FINAL TRANSCRIPT

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the third-quarter 2011 First Data financial results conference call. My name is Chris, and I will be your coordinator for today. At this time, all participants are in listen-only mode. Following the prepared remarks, there will be a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes. I would now like to turn the presentation over to Mr. Chip Swearngan, Senior Vice President of Communications and Investor Relations for First Data. Please proceed, sir.

Chip Swearngan - *First Data Corp - SVP - Communications and IR*

Thank you, Chris. Good morning, everyone. My name is Chip Swearngan. Thank you for joining us for this financial results conference call. Today's call will be focused on First Data's third-quarter financial results. Ray Winborne, First Data's Chief Financial

Officer, will be leading our call, and joining Ray to answer your questions will be our CEO Jon Judge, Ed Labry, President of First Data North America, and John Elkins, President of First Data International Regions.

Now please turn to slide 2 for some important information about this call. Our comments today include forward-looking statements, and we ask that you refer to the cautionary language in our Form 8-K that was filed today with the Securities and Exchange Commission, for information concerning factors that could cause actual results to differ materially from those in the forward-looking statements. We will also discuss also items that do not conform to Generally Accepted Accounting Principles and we reconcile those measures to GAAP measures in the appendix in this presentation, and as part of our quarterly result press release, which can be found on our website at Investor.FirstData.com. With that, I will now hand the call over to First Data's Chief Financial Officer, Ray Winborne.

Ray Winborne - *First Data Corp - EVP, CFO*

Thanks, Chip. Good morning, and thanks for joining us today. This morning, we released our third-quarter results, turning in another solid quarter of adjusted EBITDA, up 7%, despite the grow over impact of last year's $23 million card association fee benefit. While revenue growth was below where we would like, we continue to hold expenses flat, resulting in good flow through. Although income growth and confidence readings have been weak, consumer spending has been surprisingly resilient. Same-store sales volumes were up 8.6% over last year. That is a moderate uptick compared to the 7.8% seen in the second quarter this year, but small businesses still aren't benefiting at the same rate, lagging national sales volume growth by 1.5 to 2 percentage points.

Overseas, we saw some impact of the turmoil in Europe, as growth rates in acquiring slowed somewhat versus a trend we have seen over the last few quarters. Recent economic indicators are pointing to continued moderate economic growth here in the US. Commodity prices have come off the summer peaks, which should provide some relief to consumers at the point of sale over the coming months. We remain confident and will continue execute, managing those elements within our control, and bringing innovative products to market until the more-robust recovery materializes. On the topic of innovation, after several months of field testing, the Google Wallet was officially launched in mid-September and can now be used at hundreds of thousands of locations across the US. Currently, First Data provides over-the-air provisioning of payment card credentials to the wallet, and our Money Network product is behind the Google pre-paid account. As mobile adoption accelerates, we will also benefit from terminal sales as merchants upgrade support near-field communications capabilities for mobile phones.

As many of you are aware, the first key regulatory elements of the Durbin Amendment went into effect on October 1st, including lower debit interchange rates, and merchant-directed routing of debit card transactions. Financial institutions, merchants, and networks are navigating through the changes, and strategies are evolving rapidly. It is still a little early in the game to predict the ultimate impacts of Durbin to the industry. At First Data, we see 3 impacts. The potential for incremental PIN debit volume, the ability to provide transaction routing products, and lower debit interchange expense. Starting with the last one first, interchange is a cost to First Data, and isn't reflected as revenue to us. The vast majority of the transactions we process are interchange plus pricing, so 100% of the benefit for lower debit interchange rates set by the Feds will flow directly to merchants. For the small subset of debit transactions with spread-based pricing, each of our distribution channels will decide whether, and to what extent, they will either reinvest those interchange savings to improve their service offering, or adjust merchant pricing, and that will depend on market conditions.

The merchant acquiring business is very competitive on service, product and price, and we'll continue to compete on all 3 of those. We are actively engaged in discussions with dozens of financial institutions, regarding joining the STAR network ahead of the April 1, 2012 deadline to add an unaffiliated debit network to their cards. In addition, we have launched a transaction routing product in more than a dozen large retailers. We continue to believe Durbin will be a net benefit for First Data, and we'll provide more details on the specific impacts on the year-end earnings call.

Our liquidity remains strong. We ended the quarter with $1.5 billion in available cash and capacity to the revolver. We generated $2.3 billion in operating cash flow before interest payments over the last 12 months, and we continue to execute against our operating plan, growing EBITDA 9% year-to-date, and while we have 3 years of runway before our first debt maturities, rest assured we'll continue to be proactive stewards of the balance sheet, refinancing well ahead of 2014. With that, let's take a look at First Data's consolidated results on slide 4. Consolidated GAAP revenue rose to $2.7 billion in the third quarter, that's up 4% versus last year. The primary drivers of growth were debit network fees and favorable impacts of changes in foreign currency. The debit network fees, which are charged by debit networks for acquired PIN-based transactions are 100% reimbursable, and are reported as revenue and an equal expense on our GAAP P&L. The vast majority of PIN-based debit network fees relate to interchange, and therefore, the reductions in rates mandated under Durbin will cause as the related revenue and expense to decline substantially, beginning in the fourth quarter. Because of the pass-through nature of these fees, there is no impact to our operating income.

