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PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the second-quarter 2012 First Data financial results conference call. My name is John, and I will be your operator for today's call. At this time, all participants are in a 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 of First Data. You may begin.

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

Thank you, operator, and good morning, everyone. My name is Chip Swearngan. Thank you for joining us for the financial results conference call. Today's call will be focused on First Data's second-quarter 2012 financial results. Ray Winborne, First Data's Chief Financial Officer, will be leading the call. Joining Ray to answer your questions will be our CEO, Jon Judge. 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 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 results press release, which can be found on our website at www.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 Corporation - EVP, CFO*

Thanks, Chip. Good morning, and thanks for joining us today. Today, we released financial results posting another quarter of double-digit growth in adjusted EBITDA. For the second quarter, we delivered year-over-year top-line growth of 3%, despite nearly 2 percentage points of unfavorable currency from a stronger dollar. That, along with steady focus on costs, led to nearly 3 points of margin expansion versus last year.

We continue to operate against a challenging macro backdrop, both here in the US and abroad. Same-store sales volumes, which are a good indicator of US consumer spending, showed year-over-year growth of 6.4% in the quarter. While that solid growth is slower than the rate we saw in the first quarter, likely reflecting both some weather-induced pull-forward spending into the first quarter, and a tougher year-over-year comp as the economy began to improve in the second quarter of 2011. While growth rates improved through the quarter, July same-store sales volumes look to be slightly lower than the second-quarter average.

Europe remains a challenge to growth, with the sovereign debt crisis and related economic woes ever present. In the vein of manage what you control, we have maintained our focus on expanding the acquiring business there. Beyond growing the direct sales channel we formed last year, we purchased the remaining interest in OmniPay, paving the way to increase the use of this processing platform globally.

On the liquidity front, we ended the quarter with $1.7 billion in available cash and capacity on the revolver, and we generated more than $2.7 billion in operating cash flow for interest payments over the last 12 months. We have made great progress extending the capital structure since the Summer of 2010, and the fundamentals of the Company continue to improve, lowering our leverage ratio.

Let's take a look at First Data's consolidated results, starting on slide 4. Consolidated GAAP revenue for the second quarter was $2.7 billion, that's down $64 million or 2% compared to a year ago, due to a $92 million decline in debit network fees. The vast majority of debit network fees relate to interchange, so the reduction in interchange rate, mandated by Durbin, was the driving factor that led to this decline. Because of the pass-through nature of these fees, expense declined by that same amount, so there is no impact to our operating income.

The net loss attributable to First Data improved by $18 million versus last year, as operating profit grew 26% to $268 million, offset by higher mark-to-market losses on interest rate hedges. We manage the business using adjusted revenue, which excludes certain items including the debit network fees, and conforms the presentation for other items. We believe this presentation is more meaningful in terms of understanding our performance, margins, and related operating metrics.

Adjusted revenue for the second quarter was $1.7 billion. That is up 3% versus last year, and 4% on a constant-currency basis. Adjusted EBITDA was $621 million in the quarter, that's up $60 million or 11% compared to a year ago, on the revenue growth and good flow-through, as adjusted expenses were down 2% compared to the prior year. Overall EBITDA margin improved to 37% in the quarter.

Now, let's move to the segment performance, starting with retail and alliance services on slide 5. Revenue was up 8%, driven by growth in both merchant services and associated product revenue. EBITDA grew $63 million or 18%, benefiting from top line growth, while expenses were only up 1%. Margins improved to 45% in the quarter, that's up from 42% a year ago.

Let's go to slide 6 for a closer look at the revenue drivers in this segment. In merchant services, which accounts for more than 70% of the RAS business, revenue was up $68 million or 11%. Roughly 60% of the growth was driven by lower debit interchange and additional processing revenue from our merchant acquiring lines with Bank of America. The remaining increase was primarily from volume growth and process transactions. We estimate lower debit interchange generated approximately $25 million of the year-over-year growth in the quarter. While market pricing is holding up better than we expected, we continue to believe this will be a transitory benefit, given the highly competitive nature of merchant acquiring.

