units were granted at a weighted average price per share of $12.55. For the three months ended September 30, 2016, the Company granted less than 1 million restricted stock awards and units.

As of September 30, 2016, there was $95 million and $247 million of total unrecognized compensation expense related to non-vested stock options and restricted stock, respectively. Previously unrecognized expense of $52 million was recognized during the first quarter of 2016 in connection with the Company's initial public offering.

For the nine months ended September 30, 2016, the Company paid approximately $59 million of taxes related to the net settlement of vested equity awards. For the three months ended September 30, 2016 and for the three and nine months ended September 30, 2015, the amount of employee shares net settled for the payment of taxes was insignificant.

The Company has an employee stock purchase plan under which the sale of 6 million shares of its common stock has been authorized. The total number of shares issued through the stock purchase plan have not been significant through September 30, 2016.

For additional information on the Company’s stock compensation plans, refer to note 4 “Stock Compensation Plans” in “Item 8. Financial Statements and Supplementary Data” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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Note 4: Net Income (Loss) Per Share

Upon First Data Holdings, Inc. (FDH), the Company's direct parent company, merging with and into FDC on October 13, 2015, all outstanding shares of FDH's Class A Common Stock, Class B Common Stock, and Series A Voting Participating Convertible Preferred Stock (Series A Preferred Stock) automatically converted to identical shares of the Company's stock. Following the filing of the Company's prospectus with the Securities and Exchange Commission on October 15, 2015, holders of existing Class B Common Stock and Series A Preferred Stock received Class B Common Stock in the Company. Other than voting rights, this common stock has the same rights as the Class A Common Stock and therefore both are treated as the same class of stock for purposes of the net income (loss) per share calculation.

Basic net income (loss) per share is calculated by dividing net income (loss) attributable to FDC by the weighted-average shares outstanding during the period, without consideration for any potential dilutive shares. Diluted net income (loss) per share has been computed to give effect to the impact, if any, of shares issuable upon the assumed exercise of the Company’s common stock equivalents, which consist of outstanding stock options and unvested restricted stock.

The following table sets forth the computation of the Company's basic and diluted net income (loss) per share for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions, except share and per share amounts)	2016	2015	2016	2015
Numerator:				
Net income (loss) used in computing net income (loss) per share, basic and diluted	$132	$(126)	$228	$(264)
Denominator:				
Shares used in computing net income (loss) per share, basic (a)	904,738,075	1,000	900,128,754	1,000
Effect of dilutive securities	18,080,054	—	18,172,975	—
Total dilutive securities	922,818,129	1,000	918,301,729	1,000
Basic net income (loss) per share	$0.15	$(126,000)	$0.25	$(264,000)
Diluted net income (loss) per share	$0.14	$(126,000)	$0.25	$(264,000)
Anti-dilutive shares excluded from diluted net income (loss) per share	20,439,375	—	27,064,859	—

(a) 2015 net loss per share, basic and diluted, is calculated using 1,000 shares outstanding prior to the merger with FDH and the filing of the Company's prospectus in October 2015.

Note 5: Segment Information

For a detailed discussion of the Company’s principles and its operating segments refer to note 7 “Segment Information” in the Company’s consolidated financial statements in “Item 8. Financial Statements and Supplementary Data” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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The following tables present the Company's operating segment results for the periods presented:

	Three months ended September 30, 2016				
(in millions)	Global Business Solutions	Global Financial Solutions	Network & Security Solutions	Corporate	Total
Revenues:					
Transaction and processing service fees	$830	$ 345	$ 335	$ —	$1,510
Product sales and other	207	52	43	—	302
Equity earnings in affiliates	8	—	—	—	8
Total segment revenues	$1,045	$ 397	$ 378	$ —	$1,820
Depreciation and amortization	$109	$ 86	$ 28	$ 8	$231
Segment EBITDA	455	158	166	(40)	739
Other operating expenses and Other income (expense) excluding divestitures	(18)	2	(6)	11	(11)