The net loss attributable to First Data improved $377 million versus last year and is primarily attributable to 3 non-operating items. Mark-to-market gains on interest rate swaps, a reduction of depreciation and amortization expense for a correction of an error related to purchase accounting, and a charge to income taxes booked in the prior year, related to a change in US tax law at that time. We manage the business, excluding reimbursables and other items, and on that basis, adjusted revenue was up 2% to $1.7 billion in the quarter. Adjusted EBITDA was $564 million, up $38 million or 7% compared to a year ago, on revenue growth and flat adjusted expenses. Overall EBITDA margin improved to 34% in the quarter, that is up approximately 200 basis points versus a year ago.

Now let's move into the segment performance starting with Retail and Alliance Services on slide 5. Retail and alliance services revenue and EBITDA were essentially flat in the quarter, although the headline is impacted by last year's $23 million benefit, from card association fees. As to the grow over impact of this item, revenue was up 2% and EBITDA grew 6%. Margin was 42% for the quarter, and that is flat sequentially and versus last year.

Let's go to slide 6 for a closer look at the revenue drivers in this segment. In merchant services, which accounts for about 70% of the business, revenue was flat. But again, adjusting for the $23 million benefit in last year's results, revenue was up 4%, driven by growth in processed volumes across all channels, partially offset by lower revenue per transaction. Revenue yield per transaction is affected by a combination of factors, including merchant mix, pricing plan mix, attrition, and contract renewals. We saw an improvement in the trend of yield compression this quarter versus the last couple of quarters, but it is more attributable to pricing actions and a small portfolio sale than a favorable shift in merchant or pricing plan mix.

Transaction growth of 5% was negatively impacted by a specific customer loss, and anticipated customer deconversions related to our former Chase Paymentech alliance. Adjusted for these 2 items, transaction growth was on par with the second quarter. These were low-yield transactions so the loss actually improved our overall revenue per transaction. Credit and signature debit mix improved slightly to 73% in the quarter. It has been in a fairly tight range for the past 2 years, and historically trends up a bit in the third quarter. Roughly 80% of our transactions are interchange plus fee and the rest are spread-based or a percentage of ticket. A key measure of spread-based transaction is regional average ticket. As you can see in the bottom right quadrant of the slide, this hovered around a $69 or $70 level for the past 18 months.

Product is $1 billion a year business for us that's complimentary to the core merchant acquiring. Cross selling product and services for the merchant base, leverages our broad distribution and increases utilization of fixed cost infrastructure. And where we have been able to sell multiple products to a merchant, we have seen the added benefit of better retention.

Revenue in the prepaid business grew 15%, driven by shipments of prepaid cards, including a large sale to a national retailer, as well as transaction growth in both closed loop and open loop cards. Money Network revenue, which includes both in loop payroll cards, grew nearly 32% as we continue to penetrate the fast growing segment of under-banked and un-banked consumers. Electronic payroll distribution helps our customers reduce paper use and costs associated with payroll processing, and is a natural extension of our infrastructure.

Revenue on our point of sale business was up 3% on 20%-plus growth in the revenue from leasing portfolios, offset by a slight decline in terminal sales.

And finally, check processing revenue declined 14% year over year on 8% lower check volumes, and lower revenue per check, as a larger share of our portfolio is now comprised of national customers. While effective rates are lower, the larger base of credit rating data has helped us lower warranty exposure across the portfolio, and maintain margins on this product. We'll continue to face natural headwinds of check writer attrition, but the good news is, these transactions migrate to other forms of electronic payment.

Changing gears for a minute, I've got an important development to share regarding our merchant acquiring alliance with Bank of America. Since the formation of the alliance in June 2009, the plan has been to shift the processing for those merchants contributed by the bank from 3 existing platforms over to First Data, therefore eliminating third-party costs and gaining efficiencies from operating in one environment. In evaluating the conversion strategy, our focus has always been on the customer, making a complex conversion process as seamless as possible, and providing the product and capabilities they want and need. To that end, we have jointly decided to transfer the Bank's legacy settlement platform and operational support for legacy Bank merchants over to First Data.

This results in nearly three quarters of the transactions moving into First Data's processing environment, accelerating the timing of planned processing revenues for us. It also simplifies the migration process by eliminating the need for large merchants to convert their settlement platform. It also enables us to continue to provide the unique capabilities that the current platform offers merchants, and increases the focus on the remaining conversion programs. Ownership was transferred effective October 1, so beginning with the fourth quarter, we'll pick up the related revenue and costs on our RAS results going forward.

Incremental revenue associated with this move is estimated at $65 million to $70 million annually. Transition costs, which are shared with the Bank, are estimated at $75 million over the transition period. Post transition, we will capture further cost synergies as we fully integrate the platform and operational support processes into First Data's environment. After the remaining conversions from TSYS, Chase, and the BAMS authorization platform, we continue to anticipate the annual run rate EBITDA benefit to First Data to be in the range of $100 million to $125 million by the end of 2013. This is a great tactical adjustment to our strategy that provides better clarity in getting these conversions to end of job.

Now turning the results in Financial Services Segment on slide 7, the Financial Fervices top line declined 3% compared to a year ago. There is some noise affecting the growth rate in this quarter, which I'll explain, but the underlying trajectory coming out of the first half of the year remains unchanged and has actually slightly improved. EBITDA improved $12 million or 8% in the third quarter. The revenue decline was more than offset by a $22 million reduction in expenses, driven by lower technology and operations costs, and a $9 million benefit from a sales tax recovery related to prior years. EBITDA margin was 45%.