Our normalized transaction growth was 7% on continued growth in consumer spending, albeit at a slightly lower pace than the first quarter, due to the factors I mentioned earlier. Revenue per transaction is an all-in yield. It can be affected by a combination of factors, including merchant mix, pricing plans, merchant attrition, and contract renewals. This quarter, revenue per transaction was up 8% versus last year, benefiting from lower debit interchange, additional BAMS processing revenue, and the losses of relatively low-yield transactions in prior periods, which helped the revenue per transaction number.

Absent the benefit of these favorable items, revenue per transaction was down 2% versus last year. That is slightly worse than last quarter, but much better than the trend we were experiencing during 2011. Part of this improvement versus the trend last year is due to price increases in select channels. We are also seeing improvement due to the overlapping, some price compression in national merchants last year, as well as overlapping of unfavorable merchant mix experience we experienced in 2011 as compared to 2010.

Credit and signature debit mix was down slightly, but still relatively stable at 72%. As the chart shows, PIN debit transactions continue to outpace credit and signature debit growth. This is occurring primarily in the large merchant space, and resulting in a slight negative impact to revenue, given the rate differential. As I mentioned before, roughly 80% to 85% of our transactions are interchange plus fees. The rest are spread-based or a percentage of ticket. A key measure of spread-based transactions is regional average ticket. As you can see in the bottom-right quadrant of the slide, it declined a little over 1% to 68%, primarily driven by a combination of overall decline in the size of average purchases, and a higher mix of lower average ticket verticals like quick service restaurants.

Turning to products, revenue in our prepaid business was up 9% on growth in new customers, and increased usage in our open loop product. Revenue from our Money Network Payroll Card grew 24%, as we continue to penetrate the fast-growing segment of under-banked and unbanked consumers, all the while increasing electronic transactions. Revenue at the point of sale business grew 3%, driven by double-digit growth in income from new lease originations and renewals, partially offset by a decline in terminal revenues on lower bulk sales relative to a year ago, lower service-related revenues, and a lower average price point on some of the terminals that we sell.

Finally, check processing revenue declined 8% year-over-over, on 7% lower check volumes, driven by the secular shift to electronic payments. We continue to benefit from the larger base of credit rating data that we acquired over the last couple of years, which is helping us lower warranty exposure across the portfolio, and maintain the margins in this product.

Now turning to the results of the financial services segment on slide 7, revenue grew 1% compared to a year ago, as new business and improved volumes more than offset lost business and price compression. Volume-based incentives reduced revenue by $3 million in the quarter, taking about 1 point off of revenue growth. EBITDA improved $8 million or 5% in the second quarter, driven by revenue flow through and a $4 million reduction in expenses. The rate of EBITDA growth has moderated, as we have now lapped most of the cost reduction initiatives taken in 2011 to right-size the cost base in this business. EBITDA margin improved to 43%, that's up 200 basis points versus a year ago.

Let's take a closer look at financial services on slide 8. Processing revenue, which represents debit and credit card processing, plus our network services business through the STAR network, was up 1% or $3 million as the benefits of new business and volume growth was more than offset by lost business, price compression, and higher volume-based incentives. The growth in active card accounts on file reflects the March addition of the Kohl's portfolio. Absent the Kohl's business, active accounts were up 4%, reflecting an improved consumer environment versus last year.

Activity continues to grow, credit and retail transactions growing 16% over the prior year. Organic growth in the card portfolios we service was up 7%, and private label card portfolios continue to generate interest among issuers, indicators of improving fundamentals in this business, and opportunity for future growth. Normalizing for Wells activity in all periods, total debit issuer transactions increased 14% in the period, 10% of which is attributable to net volume increases from the implementation of the Durbin routing and exclusivity rules. Organic growth, and the ongoing shift from cash and checks to debit, was partially offset by lower volumes from some competitive losses.

On the plus side, we gained transactions from new contracts with financial institutions, and transactions routed on behalf of other networks through our debit gateway. These gains were partially offset by losses in the existing base from merchant or acquirer processing routing decisions. The net revenue lift in the quarter from Durbin was minimal due to the rate differential on new transactions, versus the base transactions lost due to routing decisions. We did see some stabilization of routing losses in the last half of the quarter, and net gains during the month of July.