	Three months ended September 30, 2015				
(in millions)	Global Business Solutions	Global Financial Solutions	Network & Security Solutions	Corporate	Total
Revenues:					
Transaction and processing service fees	$801	$ 341	$ 339	$ —	$1,481
Product sales and other	223	50	35	—	308
Equity earnings in affiliates	8	—	—	—	8
Total segment revenues	$1,032	$ 391	$ 374	$ —	$1,797
Depreciation and amortization	$124	$ 98	$ 22	$ 8	$252
Segment EBITDA	431	145	162	(35)	703
Other operating expenses and Other income (expense) excluding divestitures	34	(7)	(1)	(56)	(30)

	Nine months ended September 30, 2016				
(in millions)	Global Business Solutions	Global Financial Solutions	Network & Security Solutions	Corporate	Total
Revenues:					
Transaction and processing service fees	$2,404	$ 1,023	$ 969	$ —	$4,396
Product sales and other	605	155	127	—	887
Equity earnings in affiliates	28	—	—	—	28
Total segment revenues	$3,037	$ 1,178	$ 1,096	$ —	$5,311
Depreciation and amortization	$322	$ 268	$ 85	$ 15	$690
Segment EBITDA	1,279	473	483	(114)	2,121
Other operating expenses and Other income (expense) excluding divestitures	4	6	(8)	(15)	(13)

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	Nine months ended September 30, 2015				
(in millions)	Global Business Solutions	Global Financial Solutions	Network & Security Solutions	Corporate	Total
Revenues:					
Transaction and processing service fees	$2,413	$ 974	$ 965	$ —	$4,352
Product sales and other	613	127	101	—	841
Equity earnings in affiliates	24	—	—	—	24
Total segment revenues	$3,050	$ 1,101	$ 1,066	$ —	$5,217
Depreciation and amortization	$365	$ 293	$ 65	$ 20	$743
Segment EBITDA	1,245	388	448	(113)	1,968
Other operating expenses and Other income (expense) excluding divestitures	55	(14)	(1)	(82)	(42)

The following table presents a reconciliation of the Company’s consolidated results to segment amounts for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Consolidated revenues	$2,936	$2,920	$8,641	$8,487
Adjustments:				
Non wholly owned entities (a)	(25)	(18)	(59)	(58)
ISOs commission expense (b)	(155)	(167)	(476)	(475)
Reimbursable debit network fees, postage, and other	(936)	(938)	(2,795)	(2,737)
Total segment revenues	$1,820	$1,797	$5,311	$5,217
Net income (loss) attributable to First Data Corporation	$132	$(126)	$228	$(264)
Adjustments:				
Non wholly owned entities (a)	(7)	(6)	(24)	(19)
Depreciation and amortization	237	257	713	760
Interest expense, net	263	388	810	1,199
Loss on debt extinguishment	3	108	58	108
Other items (c)	44	42	65	108
Income tax expense	24	32	57	45
Stock-based compensation	43	8	214	31
Total segment EBITDA	$739	$703	$2,121	$1,968

(a) Net adjustment to reflect the Company's proportionate share of the results of the Company's investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. Segment revenue for the Company's significant affiliates is reflected based on the Company's proportionate share of the results of the Company's investments in businesses accounted for under the equity method and consolidated subsidiaries with noncontrolling ownership interests. For other affiliates, the Company includes equity earnings in affiliates, excluding amortization expense, in segment revenue.

(b)

Reported within "Selling, general, and administrative expense" in the unaudited consolidated statements of operations.

(c) Includes restructuring, certain retention bonuses, non-normal course litigation and regulatory settlements, asset impairments, debt issuance expenses, Kohlberg Kravis Roberts & Co. (KKR) related items and “Other income (expense)" as presented in the unaudited consolidated statements of operations, which includes divestitures, derivative gains (losses), non-operating foreign currency gains (losses), and the gain on Visa Europe share sale. KKR related items represent KKR annual sponsorship fees for management, consulting, financial and other advisory services. Upon completing the IPO in October 2015, the Company is no longer obligated to pay KKR annual sponsorship fees.