A closer look at financial services on slide 8 shows that processing revenue, which accounts for 2/3 of the total revenue in the segment, was down 5% or $11 million year over year. Processing related revenue, which includes credit, debit and network services, was down as lost business and price compression more than offset the benefits of new business that we signed, as well as volume growth. About half of the $11 million year over year decline relates to the combined effect of a customer volume rebate adjustment in the current quarter, and the benefit of a termination fee we realized in the last year. Underlying volumes in this business continue to show improvement. Active card accounts on file are 3%, that is the highest growth rate since 2008, on both organic growth and new business. Credit retail transactions grew 10% over the prior year, organic growth in the card portfolios we service was up 5%, and private label card portfolios are back in favor, all positive signs for this business going forward.

Total debit issuer transactions, which include signature debit, PIN debit and ATM transactions on the STAR network increased 12%, excluding the loss of the Washington Mutual business. Outside the upcoming deconversion of Wells debit processing and any potential impacts of Durbin, we expect market volumes to grow as the economy continues to recover, and as the use of checks and cash shifts to debit. Output services revenue increased 1% in the quarter as new print and plastics volumes offset prior year plastic reissues, for several major customers, as well as price compression. Other revenue increased 2%, primarily from our e-payments business. Looking ahead to the fourth quarter, year over year growth will be impacted by a $9 million termination fee from Washington Mutual that we realized in the fourth quarter of 2010. Additionally, we'll start to see the impacts of the Wells debit processing business transitioning off of our platform. We continue to expect the boarding of the Kohl's card portfolio to be completed late in the first quarter of 2012, more than offsetting the lost Wells business next year.

Let's move to slide 9 for a review of International. International results showed year over year improvement in both revenue and EBITDA again this quarter. We continued to make good progress against our longer term goals of revenue growth and margin expansion. Revenue for the third quarter was $453 million, that's up 13% compared to last year on a reported basis, and up 5% on a constant currency basis. We saw good top-line growth in EMEA, Latin America and Asia-Pac. Expenses on a constant currency basis were down $2 million, as we continued to reduce structural cost and tightly manage variable costs as we grow the top line.

EBITDA was $112 million, that's up $30 million versus a year ago, including a foreign currency benefit of $7 million due to the weaker dollar. Year over year results were negatively impacted by a net $3 million from accounting adjustments affecting both periods, but current period includes a $12 million negative impact associated with the correction of a purchase accounting error dating back to 2007. The adjustment had a roughly 250 basis point impact on the margin in the quarter.

I'll turn to slide 10 for further discussion. Our international business is comprised of 4 regions, roughly 60% of the business is in Europe, the Middle East and Africa. Within that geography, the revenue is about evenly split between our acquiring and issuing business. On a constant currency basis, merchant acquiring revenue grew $10 million or 9% in the quarter on transaction volume growth and new sales through European bank alliances and our direct channel in the UK. Issuing revenue was flat as new business in the UK offset economic pressures we are experiencing in Greece. Revenue in Latin America grew $9 million or 19% on a constant currency basis, on growth in acquiring transaction volumes, pricing and higher terminal sales. We continue to see inflationary increases in Argentina, home to our largest business in that region. Asia-Pacific revenue was up $4 million on a constant currency basis. The increase is attributable to professional services fees for IT development, partially offset by a slight decline in the merchant acquiring business.

Slide 11 provides a roll forward of cash. We ended the quarter with $402 million in cash and cash equivalents on the balance sheet, plus $1.4 billion in available liquidity on the revolver. For the quarter, cash used from operation was $96 million, but we generated $639 million in operating cash flow before this quarter's interest payments. We continue to invest in infrastructure and product, improving our service capabilities, and strengthening security. Our capital expenditures for the quarter, consisting primarily of equipment, capitalized software development, and customer conversion costs totaled $78 million or 5% of adjusted revenue. We expect our ratio of CapEx to adjusted revenue to be in the 6% range for the full year.

Now I would like to take a few minutes on First Data's capital structure on slide 12. First Data generates significant EBITDA and cash flow. We have no covenant issues, and we have plenty of head room on our only financial covenant, which is the ratio of consolidated senior secured debt to consolidated EBITDA. Our current ratio is 4.6 times, which is comfortably under the quarter-end covenant requirement of 6.75 times. We have ample liquidity sources with cash on hand, a $1.5 billion revolver, and cash generated from operations. We have 3 years with no significant debt maturities, and a weighted average interest rate of 8% across the capital structure.

Cash interest payments for the full year 2011 are expected to be approximately $1.4 billion, increasing to $1.75 billion in 2012.

Currently, 70% of our debt is fixed rate or swapped to fixed rate. We have swaps expiring in September 2012, on $5 billion of our term loans, and an average fixed rate of 4.89%. That is well above current LIBOR rates. In order to lock in the benefit of today's LIBOR curve, we executed $3 billion of forward starting swaps that will replace a significant portion of the 2012 expiring swaps next year. The weighted average fixed rate over the 4-year life of the new swaps is 1.4%, starting at 58 basis points in the fourth quarter of 2012 and moving up from there with the forward curve.

Finally, despite long runways before maturity dates, we have proactively managed the balance sheet to reduce risk and provide time to execute on this business plan. And while high-yield markets have been volatile over the last 3 to 4 months, we have the flexibility to be patient for windows to open in addressing the remaining maturities in 2014 to 2016. Now I'll turn the call over to Jon Judge for his comments on the quarter.