We are only three to four months into this, and given the complexity of the multiple PIN networks on a card, and evolving strategies of financial institutions, merchants, and networks, there is a lot yet to play out with respect to flow share of transactions. We have taken actions to protect the base, and win back volumes, and will continue to counter competitive moves in the market.

Output services revenue was up 1%, as growth in plastics revenue from existing customers, and net new print and plastic business, offset some pricing compression in the quarter. Other revenue was up 1%, as growth in our online banking business was offset by declines in information and voice services.

Let's move to slide 9 for a review of the international operations. We continue to execute against our commitment to improve margins by focusing on the higher growth acquiring business, investing in reliability and customer satisfaction, exiting low-margin businesses, and rationalizing the cost structure in response to customer losses on the issuing side. Revenue for the second quarter was $425 million, up 1% on a constant-currency basis, but down 6% on a reported basis. Currency was a $31 million headwind in the second quarter, as the dollar strengthened relative to prior year against the baskets of currencies affecting us. International EBITDA in the quarter was $118 million, that's up 5% on a constant-currency basis, but down slightly on a reported basis. Revenue flow through and cost reductions were offset by lost business, dilutive impacts of new investments, and the negative foreign currency impact of $7 million.

Turning to slide 10, as you can see, currency negatively impacted the reported growth rates in each of the four regions of our international business. Looking at revenue growth on a constant-currency basis, total revenue in EMEA was down 2%, as a 6% decline on the issuing business more than offset 2% growth posted in merchant acquiring. Despite the macro headwinds in Europe, we saw good transaction growth in the bank alliances and our direct channel in the UK. But the related revenue growth was partially offset by lower terminal revenues, as we dial back on lower margin equipment sales, and the loss of some Chase processing business as they move volumes back to their own platform. The decline in issuing revenue was due to a combination of lost business from prior periods and exiting low-margin businesses. Organic volume growth and a $7 million one-time software license fee somewhat offset those declines.

Asia-Pacific revenue was down 3%, and that has primarily been driven by the loss of a card processing customer in December of last year. Revenue in Latin America continued to grow, seeing 17% this quarter on growth in transaction volumes, terminal sales, and higher pricing. Revenue continues to benefit from double-digit inflationary increases in Argentina, home to our largest business in the region. Lastly, the growth in Canada is attributable to both new issuing business and higher acquiring volumes in that market.

Slide 11 provides a roll forward of cash. We ended June with $483 million in cash and cash equivalents on the balance sheet, an increase of $154 million in the quarter. We have $1.7 billion in available liquidity, including the revolver. We had no borrowings outstanding on the revolver at the end of the quarter. As you can see on the chart, working capital contributed to the increase in our cash position in the quarter. While there are several real working capital wins, one of the larger contributors was settlement inflows, which is pure timing.

We paid down $125 million in borrowings this quarter, including $79 million outstanding on the revolver at the end of March. Cash interest payments were $254 million higher than last year, primarily due to the timing of coupon payments. You can find our quarterly projections for cash interest in the financial attachments to the press release. We continue to invest in infrastructure and product, improving our service capabilities, and strengthening security around the globe. Our capital expenditures, which consist primarily of equipment, capitalized software development, and customer conversion costs, totaled $89 million in the second quarter, and we will continue to invest for growth. Our capital plan in 2012 was targeted at 6% to 7% of adjusted revenue.

Now, I'll take a few minutes on First Data's capital structure on slide 12. We generate significant cash flow in this business. We have no covenant issues, and we have plenty of headroom on our only financial covenant, which is the ratio of consolidated senior secured debt to consolidated EBITDA. Our current ratio is 4.2 times, which is comfortably under the covenant limit of 6.5 times. We have ample liquidity sources with cash on hand, a $1.5 billion revolver, and cash generated from operations. We have no significant debt maturities until September of 2014, and a weighted average interest rate of 8.5% across the debt structure.