The following table presents a reconciliation of segment depreciation and amortization amounts to the Company's consolidated depreciation and amortization in the unaudited consolidated statements of cash flows for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Segment depreciation and amortization	$231	$252	$690	$743
Adjustments for non wholly owned entities (a)	18	20	56	62
Amortization of initial payments for new contracts (b)	16	14	47	38
Total consolidated depreciation and amortization per unaudited consolidated statements of cash flows	265	286	793	843
Amortization of equity method investments (c)	(12)	(15)	(33)	(45)
Amortization of initial payments for new contracts (b)	(16)	(14)	(47)	(38)
Total consolidated depreciation and amortization per unaudited consolidated statements of operations	$237	$257	$713	$760

(a) Adjustment to reflect depreciation and amortization attributable to noncontrolling interests.
(b) Included in "Transaction and processing service fees" as contra-revenue in the Company's unaudited consolidated statements of operations.
(c) Included in "Equity earnings in affiliates" in the Company's unaudited consolidated statements of operations.

Note 6: Income Taxes

The following table presents the Company's income tax expense and effective income tax rate for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Income tax expense	$24	$32	$57	$45
Effective income tax rate	11 %	(74)%	12 %	(75)%

The effective tax rates for the three and nine months ended September 30, 2016 and 2015, respectively, were different from the statutory rate as a result of the Company recording tax expense on its foreign earnings, but not on its domestic earnings, as a result of the valuation allowance recorded in the U.S. The Company's tax expense in all periods was also impacted by the Company not recording tax expense on noncontrolling interests from pass through entities. The effective income tax rate for the three and nine months ended September 30, 2016 benefited by 11% and 5%, respectively, from discrete adjustments.

The Company's liability for unrecognized tax benefits was approximately $245 million as of September 30, 2016. The Company anticipates it is reasonably possible that the liability for unrecognized tax benefits may decrease by up to $122 million over the next twelve months beginning September 30, 2016 as a result of the possible closure of federal tax audits, potential settlements with certain states and foreign countries and the lapse of the statute of limitations in various state and foreign jurisdictions.

Note 7: Redeemable Noncontrolling Interest

One of the Company's noncontrolling interests is redeemable at the option of the holder and is presented outside of equity and carried at its estimated redemption value.

The following table presents a summary of the redeemable noncontrolling interest activity during the periods presented:

(in millions)	2016	2015
Balance as of January 1,	$77	$70
Distributions	(25)	(26)
Share of income	25	26
Adjustment to redemption value of redeemable noncontrolling interest	(4)	8
Balance as of September 30,	$73	$78

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Note 8: Derivative Financial Instruments

The Company enters into the following types of derivatives:

- Floating to fixed interest rate swaps: The Company used interest rate swaps to mitigate its exposure to interest rate fluctuations on interest payments related to variable rate debt. The Company is no longer invested in any such interest rate swaps. The Company's interest rate contracts were used in a non-qualifying hedging relationship.

- Floating to fixed interest rate collar swaps: The Company uses interest rate collar swaps to mitigate its exposure to interest rate fluctuations on interest payments related to variable rate debt. No payments or receipts are exchanged on interest rate collar swaps unless interest rates rise or fall to exceed a predetermined ceiling or floor rate. The Company uses these contracts in a qualifying hedging relationship.

- Foreign exchange contracts: The Company uses cross-currency swaps to protect the net investment in certain foreign subsidiaries and/or affiliates with respect to changes in foreign currency exchange rates. The Company uses these contracts in both qualifying and non-qualifying hedging relationships.