Jon Judge - *First Data Corp - CEO*

Thanks Ray, and good morning, and let me add my thanks to all of you for spending time with us again today. I will just make a couple of comments, in some cases reinforcing some of the things that Ray said, and in other cases, just making some observations and then we'll be happy to open it up to your questions. To begin with, we are obviously pleased with our third-quarter results, and to again see EBITDA strength in our North American business and continued revenue growth in our international business. We are particularly proud of these results given the sluggish growth in the US and world economies.

The third quarter at First Data was a busy time behind the scenes, with several products and technology developments moving toward activation. These included the commercial availability of the Google Wallet app, which became available in September. As Ray mentioned, First Data played 2 critical roles in this partnership. First, as the provider of the trust and service manager which enables the actual provisioning services to the Google Wallet, and secondly, as the provider of the Google pre-paid capability, which can be used in addition to Citi credit accounts on the Google Wallet. It's really exciting to see this new payment technology become reality, and to start to take hold. Also behind the scenes, our network technology and compliance teams worked hard to ensure First Data would be ready to support the changes in interchange pricing from over 15 different PIN-debit networks, as prescribed by the Federal Reserve Board rules that took effect October 1. Despite some late compliance updates by a few of the networks, and the fact that the date coincided with the bi-annual compliance updates by the card brands, our teams worked overtime to ensure that our systems complied with the deadline.

Another big event was mentioned by Ray. Our teams negotiated with our alliance partner to outline the parameters for transferring a BAMS-associated processing platform from the Bank of America First Data. That deal also became effective October 1, and we immediately began the work to bring that processing in-house to First Data, all with the benefit of ensuring that BAMS customers experienced no disruptions to their operations or processing. As Ray described, we reached that decision after careful analysis with our partner, and the realization that it would be the most convenient and effective solution for the customers we jointly serve.

In September and the early weeks of October, we have either hosted or participated in several events that have provided us with high-level opportunities to continue to engage with our customers and development partners about our future solution strategies. In September, we convened application developers and value-added resellers of First Data products in order to provide them an update about our organization and focus we have on innovative development that's been underway and will continue to be a focus at our Company. We shared that same message in early October when we convened nearly 140 of our international customers in Scotland, who represented 2 of the 3 global regions outside of North America. Also in early October, we participated in a financial institution-focused retail delivery trade show in Chicago, that allowed us to reiterate messages of innovation in mobile commerce and the readiness of our STAR network to support the expanded debit network requirements that many financial institutions now face to comply with Durbin. Finally, during the third-quarter, we began our annual strategic planning process which will inform and shape our plans for 2012 and beyond. As we build on the planning work completed last year, this meeting gave us an opportunity to adjust our long-range plans for current macroeconomic conditions as well as new opportunities, and we remain committed to delivering an incremental $1 billion in EBITDA by the end of 2013.

I would like to close my comments with a few observations on the economy. From our vantage point as one of the nation's largest payments processors, we have a unique perspective on transaction trends in the United States economy. We aggregate data and resell the trending data to our clients. First Data's macroeconomic SpendTrend tracker, with key trends in card spending for September and October showed strong year over year improvement in dollar volume and same-store transaction growth and average ticket prices. Although growth in dollar volume and average ticket values over the summer was mostly driven by higher prices on purchases such as food and energy, transaction growth was also a strong driver as well.

A fairly robust back-to-school shopping season was spurred by heavy promotional retail activity. Merchants, however, continue to pass along input cost increases to the consumer, particularly in the food and grocery sector. Through September, credit card dollar volume growth exceeded all other payment types, before the 5 previous months. Credit growth in non-discretionary categories such as food and gas, was also higher than discretionary categories such as electronics and restaurants.

Card spending in early October moderated slightly from September, but remained healthy. September's results were positively influenced by delayed back-to-school spending, and Hurricane Irene's impact on spending patterns. Merchants face cautious optimism heading into the upcoming holiday season, but difficult comps from 2010 will temper the outlook. As we said last quarter, we remain hopeful but cautious in our outlooks for the sluggish US economy. We are making the right decisions for our customers, we believe, we're taking the right actions to innovate and grow our business, and we're investing for our future. With those comments, I'll turn the call back to Ray and Chip and we'll be happy to take your questions.

Chip Swearngan - *First Data Corp - SVP - Communications and IR*

Thanks, Jon. We have two quick ground rules for the Q&A portion of this call. Please limit yourself to one question and one follow-up, in order to be fair to all participants. As we approach the end of our time this morning, I will let you know when we have time for one final question. Again, participating in the Q&A are Jon Judge, Ray Winborne, Ed Labry, and John Elkins. So operator, we are now ready for the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). First question comes from the line of Frank Jarman of Goldman Sachs. You may proceed.

Frank Jarman - *Goldman Sachs - Analyst*

Great. Thanks for taking my questions, guys. I guess the first question I had was just regarding the Retail and Alliance Services Segment, I think you reported that the price mix was a head wind of 5% in the quarter. And specifically, I think you called out some issues related to merchant mix, pricing plan mix, attrition and contract renewals. Can you guys just break out some more details behind some of those drivers to help me better understand the changes in mix going forward? Thank you.

Ray Winborne - *First Data Corp - EVP, CFO*

Good morning, Frank, it's Ray. If you look on the headline, transaction growth up 5%, revenue and core merchant acquiring flat, and that's your 5% down but that's been significantly impacted, if look at that year-over-year Visa impact. So on an adjusted basis for that 1 item, revenue growth is actually up 4%. Revenue per transaction is only down 2%, which is markedly better than the trend we have been seeing. Out of that 2%, it is difficult to give you exact breakdowns between that.