As you can see, our maturity ladder and liquidity profile has improved dramatically over the past two years. Since June of 2010, we have extended the maturity dates on $15 billion of debt. In addition, we extended $1 billion of our revolver capacity out to September 2016. Currently 74% of our debt is fixed rate, or swap to fixed rate. We have swaps expiring in September of this year on $5 billion of term loans, at an average fixed rate of almost 5%, which is well above current LIBOR rates. We have executed new forward starting step-up swaps that will replace the $5 billion in expiring swaps later this year. The weighted average fixed rate over the four-year life of these new swaps is 1.3%, starting at 59 basis points in the fourth quarter and moving up with the curve from there.

The reason I mention this, is the rate differential in these swaps versus the old ones will result in a roughly $160 million year-over-year decline in cash interest payments in 2013. Cash interest payments are projected at $1.8 billion in 2012, that's an increase of $358 million versus 2011, largely due to the timing of coupon payments. Using the current capital structure and forward curve, we are projecting cash interest payments to decline to $1.7 billion in 2013. This benefit, along with growth in EBITDA over the next couple of years, will provide improved cash coverage as we look to address upcoming maturities.

Finally, despite long runways before maturity dates, we proactively manage the balance sheet to reduce risk and provide time to execute against our business plan. We have been opportunistic in when and how we have approached the market, and given past success, we will continue on that path. The work we have done with our lenders on the credit facility provides us significant flexibility to address the remaining maturities in 2014 through 2016.

Now, I will turn the call over to Jon Judge for his comments on the quarter.

Jon Judge - *First Data Corporation - CEO*

Good morning, everyone. We really do appreciate you spending time with us. I will just make a couple of comments on the quarter's results and some business activity, and then close with some observations about the economy. Then Ray and I will be happy to take your questions. Ray did a nice job of covering the details on our second-quarter financials. We were obviously quite pleased with the results, particularly given the fact that the economy softened somewhat in the second quarter.

We once again posted growth in both top line and EBITDA, with EBITDA growth being the star again, with double-digit growth. I'm sure you also noticed that we grew revenue much faster than expense, something you should now expect with us as routine. I'm very proud of the way our team managed the things in our control, and the financial results they achieved. It wasn't just financial results.

During the second quarter, we also continued to deliver on product innovations. As consumer spending in offline, online and mobile converge, First Data is leading the charge to offer anywhere, anytime commerce, or as we call it, universal commerce. We took a significant step along those lines this quarter when we launched our OfferWise solution. OfferWise is an open platform that allows publishers, such as Scoutmob, a local Atlanta firm, to electronically attach offers such as discounts, E-coupons and loyalty programs to a consumer's credit card or mobile wallet. This allows the consumer to automatically redeem the offer at the point of sale. We also introduced the rapid comply solution to help mid-size and small firms, merchant firms, achieve and maintain PCI compliance. Finally, we introduced our FD35 PIN pad to accept and secure payments through advanced technologies. In addition to traditional PIN-based debit cards and credit cards, this device also accepts mobile payments, chip and PIN cards, contactless cards, and pay fobs.

Let me close my comments with a couple of observations on the economy. First Data's macroeconomic spend trend report showed a decrease in spending in May and June compared to first quarter, as consumers remain cautious about the economy. Despite a sustained decline in fuel prices, consumers have not translated those savings into spending elsewhere. In June, weather-related events impacted spending across most of the nation. Card spending growth softened in the final weeks of June across most of New England, the South, and the Mid-Atlantic, as severe storms and power outages kept shoppers out of the stores. In June, year-over-year PIN debit dollar volume growth improved to 9.5%, and PIN debit transaction growth continued to lead other payment types with healthy growth at 8.9%.

Preliminary data for July shows that consumer spending remains sluggish due to ongoing concerns about the economic recovery. Dollar volume growth in July slowed for the second consecutive month, although it did show signs of rebounding in the latter half of the month, as back-to-school sales kicked in. Although adverse weather, including persistent heat across most of the country, has played a significant role in the weaknesses, consumers have continued to struggle with a weak job market and modest income growth. Credit utilization has been restrained over the past months, as consumers have closely monitored their budgets.

With that, I will turn it back to Chip, and Ray and I will be happy to take your questions.