The Company held the following derivative instruments as of the dates indicated:

(in millions)	Notional Currency	As of September 30, 2016 Notional Value	Assets (a)	Liabilities (a)	As of December 31, 2015 Notional Value	Assets (a)	Liabilities (a)
Derivatives designated as hedges of net investments in foreign operations:							
Foreign exchange contracts	AUD	260	$ 55	$ —	260	$ 65	$ —
Foreign exchange contracts (b)	EUR	—	—	—	200	51	—
Foreign exchange contracts (c)	GBP	300	59	—	250	39	—
Foreign exchange contracts (d)	CAD	130	7	—	110	24	—
			121	—		179	—
Derivatives designated as cash flow hedges:							
Interest rate collar contracts	USD	3,000	—	—		—	—
			—	—		—	—
Derivatives not designated as hedging instruments:							
Interest rate contracts (e)	USD	—	—	—	5,000	—	(56)
			$ 121	$ —		$ 179	$ (56)

(a) Of the balances included in the table above, in aggregate, $121 million of assets as of September 30, 2016 and $179 million of assets and $51 million of liabilities, net $128 million, as of December 31, 2015 are subject to master netting agreements to the extent that the swaps are with the same counterparty. The terms of those agreements require that the Company net settle the outstanding positions at the option of the counterparty upon certain events of default.

(b) The forward exchange contracts matured in January 2016 at a net settlement value of $49 million.

(c) Notional value 100 million GBP matured in August 2016 at a net settlement value of $25 million. The Company entered into a new foreign exchange contract with a notional value of 150 million GBP.

(d) Notional value 75 million CAD matured in August 2016 at a net settlement value of $14 million. The Company entered into a new foreign exchange contract with a notional value of 95 million CAD.

(e) Interest rate contracts matured in September 2016.

The maximum length of time over which the Company is hedging its currency exposure of net investments in foreign operations is through August 2019.

The maximum length of time over which the Company is hedging its exposure to the variability in future cash flows for forecasted transactions related to the payment of variable rate interest on existing financial instruments is through September 2018.

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Fair Value Measurement

The carrying amounts for the Company's derivative financial instruments are the estimated fair value of the financial instruments. The Company’s derivatives are not exchange listed and therefore the fair value is estimated under an income approach using Bloomberg analytics models that are based on readily observable market inputs. These models reflect the contractual terms of the derivatives, such as notional value and expiration date, as well as market-based observables including interest and foreign currency exchange rates, yield curves, and the credit quality of the counterparties. The models also incorporate the Company’s creditworthiness in order to appropriately reflect non-performance risk. Inputs to the derivative pricing models are generally observable and do not contain a high level of subjectivity and, accordingly, the Company’s derivatives are classified within Level 2 of the fair value hierarchy. 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 or that will be realized in the future.

Effect of Derivative Instruments on the Unaudited Consolidated Financial Statements

Derivative gains and (losses) were as follows for the periods indicated:

	Three months ended September 30,				Nine months ended September 30,			
	2016		2015		2016		2015	
(in millions, pretax)	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts	Interest Rate Contracts	Foreign Exchange Contracts
Derivatives designated as hedging instruments:								
Gain recognized in "Foreign currency translation adjustment" in the unaudited consolidated statements of comprehensive income (loss) (effective portion)	$ —	$ 5	$ —	$ 36	$ —	$ 27	$ —	$ 68
Derivatives not designated as hedging instruments:								
Gain (loss) recognized in "Other income (expense)" in the unaudited consolidated statements of operations	—	—	(9)	—	(5)	—	(27)	2

Accumulated Derivative Gains and Losses

The following table summarizes activity in other comprehensive income (loss) related to derivative instruments classified as cash flow hedges and net investment hedges held by the Company for the periods presented:

(in millions, after tax)	Three months ended September 30,		Nine months ended September 30,	
	2016	2015	2016	2015
Accumulated gain included in other comprehensive income (loss) at beginning of the period	$ 100	$ 57	$ 86	$ 37
Increase in fair value of derivatives that qualify for hedge accounting, net of tax (a)	3	22	17	42
Accumulated gain included in other comprehensive income (loss) at end of the period	$ 103	$ 79	$ 103	$ 79

(a) Gains are included in “Foreign currency translation adjustment” in the unaudited consolidated statements of comprehensive income (loss).