Given the scale and the number of transactions and different merchants that we process for. So I really don't have a specific breakdown of that 6%, but part of that 2%, but if you look at it, merchant mix is pretty powerful, and I think I have given the example before on the call. If you go to your local ACE Hardware and bought a shovel versus going to one of the national retailers and buying it, it is a dramatic difference in the rate per transaction that First Data realizes on that. So we, my point and my comments was that while we have seen that improvement in the yield compression, it is still not being driven by any kind of shift in consumer patterns that we are seeing. Small businesses are continuing to grow at a slower rate than the large businesses and our expectation is as the economy picks up speed, at some point in time, that shift will come back to something more along the lines of the historical norms, and it will be a good day for First Data.

Frank Jarman - *Goldman Sachs - Analyst*

Got it. Thank you. And then I guess just a second question on slide 16 in the appendix of the presentation. Could you guys just provide some more color around the $12 million of expenses related to the purchase accounting errors correction from 2007? And is that a 1-time event in this quarter, or should we expect a similar level over the next few quarters, just to sort of think about how the international margin should trend going forward? Thanks.

Ray Winborne - *First Data Corp - EVP, CFO*

Frank. I appreciate you asking that question. Obviously it is an error we corrected. I certainly hope it is going to be a non-recurring item. So it is 1-time in the quarter, it relates back to the original purchase price allocation that affected the way that depreciation and amortization were recorded on intangible and tangible assets. That reevaluation in the assets and liabilities for our international companies was done on a centralized basis, which created a disconnect with the local company books. And what happened in a nutshell, the necessary eliminations between those local books and the centralized purchase accounting didn't take place correctly over that period of time. It was only roughly $4 million a quarter and on a $350 million, $375 million quarterly depreciation amortization balance, it wasn't large enough to be detected at our corporate level controls and reporting. So it is purely amortization and depreciation related to the adjustment, and you shouldn't expect to see that going forward.

Frank Jarman - *Goldman Sachs - Analyst*

If I could just fit 1 last question in. There was some talk last quarter just about the sort of headline EBITDA growth potentially slowing a bit, if you guys saw a contraction in the economy. And while I think we've seen some weaker economic trends, if I adjust your headline EBITDA number for the $18 million in the 1-time expenses, it actually looks like your EBITDA growth accelerated from sort of 9%, 10% in the first half of the year to 11% on an adjusted basis, if you think about the year-over-year change. So, how are you guys reconciling that adjusted EBITDA growth with what you are seeing just in the sort of broad economic environment? Yes that would be helpful, any color there. Thank you.

Ray Winborne - *First Data Corp - EVP, CFO*

Still a lot of malaise out there from a macroeconomic standpoint, but growing. Volumes in the third quarter are actually a little better than the second quarter. We generally do our price ups in the third quarter, as well. That is some of the acceleration you are seeing on that normalized basis, versus the first couple of quarters. Given the macroeconomic environment, we have been very focused on costs. To mark my comments in the early part of the call, we will execute and control what is within our purview, so we have been very focused on costs there, and that's helped as well.

Frank Jarman - *Goldman Sachs - Analyst*

Great. Thanks so much.

Operator

Our next question comes from the line of Ana Goshko of Bank of America-Merrill Lynch. You may proceed.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Hi. Thanks very much for taking the question. The first one is a little on the soft side. I wanted to get your impressions, but generally, in this macroeconomic environment, do you sense that it is steering consumers to credit, because they are more stretched, or debit, because I think that is a trend that we did believe we saw back in the 2008-2009 recession, where consumers were being more disciplined with regard to their spending and kind of choosing the debit. If there is any trend that you believe you are seeing within the current environment, that would be helpful to know. Secondly, I know it is early, but with the implementation of the new debit interchange as of October 1, do you see any trends yet of either the merchant steering toward debit or the financial institution steering toward credit?

Ray Winborne - *First Data Corp - EVP, CFO*

Morning Ana. On your first question, as far as consumers feeling the pinch, I think you have probably seen SpendTtrend the last 3 to 4 months and credit has ticked up. The last recession that was evidence of consumers overextending. Still a little early to tell whether that is the case this time through, but based on the data we have been seeing, the credit used in discretionary and non-discretionary has been ticking up.

Some of that I think has been driven by commodity pricing. Both fuel, so the pricing there has gone up, and it is a necessity people have to have to get to work and get around, as well as groceries, where the food prices have affected those average tickets and really put the crimp on them. I don't think I have enough data at this point to say that the increased spend on credit is evidence or a leading indicator on a recession, because you have also got the impacts of Durbin and some of the changes in the banks' debit programs that could be driving consumers away from debit was well. Ed, would you add anything to that?

Ed Labry - *First Data Corp - President - North America*

I think that 1 of the things you see on credit is, versus 2 or 3 years ago where people were pulling in credit limits and equity lines of credit on credit cards, were really going away. I think you have seen a recommitment to the credit card industry, to the big retail credit card portfolio companies that are definitely reengaged, and these are strategic businesses going forward. You are also seeing several of the monoline credit issuers getting pretty aggressive out there, and actually are seeing some new credit issuers coming into the game. It is also reflective just of people getting recommitted to the issuance of credit cards.

Ray Winborne - *First Data Corp - EVP, CFO*

On your second question, as far as steering, merchants are taking -- at least the larger ones are taking advantage of the routing capabilities they have got now. The steering, I would tell you at this point is more to lower cost networks and lower cost routing, versus steering customers away credit debit. I think we are still really early in the game there on whether that ultimately happens.