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

Thank you, Jon. We have two quick ground rules for the Q&A portion of this call. Please limit your questions to one question and one additional follow-up, in order to be fair to all participants. I will let you know when we have time for one final question. As a reminder, participating in the Q&A are Jon Judge and Ray Winborne.

So, operator, we are ready to take the first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

First question is from Jeff Harlib from Barclays. Go ahead.

Jeff Harlib - *Barclays Capital - Analyst*

Maybe a first question on the revenue per transaction, the adjusted 2%, you talked about some of the puts and takes there on price increases, and stabilization in the mix. Do you consider this to be the new normal, and how do you reconcile that with some of the other things like lower average ticket, a shift to debit, some of the puts and takes on that?

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

Right. Jeff, there is a laundry list of items that affect that. It's an all-in-yield that takes the processed volume and all the transactions and does an average. Last year, we were seeing a significant mix shift, which was creating a lot of it. 5% to 6% declines year-over-year. Zero to 2% I think is, in my opinion, a little closer back to what we would expect. It is hard to predict going forward, because a lot of it, to your point, is driven from where consumers are spending, and that average ticket.

It did weaken a little bit, for the first time I think since I have been looking at it, it wasn't just a mix issue. It was actually lower overall average ticket. But the way we are looking at the business, you can't pinpoint with pinpoint accuracy, but I am looking at a zero to 3% as kind of the norm at this point -- barring any significant shifts, positive or negative in merchant mix.

Jeff Harlib - *Barclays Capital - Analyst*

Okay. My follow-up, just on cash flow, just on the working capital benefit. How much of that was recurring versus one-time and also, just the distribution to minority holders ticked up from Q1. Do you see the first half rate as being a normalized rate on that?

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

Yes. As I mentioned in my comments, a big piece of the bump in the working capital was on settlement flows. Those can go positive, negative, depending on cut off times on the network as well as the day the quarter ends on. The permanent working capital difference is in there, more in the $15 million to $30 million range. On the second question, repeat that again, sorry, I missed it.

Jeff Harlib - *Barclays Capital - Analyst*

Yes, the distribution from minority holders during the quarter, it ticked up from Q1. I was just wondering, I know it can move around, but is your first half run rate kind of reasonable?

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

Yes, we continue, as I mentioned on previous calls, continuing to work on working capital initiatives and some of our alliances and subsidiaries are no different. BAMS is continuing to ferret out working capital there. We did have some additional distribution during the first half -- or during the second quarter, sorry. If you look at the first half on average, that is a good number to model going forward.

Jeff Harlib - *Barclays Capital - Analyst*

Okay. Thanks.

Operator

The next question is from Frank Jarman from Goldman Sachs. Please go ahead.

Frank Jarman - *Goldman Sachs - Analyst*

Just going back to the RAS segment, regarding the Durbin Interchange benefit, I am seeing some merchant surveys suggesting that contracts are stickier than what had been feared and you alluded to as much in the prepared remarks. So, just given we are now three quarters into this post-Durbin market, can you talk more specifically about how large and small merchant contract renegotiations are unfolding? How should we think about renewal rates at this point? Can you help us think a little bit more about net pricing and how that is evolving on new contracts? Thanks.

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

Good morning, Frank. That's a good question. It's a nice tail wind that we have seen now for three quarters. As we came out with this in the fourth quarter, we believe it's transitional. Continue to believe that. The thing that is morphed is how long that benefit will be there. When we first started looking at this, the average merchant contract in the industry, call it three years, we were thinking that this would start to erode after the half life of that contract. But based off of where new merchants are being signed up and where we are treating old merchants, we have not seen the pressure that we have anticipated there. So, we are looking at a model now that I think it would be probably be closer to the average contract life before that starts to melt away.

You should think of Durbin as pricing, which I think you are. It's very dynamic and extremely competitive. This will be competed away at some point. It's just holding there longer than we thought. The amounts we disclosed are estimates of what we think the benefit is. Because of a multitude of factors that affect pricing, as we move forward through time, it will be harder and harder to discern the exact benefit from Durbin. Hopefully that answers your question.

