

FIRST DATA CORP
Form 10-Q
November 08, 2006
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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 September 30, 2006

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
(State or other jurisdiction of
incorporation or organization)

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

6200 SOUTH QUEBEC STREET,

GREENWOOD VILLAGE, COLORADO
(Address of principal executive offices)

80111
(Zip Code)

Registrant's telephone number, including area code (303) 967-8000

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 is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

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Large accelerated filer

Accelerated filer

Non-accelerated filer

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 registrant's classes of common stock, as of the latest practicable date.

Title of each class (Common stock, \$.01 par value)	Number of Shares Outstanding (excluding treasury shares) at September 30, 2006 765,797,388
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FIRST DATA CORPORATION

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in millions, except per share amounts)

	Three months ended		Nine months ended	
	September 30, 2006	September 30, 2005	September 30, 2006	September 30, 2005
Revenues: ^(a)				
Transaction and processing service fees:				
Merchant services ^(b)	\$ 693.6	\$ 611.7	\$ 1,957.1	\$ 1,745.0
Check services	80.0	82.2	238.9	247.7
Card services	429.5	393.5	1,228.9	1,201.0
Other services	88.4	81.6	258.4	254.8
Investment income, net	(37.3)	(13.7)	(96.6)	(12.0)
Product sales and other	178.0	178.1	529.4	482.7
Reimbursable debit network fees, postage and other	363.8	317.4	1,062.9	943.8
	1,796.0	1,650.8	5,179.0	4,863.0
Expenses:				
Cost of services	786.6	716.9	2,272.6	2,143.5
Cost of products sold	76.9	76.3	221.3	199.5
Selling, general and administrative	300.5	264.1	862.0	780.7
Reimbursable debit network fees, postage and other	363.8	317.4	1,062.9	943.8
Other operating expenses:				
Restructuring, net	12.0	4.1	11.6	14.0
Impairments	1.9	27.6	(0.1)	26.8
Litigation and regulatory settlements	(42.3)		(34.8)	
Other		(1.5)	(0.3)	9.9
	1,499.4	1,404.9	4,395.2	4,118.2
Operating profit	296.6	245.9	783.8	744.8
Other income (expense):				
Interest income	13.8	3.1	23.8	9.0
Interest expense	(72.4)	(53.7)	(191.3)	(141.7)
Investment gains and (losses)	(144.2)	129.9	45.8	59.9
Divestitures, net	1.4	9.3	8.0	15.8
	(201.4)	88.6	(113.7)	(57.0)

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Income before income taxes, minority interest, equity earnings in affiliates and discontinued operations	95.2	334.5	670.1	687.8
Income taxes	5.1	88.1	165.2	164.0
Minority interest	(35.2)	(35.0)	(104.5)	(96.0)
Equity earnings in affiliates	77.0	65.0	207.9	165.8
Income from continuing operations	131.9	276.4	608.3	593.6
Income from discontinued operations, net of taxes of \$125.5, \$110.8, \$333.9 and \$301.4, respectively	210.3	240.2	626.6	704.2
Net income	\$ 342.2	\$ 516.6	\$ 1,234.9	\$ 1,297.8
Earnings per share from continuing operations:				
Basic	\$ 0.17	\$ 0.36	\$ 0.80	\$ 0.76
Diluted	\$ 0.17	\$ 0.35	\$ 0.78	\$ 0.75
Earnings per share:				
Basic	\$ 0.45	\$ 0.67	\$ 1.61	\$ 1.67
Diluted	\$ 0.44	\$ 0.66	\$ 1.59	\$ 1.65
Weighted-average shares outstanding:				
Basic	764.1	769.2	764.7	778.9
Diluted	774.0	778.7	777.3	788.3

- (a) Includes revenue from Western Union and Primary Payment Systems commercial relationships previously eliminated in consolidation of \$5.3 million and \$18.5 million for the three and nine months ended September 30, 2006 and \$6.5 million and \$18.4 million for the comparable periods in 2005.
- (b) Includes processing fees, administrative service fees and other fees charged to merchant alliances accounted for under the equity method of \$57.9 million and \$168.3 million for the three and nine months ended September 30, 2006 and \$62.7 million and \$185.7 million for the comparable periods in 2005.

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED BALANCE SHEETS

(in millions)

	September 30, 2006 (Unaudited)	December 31, 2005
ASSETS		
Cash and cash equivalents	\$ 3,434.9	\$ 676.8
Settlement assets	16,986.5	16,076.3
Accounts receivable, net of allowance for doubtful accounts of \$33.6 (2006) and \$35.2 (2005)	1,948.1	1,830.7
Property and equipment, net of accumulated depreciation of \$1,711.8 (2006) and \$1,597.6 (2005)	687.0	737.8
Goodwill	7,319.0	7,133.4
Other intangibles, net of accumulated amortization of \$2,029.0 (2006) and \$1,716.2 (2005)	2,501.6	2,639.6
Investment in affiliates	752.7	665.9
Other assets	564.7	730.1
Assets held for sale and spin-off	63.2	3,757.9
Total Assets	\$ 34,257.7	\$ 34,248.5
LIABILITIES AND STOCKHOLDERS EQUITY		
Liabilities:		
Settlement obligations	\$ 16,997.2	\$ 16,152.5
Accounts payable and other liabilities	2,499.0	2,571.7
Borrowings	4,506.2	5,354.6
Liabilities related to sale and spin-off		1,712.7
Total Liabilities	24,002.4	25,791.5
Commitments and contingencies (see Note 9)		
Stockholders Equity:		
Common stock, \$0.01 par value; authorized 2,000.0 shares, issued 1,067.7 (2006 and 2005)	10.7	10.7
Additional paid-in capital	9,670.7	9,551.3
Paid-in capital	9,681.4	9,562.0
Retained earnings	10,739.0	9,311.9
Accumulated other comprehensive income (loss)	51.4	(166.3)
Less treasury stock at cost, 301.9 shares (2006) and 304.9 shares (2005)	(10,216.5)	(10,250.6)
Total Stockholders Equity	10,255.3	8,457.0
Total Liabilities and Stockholders Equity	\$ 34,257.7	\$ 34,248.5

See Notes to Consolidated Financial Statements.

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FIRST DATA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)

(Unaudited)

	Nine months ended	
	September 30,	
	2006	2005
Cash and cash equivalents at beginning of period, including cash of discontinued operations	\$ 1,180.9	\$ 895.4
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income from continuing operations	608.3	593.6
Net income from discontinued operations	626.6	704.2
Adjustments to reconcile to net cash provided by operating activities:		
Depreciation and amortization	524.3	516.7
Charges (gains) related to restructuring, impairments, litigation and regulatory settlements, investment (gains) and losses, divestitures and other, net	(77.4)	(25.0)
Other non-cash and non-operating items, net	(46.1)	11.5
Increase (decrease) in cash, excluding the effects of acquisitions and dispositions, resulting from changes in:		
Accounts receivable	27.7	8.5
Other assets	85.1	76.8
Accounts payable and other liabilities	(138.8)	(148.7)
Income tax accounts	128.2	5.8
Excess tax benefit from share-based payment arrangement	(58.5)	
Net cash provided by operating activities from continuing operations	1,052.8	1,039.2
Net cash provided by operating activities from discontinued operations	862.3	