Note 9: Restructuring

During the three and nine months ended September 30, 2016 and 2015, the Company recorded restructuring charges in connection with management's alignment of the business with strategic objectives, cost savings initiatives, the departure of certain executive officers, and refinements of estimates.

In connection with the Company's announced cost management initiatives, the Company incurred $105 million of cumulative restructuring expense through September 30, 2016. For the three and nine months ended September 30, 2016, the Company incurred $6 million and $51 million, respectively. The nine month period includes a loss of $21 million on the impairment of a held-for-sale asset related to the exit of a facility. For the three and nine months ended September 30, 2015, the Company incurred approximately $20 million and $40 million in restructuring costs, respectively, primarily related to severance costs.

A summary of net pretax restructuring charges incurred by segment and reported within "Other operating expenses" in the unaudited consolidated statement of operations was as follows for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Global Business Solutions	$(2)	$(9)	$(7)	$(14)
Global Financial Solutions	—	(5)	(2)	(9)
Network & Security Solutions	—	(1)	(2)	(1)
Corporate	(4)	(5)	(40)	(16)
Restructuring, net	$(6)	$(20)	$(51)	$(40)

The following table summarizes the Company's utilization of restructuring accruals for the period presented:

(in millions)	Employee Severance	Other
Remaining accrual as of January 1, 2016	$ 29	$ 1
Restructuring, net	28	23
Impairment of held-for-sale assets	—	(21)
Cash payments and other	(49)	(3)
Remaining accrual as of September 30, 2016	$ 8	$ —

Note 10: Commitments and Contingencies

The Company is involved in various legal proceedings. Accruals have been made with respect to these matters, where appropriate, which are reflected in the Company's unaudited consolidated financial statements. The Company may enter into discussions regarding settlement of these matters and may enter into settlement agreements if it believes settlement is in the best interest of the Company. The matters discussed below, if decided adversely to or settled by the Company, individually or in the aggregate, may result in liability material to the Company's financial condition and/or results of operations.

Legal

There are asserted claims against the Company where an unfavorable outcome is considered to be reasonably possible. These claims can generally be categorized in the following areas: (1) patent infringement which results from claims that the Company is using technology that has been patented by another party, (2) merchant customer matters often associated with alleged processing errors or disclosure issues and claims that one of the subsidiaries of the Company has violated a federal or state requirement regarding credit reporting or collection in connection with its check verification guarantee and collection activities, and (3) other matters which may include issues such as employment. The Company's estimates of the reasonably possible ranges of losses in excess of any amounts accrued are \$0 to \$10 million for patent infringement, \$0 to \$40 million for merchant customer matters, and \$0 to \$30 million for other matters, resulting in a total estimated range of reasonably possible losses of \$0 to \$80 million for all of the matters described above.

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The estimated range of reasonably possible losses is based on information currently available and involves elements of judgment and significant uncertainties. As additional information becomes available and the resolution of the uncertainties becomes more apparent, it is possible that actual losses may exceed even the high end of the estimated range.

Other

In the normal course of business, the Company is subject to claims and litigation, including indemnification obligations to purchasers of former subsidiaries. Management of the Company believes that such matters will not have a material adverse effect on the Company's results of operations, liquidity, or financial condition.

Note 11: Investment in Affiliates

Segment results include the Company's proportionate share of income from affiliates, which consist of unconsolidated investments accounted for under the equity method of accounting. The most significant of these affiliates are related to the Company's merchant bank alliance programs.