Ana Goshko - *BofA Merrill Lynch - Analyst*

If I can just sneak a quick one in? Is there any material change in how you're accruing bonuses or incentive compensation on a year-over-year basis? I know a few years ago, the management team had actually pulled back on the incentive comp during the first part of the calendar year, and then had doubled down in the fourth quarter. Is there going to be any impact that is notable this year on that front?

Ray Winborne - *First Data Corp - EVP, CFO*

No, we are accruing at the same rate all year. There's slight pressure year-over-year. We paid a little less than plan last year. But nothing on the order of magnitude what you saw a couple of years ago. You should see consistency in the fourth quarter on what you saw in the first 3 quarters of last year.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Okay, great. Thanks so much.

Operator

Our next question comes from the line of Jeff Harlib of Barclays Capital. Sir, you may proceed.

Jeff Harlib - *Barclays Capital - Analyst*

Good morning. I know in the different segments, you talked about expenses, I think flat and RAS down $20 million-plus in financial institutions. But do you have the overall cost savings in the current quarter? And if you could also review where you stand on the $140 million or so of pro forma add backs? And the various components of that and implementation?

Ray Winborne - *First Data Corp - EVP, CFO*

Sure Jeff. As I mentioned earlier, we have had a tight focus on expenses. The FS results that you are seeing are the same that's been occurring all year. As we saw that business, the top line, and that business decline a couple of years ago, we took a very hard look at where we were making investments in technology there, and cut that back.

So you have seen a consistent reduction this year in those expenses, in that group. I tell you everywhere else, International is a significant focus on removing structural costs for the same reason. The FS side of the business and RAS has been prudent, we are watching the top line and it is not growing at the rate we'd like to see it grow at, so we are being prudent in expense management. Changing gears for you over to the cost save, I assume you are talking about the near-term saves we disclosed in the covenant EBITDA calculation of $144 million.

Jeff Harlib - *Barclays Capital - Analyst*

Right.

Ray Winborne - *First Data Corp - EVP, CFO*

If you look at that $144 million this quarter, it is made up of similar components than it has been in the past. About $40 million of that over the next 12 months relates to BAMS revenue and expense synergies. Roughly $16 million for overhead and work force reductions, about $11 million for data center consolidation, that is primarily in Europe. About $15 million in procurement savings, we are continuing to mine there, and then the last larger bucket is around $60 million relating to operating efficiency and savings that we are getting out of our product development group, our infrastructure and technology, as well as service delivery around the world. That's the buckets of that savings.

Jeff Harlib - *Barclays Capital - Analyst*

And just a follow-up. As you look into the next quarter, just a little bit, if you see any initial impacts from Durbin, from customers that might have been on bundled pricing? And also what you are doing with STAR, with the debit interchange structure, if you move to a 2-tier structure and any initial comments on movements in market share there?

Ray Winborne - *First Data Corp - EVP, CFO*

It's still early. I mean the regulations went into effect October 1. Still haven't closed the books on October yet, so I'll wait and we do intend to provide the impacts of the several different ways that Durbin will impact us on the fourth-quarter earnings call.

Jeff Harlib - *Barclays Capital - Analyst*

Okay, thanks.

Operator

Our next question comes from the line of Manish Somaiya from Citigroup. You may proceed.

Manish Somaiya - *Citigroup - Analyst*

Good morning. It's Manish Somaiya from Citi. How are you?

Ray Winborne - *First Data Corp - EVP, CFO*

Hi, Manish. How are you this morning?

Manish Somaiya - *Citigroup - Analyst*

Okay. My first question is on Google Wallet. Clearly a huge win for First Data. But I guess the questions I get asked most often on Google Wallet pertain to the revenue opportunity, and how quickly that can be real, especially meeting your $3 billion EBITDA goal by 2013.

Ray Winborne - *First Data Corp - EVP, CFO*

I'm going to toss that one over to Ed.

Ed Labry - *First Data Corp - President - North America*

Yes, Manish, thanks for the question. I think you are right, it was exciting for First Data to be a part of it. I think it really signifies more of a movement in the start. I think we have all said the last 3 to 5 years that mobile commerce and mobile payments are coming to the industry. And I think in May, that became a reality with the technology of the 5 partners that came together. I think the other thing you are going to see is more of a commitment to the smart phone industry, more of a commitment to put NSC capabilities into these phones, I think we all probably can see the roadmap, where over the next 3 to 5 years there will be a complete reissue of cell phones.

I think you are going to see more and more like opportunities come into play and probably some new players come into the marketplace. This is where loyalty and redemption in coupons and offers really meet in the handset. We are still very bullish on the overall opportunity. Of course, as the program just kicked off on September 19, and the provisioning went out in the handsets that were out there, and there was good penetration in the upload. It had good flow through on people who activated their pre-paid accounts. It is still in its infancy stages and pretty immaterial, but I think we do have enough data to see the trends and still remain bullish on the future.

Manish Somaiya - *Citigroup - Analyst*

Got you. Ed, would you say it is really more about a 3 to 5 year opportunity as opposed to a 1 to 2 year opportunity?

Ed Labry - *First Data Corp - President - North America*

It really just depends on what it is, you have seen us make our investments on the TSM, and the provisioning and we are doing very well in that marketplace. There is only a couple of companies in the United States that have active TSM, products out there, so there is a big movement to companies that want this provisioning, or this capability in the phone, even though most of the transactions are still plastic, and of course we have our prepaid accounts, and so I think the bet that we are making in the mobile commerce movement, really support the open architecture and really the whole movement of the entire merchant industry and what can take place on the handset.