Frank Jarman - *Goldman Sachs - Analyst*

That's great. Thanks. Just as a follow-up on the RAS segment, you alluded to the BAMS processing benefit in the quarter, but I don't think you gave us a number. Could you help us think about what the incremental benefit was. I think it was around $13 million in 1Q and when does that benefit anniversary, going forward?

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

We signed that agreement October 1, and took over responsibilities for those volumes -- October 1, 2011. We will lap that growth aspect in fourth quarter of this year. The annual revenue on that contract is in the $65 million to $70 million range. It will continue to grow in the future, Frank. We will lap the -- from a dead stop growth perspective, but you should look at the model, that will continue to grow with volumes as we move forward in the fourth quarter.

Frank Jarman - *Goldman Sachs - Analyst*

Great, thanks so much.

Operator

Our next question comes from Manish Somaiya from Citi. Please go ahead.

Manish Somaiya - *Citigroup - Analyst*

I wanted to get your thoughts on the implications of the recent Visa MasterCard merchant settlement on surcharging, regarding credit. Specifically, if you can talk about what impact that might have on credit card use. Then maybe intermediate to long term, what does that mean for pricing, because certainly it seems that Interchange at some point will come under pressure. Not sure if that impacts processing at some point in the future as well?

Jon Judge - *First Data Corporation - CEO*

This is Jon Judge. I'll take a whack at that then ask Ray for his comments. First and foremost, it's a proposed settlement. It's not a settlement. I'm sure that you have read the same things that we have in the media that, while there is some people that are trending towards being in favor of it, there are equally as many people that are against it, some very vocally, some very large.

So, from the vantage point of us, we see that as something is that is going to -- from an impact on our business is neutral. We are somewhat of a disinterested party, if you will, looking at it from the sidelines, because we actually have positions and opinions on both sides of the argument. It remains to be seen whether or not this will actually turn out to be a final settlement, and at that point we will have a better chance to evaluate it. I don't personally think it will end up staying in the form that it's in. I think it will probably have some changes between now and when it actually gets to an accepted settlement, if that happens, and of course we will know more about it then. Ray, do you have any other comments?

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

I think it's hard to say if it would be a good or bad thing to us. If you think back, when Durbin came out, the initial indications was that would be a bad thing for First Data. It hasn't really turned out that way. But in general, regulation is usually not good. So, we would not be in favor of credit regulation at that point, but because of the unintended consequences but I think it's hard to say which way that goes in the future.

Manish Somaiya - *Citigroup - Analyst*

Okay. And then just as a follow-up -- part A, part B. Part A, margin performance clearly has been very impressive, just based on the comments that you made in the opening remarks on a cautious outlook -- and unfortunately, you also have tougher comps going to second half -- do you think margins have peaked for the time? Part B, is with the cap structure trading at near 15-, 18-month highs, any thoughts on further taking actions there?

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

Yes, I don't want to call it top on the margins. We will continue to try to grow this top line and create leverage in this business model, when you do that, which will improve margins as you move. No doubt though the economy is starting to pick up last year in the second quarter. As we move through third and fourth quarter, the combination of the tougher comps on the macro and the lapping of the benefits from Durbin and the BAMS processing revenues, will make those last two quarters of the year a little tougher to grow. But we are still projecting growth in those two quarters.

You said, well the debt is trading well. We are seeing good in flows in the high yield markets. Our benchmark 7.375% are now trading with a yield in the low 6%s. We will continue to extend the capital structure ahead of the September 14 maturity, but we are going to continue to pick our spots in the market. We have been successful there. We are always mindful of the benefits of the improving fundamentals of the Company. As well as heavier cash burden as we refinance that debt, given the fact that we have an attractive rate on the 2014 tranche of LIBOR plus 275. But rest assured we will continue to watch the market and pick our spots.

Manish Somaiya - *Citigroup - Analyst*

Thank you so much.

Operator

Our next question is from Arun Seshadri from Credit Suisse, please go ahead.