As of September 30, 2016, the Company had one unconsolidated significant subsidiary that was not required to be consolidated, but represents more than 20% of the Company's pretax income. Summarized financial information for the affiliate is presented below for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Net operating revenues	$232	$228	$683	$668
Operating expenses	96	97	286	281
Operating income	$136	$131	$397	$387
Net income	$136	$131	$397	$387
FDC equity earnings	46	42	136	123

Note 12: Supplemental Financial Information

Supplemental Unaudited Consolidated Statements of Operations Information

The following table details the components of "Other income (expense)" on the unaudited consolidated statements of operations for the periods presented:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2016	2015	2016	2015
Derivative financial instruments losses	$—	$(9)	$(5)	$(25)
Divestitures, net (loss) gain	(31)	—	(31)	3
Gain on Visa Europe share sale	—	—	29	—
Non-operating foreign currency gains and (losses)	2	(1)	21	23
Other miscellaneous expense	(1)	—	—	—

Other income (expense)	$(30)	$(10)	$14	$1

Gain on Visa Europe share sale

On June 21, 2016, Visa Inc. (Visa) acquired Visa Europe (VE), of which the Company was a member and shareholder through certain subsidiaries. On June 21, 2016, the Company received cash of €24.2 million ($27 million equivalent at June 21, 2016) and Visa preferred stock which is convertible into Visa common shares. The Company will also receive a deferred payment three years after the closing date of the acquisition, valued at approximately €2.3 million ($2.6 million equivalent at June 21, 2016). As of June 21, 2016, the Class A common stock equivalent of the preferred stock was approximately $19 million. However, the preferred shares have been assigned a value of zero based on transfer restrictions and Visa's ability to adjust the conversion ratio dependent on the outcome of existing and potential litigations in the Visa Europe territory over the next 12 years. The Company could receive additional proceeds as a number of First Data subsidiaries are working with certain members of Visa Europe who sponsor other of the Company's merchant acquiring businesses in Europe in respect of sale proceeds received by those members.

Divestiture, net (loss) gain

On September 30, 2016, the Company completed the sale of its Australian ATM business, which was reported as part of the Global Business Solutions segment. Associated with the transaction, the Company recognized a $31 million loss on the sale. The loss is comprised of investments of $69 million reduced by cash proceeds of $38 million which were received subsequent to September 30, 2016. As of September 30, 2016, the cash proceeds are included within "Other current assets" in the unaudited consolidated balance sheet. The Company recorded an income tax provision of $9 million as a result of the final sale settlement.

Note 13: Supplemental Guarantor Condensed Consolidating Financial Statements

As described in note 2 "Borrowings" in "Item 8. Financial Statements and Supplementary Data" in the Company's Annual Report on Form 10-K for the year ended December 31, 2015, FDC's 7.0% senior notes are guaranteed by most of the existing and future, direct and indirect, wholly owned, domestic subsidiaries of FDC (Guarantors). The Guarantors guarantee the senior secured revolving credit facility, senior secured term loan facility, the 5.0% senior secured notes, the 5.375% senior secured notes, and the 6.75% senior secured notes, which rank senior in right of payment to all existing and future unsecured and second lien indebtedness of FDC’s guarantor subsidiaries to the extent of the value of the collateral. The Guarantors guarantee the 5.75% senior second lien notes which rank senior in right of payment to all existing and future unsecured indebtedness of FDC’s guarantor subsidiaries to the extent of the value of the collateral. The 7.0% senior note guarantee is unsecured and ranks equally in right of payment with all existing and future senior indebtedness of the guarantor subsidiaries but senior in right of payment to all existing and future subordinated indebtedness of FDC’s guarantor subsidiaries.

All of the above guarantees are full, unconditional, and joint and several and each of the Guarantors is 100% owned, directly or indirectly, by the Company. None of the other subsidiaries of the Company, either direct or indirect, guarantee the notes (Non-Guarantors). The Guarantors are subject to release under certain circumstances as described below.

The credit agreement governing the guarantees of the senior secured revolving credit facility and senior secured term loan facility provide for a Guarantor to be automatically and unconditionally released and discharged from its guarantee obligations in certain circumstances, including under the following circumstances:

- the Guarantor ceases to be a “restricted subsidiary” for purpose of the agreement because the Company no longer directly or indirectly owns 50% of the equity or, if a corporation, stock having voting power to elect a majority of the board of directors of the Guarantor; or
- the Guarantor is designated as an “unrestricted subsidiary” for purposes of the agreement covenants; or
- the Guarantor is no longer wholly owned by the Company subject to the value of all Guarantors released under this provision does not exceed (x) 10% of the Company’s Covenant EBITDA plus (y) the amount of investments permitted under the agreement in respect of non-guarantors.