Ray Winborne - *First Data Corp - EVP, CFO*

The revenue, Manish, will be tied to that provisioning. The business model is still working itself out, because there is really not many financial institutions on that right now.

Manish Somaiya - *Citigroup - Analyst*

Okay. I appreciate it, that is all I had. Thank you.

Operator

Our next question comes from the line of Guy Baron of Deutsche Bank. You may proceed.

Guy Baron - *Deutsche Bank - Analyst*

Good morning. You sort of touched on this a bit, but relative to the quarter we're in, relative to Q4, can you help us think about the dynamics of normal seasonality in general, relative to what you are seeing and then when regulatory benefits kick in. What's normal? What does it feel now a month in, and what extraneous factors should we be kind of focused on that could realistically come into play this quarter?

Ray Winborne - *First Data Corp - EVP, CFO*

Guy, I think you know we don't usually provide forward-looking guidance around what the revenue would look like. But some color around what we are seeing, certainly through the first 3, 3.5 weeks of October, the consumer has slightly pulled back off of September. I don't know that that is unusual, compared to patterns we have seen in the past. We are still monitoring retailers, some of their announcements on what they think. But right now, we still are planning on a normal seasonal bump versus last year. It is just hard to tell at this point. You really won't know until probably early December on what the season is shaping up to be.

We should see, as we have mentioned on the calls before, there should be a bump in revenue off of the Durbin. At least on our merchant acquiring side of the business. It will be a transitory benefit. The first quarter, it will obviously be the highest it will be, because as the market competition takes place, attrition takes place and pricing adjustments take place, that will decline over time. I'll give the impact of that as we move through the quarter and get to the fourth quarter earnings.

Guy Baron - *Deutsche Bank - Analyst*

Understood. That is helpful. Sort of as you talk about your longer-term plan, and as I look at EBITDA, which is now growing sort of high-single digit rates, but slowing sequentially on a year-over-year basis, how does that bode for the growth driven operating leverage that's needed here. I understand there are factors within your control, but presuming we are in a benign or a worse macro consumer environment. What gets you to the 2013 target, what does it take before you re-evaluate that target? So I guess what I'm saying, in other words is what milestone or point in time would warrant considering plan B? And really, what is that plan, relative to growth and cash preservation?

Ray Winborne - *First Data Corp - EVP, CFO*

Well you are 3 quarters in to a 3-year journey. I will tell you, didn't really see a deceleration if you look at that impact the Visa impact year-over-year, actually a slight acceleration versus what we have seen for the first couple of quarters this year. Make no bones about it, if the economy goes backwards, that is tough on this plan. We always have a plan B.

And so, we've got flexibility in several areas where we can conserve cash, we do have a $1.5 billion revolver should we need that, but this business model has proven resilient, if you just go back in time a couple of years, we never dipped below $2 billion in EBITDA even through the worst economic recession since the depression. I think we still feel pretty good and we are in a better spot today than we were then in a cost structure basis. So yes would it affect the path to $3 billion? Absolutely. Do we have alternative plans to conserve cash? Absolutely.

Guy Baron - *Deutsche Bank - Analyst*

Okay. That's very helpful. Just a quick clarification on liquidity. It is now sort of at a relative low, compared to some past quarters. Is this sort of level of liquidity kind of the new normal? Where does it kind of trend from here, and finally, your decision to use more of your cash on hand versus draw the revolver this quarter. Maybe you could just talk about the thought process there, other than just simple interest costs? That is all I had, thank you.

Ray Winborne - *First Data Corp - EVP, CFO*

The cash balance, I'll tell you will grow over time from here as the EBITDA grows. We call it a low point. We made interest payments of $735 million this quarter. Only burned $200 million, so we did absolutely generate the operating cash flow to go against that pretty sizable interest payment in this quarter. Going forward, the balance will grow as EBITDA grows.

Operator

Our next question comes from the line of Arun Seshadri of Credit Suisse.

Arun Seshadri - *Credit Suisse - Analyst*

Good morning, gentlemen, thanks for taking my questions. I just wanted to start off, on Visa's earnings call, they said that they made a strategic decision to start funding sort of routing incentives to merchants and acquirers. It is probably a question for Ed. Are you seeing benefits from this, or do you expect to see benefits going forward?

Ed Labry - *First Data Corp - President - North America*

Yes. I think most of the incentives that Visa has put in place out there, right now, is really more associated with routing. A couple of different programs they have, one called VPP, which is the Visa Partners Program. Really, we accommodate as Visa goes out specifically to retailers and other third parties, we do facilitate those transactions for them. So I don't think that this is, you know, Visa had the strategy of retaining their transactions, because of some of some of the implications of Durbin. So those are really more Visa strategies than related to First Data, so it is neutral with us.

Arun Seshadri - *Credit Suisse - Analyst*

Okay. Fair enough. That is helpful. And then on the international side, usually again sort of on the lines of Guy's question, you see a Q3 to Q4 sequential spike usually in revenue, but given the weakness in Europe, should we be looking more at a sequentially flat progression on international, at least on the revenue lines and I understand you are doing a lot of cost saves?

Ray Winborne - *First Data Corp - EVP, CFO*

We don't see as seasonality in the business as we do in the US. I don't know what I would tell you on models on that Arun other than I can't tell you the trend will change dramatically versus what we have seen over past years.

Arun Seshadri - *Credit Suisse - Analyst*

Okay that's fair. Finally, working capital. You guys did a good job this quarter. How should we think about working capital in Q4? Given that it is a low cash interest quarter, should we be expecting it to be flattish and you to generate a good amount of cash? Any comments there would be helpful.

Ray Winborne - *First Data Corp - EVP, CFO*

Fourth quarter is usually our best quarter. We will keep our foot on the neck, as far as working capital goes. But I think we've gotten a lot of the big benefits, through working capital now. It's pick and shovel work. So as far as the fourth quarter goes, I wouldn't model anything wild up or down.

Arun Seshadri - *Credit Suisse - Analyst*

Okay great. Thanks.

Operator

The next question comes from the line of Thomas Egan of JPMorgan. You may proceed.

Thomas Egan - *JPMorgan - Analyst*

Good morning. Thanks for taking my question. I just have 1 big one, but it's got lots of little parts. So the big question is, you talked about the deal with B of A, and bringing on the legacy platform. It sounded very important.

So I wondered if you could just give us a little bit more color, and maybe within that just sort of talk about things like, could you walk us through how you get from the $65 million to $70 million annual revenue to the $100 million and $125 million annual savings in EBITDA? Is the rest of it cost saves, and are those cost saves, do they automatically go into your covenant adjustments, and then the transition $75 million, maybe you could talk about how long that transition period is, and sort of how we could expect that to be feathered in?

Ray Winborne - *First Data Corp - EVP, CFO*

Thomas, you were right. There were a lot of parts to that question. It was a good deal for us. Again back to my comments, we were very focused on lessening the pain to our merchants. I think this is going to be a good way to do that and accelerate those benefits. At $60 million to $70 million in the revenue, we'll obviously generate a margin off of that. That does contribute, along with conversions off TSYS, Chase and the multi-link authorization platform advance, all of this together will contribute towards that $125 EBITDA that we see run rate by the end of 2013. Forget your second, maybe the third part of your question.

Thomas Egan - *JPMorgan - Analyst*

The third part was the feathering in of the $75 million in transition costs.

Ray Winborne - *First Data Corp - EVP, CFO*

The transition costs will have that feathered in. It would likely be heavier in 2012 and then declining over that next year. So some in this quarter, very little, but then the, toward the later in the 2012 period, be where it is heaviest in 2013.

Thomas Egan - *JPMorgan - Analyst*

And then do the savings, can you count those savings right away in the adjustments to the covenant?

Ray Winborne - *First Data Corp - EVP, CFO*

Yes. Those are part of those savings that you see in the covenant calculation today. Because they are not only savings, they are revenues, associated with the formation of the venture. The way the covenant calculation works.

Operator

Our final question comes from the line of Jake Kemeny of Morgan Stanley. You may proceed.

Jake Kemeny - *Morgan Stanley - Analyst*

Hi, thanks. I just wanted to clarify that last statement. So how much of this BAMS savings are in the $144 million that you pro formaed into the EBITDA?

Ray Winborne - *First Data Corp - EVP, CFO*

If you look at the $144 million over the next 12 months, about $40 million of that is related to the BAMS venture.

Jake Kemeny - *Morgan Stanley - Analyst*

Okay. And that $40 million is related to these actions you just told us about today. None of the previous integration?

Ray Winborne - *First Data Corp - EVP, CFO*

This is all in. You are talking previous integration, you have continued conversions as well as this new program. Any of the cost saves that have been beyond that.

Jake Kemeny - *Morgan Stanley - Analyst*

Okay. And then, of your exposure to Europe, what percentage of your revenue is directly exposed to Portugal, Italy, Greece, Ireland, Spain?

Ray Winborne - *First Data Corp - EVP, CFO*

I don't have that calculation off the top of my bat, but if you look -- take Greece right, one of the larger countries we have got in Europe, it's not -- by itself is not even 10% of our international revenues. There is no significant concentration in any one country. To speak of Ireland, we have a great joint venture there, with our alliance with AIB, it has done remarkably well, certainly given the environment they are in. We have a pretty large share of the card business there and it has performed well.

John Elkins - *First Data Corp - President International Regions*

And obviously no exposure in Spain and Portugal that you mentioned at all.

Jake Kemeny - *Morgan Stanley - Analyst*

Okay. Are you guys not particularly concerned about a lot of the austerity measures that we are seeing in some of these countries? Some of these country.

Ray Winborne - *First Data Corp - EVP, CFO*

I wouldn't say not concerned. We're obviously always concerned if consumer spending is going to be impacted, because that really is the driver of the merchant acquiring business, but we are continuing to monitor that closely. The good news is we are not the dominant player in Europe, so we are continuing to go after share there to make up for any of the volume impacts from slowing growth.

John Elkins - *First Data Corp - President International Regions*

And I'm going to add, in countries like Greece, which are probably the most significantly under pressure, we have started to divest of non-core services there. We have laid off a number of people, and EBITDA will end up this year pretty close to what it was last year as a result of that. We have a long-term contract that is obviously fairly stable.

Jake Kemeny - *Morgan Stanley - Analyst*

Okay. Great.

Operator

At this time, there are no further questions. I would like to hand the call back to the speakers for any closing remarks.

Chip Swearngan - *First Data Corp - SVP - Communications and IR*

Thank you for joining us for today's third-quarter financial results call. We look forward to speaking with you in the future.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you so much for your participation. You may now disconnect. Have a great day.