The indentures governing all of the other guarantees described above provide for a Guarantor to be automatically and unconditionally released and discharged from its guarantee obligations in certain circumstances, including upon the earliest to occur of:

- the sale, exchange or transfer of the subsidiary's capital stock or all or substantially all of its assets;
- designation of the Guarantor as an "unrestricted subsidiary" for purposes of the indenture covenants;
- release or discharge of the Guarantor's guarantee of certain other indebtedness; or
- legal defeasance or covenant defeasance of the indenture obligations when provision has been made for them to be fully satisfied.

The following tables present the results of operations, comprehensive income, financial position and cash flows of the Company (FDC Parent Company), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and consolidation adjustments for the periods presented to arrive at the information for the Company on a consolidated basis:

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FIRST DATA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(in millions)	Three months ended September 30, 2016 FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
Revenues:					
Transaction and processing service fees	$—	$ 1,003	$ 763	$ (73)	$ 1,693
Product sales and other	—	208	144	(45)	307
Total revenues (excluding reimbursable items)	—	1,211	907	(118)	2,000
Reimbursable PIN debit fees, postage, and other	—	637	299	—	936
Total revenues	—	1,848	1,206	(118)	2,936
Expenses:					
Cost of services (exclusive of items shown below)	—	408	360	(57)	711
Cost of products sold	—	84	48	(45)	87
Selling, general, and administrative	56	272	187	(16)	499
Depreciation and amortization	1	140	96	—	237
Other operating expenses	—	3	9	—	12
Total expenses (excluding reimbursable items)	57	907	700	(118)	1,546
Reimbursable PIN debit fees, postage, and other	—	637	299	—	936
Total expenses	57	1,544	999	(118)	2,482
Operating (loss) profit	(57)	304	207	—	454
Interest expense, net	(258)	(4)	(1)	—	(263)
Loss on debt extinguishment	(3)	—	—	—	(3)
Interest income (expense) from intercompany notes	59	(57)	(2)	—	—
Other income (expense)	(2)	—	(28)	—	(30)
Equity earnings from consolidated subsidiaries	240	(1)	—	(239)	—
(Loss) income before income taxes and equity earnings in affiliates	(21)	242	176	(239)	158
Income tax (benefit) expense	(154)	144	34	—	24
Equity earnings in affiliates	(1)	59	8	—	66
Net income (loss)	132	157	150	(239)	200
Less: Net income attributable to noncontrolling interests and redeemable noncontrolling interest	—	—	16	52	68
Net income (loss) attributable to First Data Corporation	$132	$ 157	$ 134	$ (291)	$ 132
Comprehensive income (loss)	$192	$ 169	$ 211	$ (311)	$ 261
Less: Comprehensive income attributable to noncontrolling interests and redeemable noncontrolling interest	—	—	17	52	69
Comprehensive income (loss) attributable to First Data Corporation	$192	$ 169	$ 194	$ (363)	$ 192

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FIRST DATA CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

(in millions)	Nine months ended September 30, 2016 FDC Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Consolidation Adjustments	Consolidated
Revenues:					
Transaction and processing service fees	$ —	$ 2,926	$ 2,248	$ (221)	$ 4,953
Product sales and other	—	609	398	(114)	893
Total revenues (excluding reimbursable items)	—	3,535	2,646	(335)	5,846
Reimbursable PIN debit fees, postage, and other	—	1,903	892	—	2,795
Total revenues	—	5,438	3,538	(335)	8,641
Expenses:					
Cost of services (exclusive of items shown below)	—	1,208	1,063	(131)	2,140
Cost of products sold	—	235	133	(117)	251
Selling, general, and administrative	261	815			