Arun Seshadri - *Credit Suisse - Analyst*

I wanted to, first, talk about the -- on the international side. The growth is nice to see, that you actually grew revenue on a constant currency basis versus flattish in Q1. Is the right to way to think about it is primarily that you grew that revenue because of the one-time license fee? Or are there any other significant puts and takes?

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

Good morning, Arun. Looking at international, it looks like it did in the first quarter. Pretty flattish on the top line. Growth in EBITDA. Not nearly the rates we were seeing last year when we were rationalizing the cost structure, but still pretty good given the macro challenges that we're seeing in several areas in international.

We will continue to grow through some of the customer losses. The $7 million license fee was a nice win in the quarter. Those don't happen every quarter. We like to get them when we can get them. They are nice margins.

Arun Seshadri - *Credit Suisse - Analyst*

Appreciate that. Then as a follow-up, focusing on financial services. Can you talk about -- can you give us an update in terms of the current pipeline in financial services, how much you have to be converted? And then, any comments on the BofA card processing deal that was a victory by a competitior. Thank you.

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

Sure. Arun, first question on backlog, we just boarded Kohl's in the first quarter. So the backlog that we have on conversions is in the single-digit millions. Not a huge backlog there to put on. Obviously, still looking at a lot of tier 2, tier 3 players out there. This is a pipeline of sales. But not from an actual sold and waiting in line for conversion, fairly small there.

Any comments around the TSYS win at Bank of America, very competitively bid. Obviously, we were at the table there. It's a very large contract and it will take them a while to swallow that one. It's very complex. Probably one of the larger portfolios on the globe. It will take them a few years to get that converted. We will be selling against them at the same time as they are distracted doing that.

Arun Seshadri - *Credit Suisse - Analyst*

Appreciate the comments, thanks.

Operator

Our next question is from Ana Goshko from Bank of America. Please go ahead.

Ana Goshko - *BofA Merrill Lynch - Analyst*

First one is really the inverse of the prior question on what you are expecting in the second half in financial services. Specifically you have disclosed some deconversions in the past, and I wanted to understand how you see those rolling out over the second half? Should we expect any sequential step downs and do you think those would be complete by the end of the year?

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

Looking at the FS business, Wells was the largest, by far the largest deconversion we had there. I don't see any pressure. The pressure beyond that one is normal course and speed, really small from a relative standpoint in the second half.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Okay. And then also, as we think about your cash flow uses for the remainder of the year, the end of 2011, you made $160 million payment to one of your alliance partners for, I think, bank branch referrals. I am wondering if you anticipate making any payments of that nature or that size this year?

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

No, that was related back to a contract from 1998. We don't expect any payments like that. There is no large alliances in the pipeline. The only other way that would come out is if we formed a new alliance, and paid a signing bonus that way. None expected in the rest of the year.

Ana Goshko - *BofA Merrill Lynch - Analyst*

Okay. Thanks very much.

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

Certainly.

Operator

Our next question is from Guy Baron from Deutsche Bank, please go ahead.

Guy Baron - *Deutsche Bank - Analyst*

First, just a Durbin interchange clarification, Ray, on something you said. Are you saying that the benefit from that will keep up now, you think, closer to three years versus the five to six quarter benefit you thought before? Did I hear that correctly?

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

Not exactly black and white. I think the degradation in the rate will go down over a longer period of time. We thought it would go down over the 18 month period. I think it will continue to go down. It will be at a much lower rate. I think the step function change will occur more when the contracts are actually renewed, closer to the full term.

Guy Baron - *Deutsche Bank - Analyst*

Okay. When we -- I think you talked about the impact this quarter related to that factor. If my memory is right, it's a lower contribution amount than last quarter. Does that represent any kind of compression?

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

Obviously there is some compression in there. That's where it gets tough. That is an estimate of this amount. There is so many factors that go into the pricing. It's down to product sets, bundles, size of merchant, average ticket, so lots of things are affecting that, so that's our estimate. We think it's within one million or two that's pretty flat.

Guy Baron - *Deutsche Bank - Analyst*

Got it. And the second question I had is, you have noted, and I think it came up in some of the spend trend reports that consumers were increasingly resorting to credit usage for non-discretionary spending. I'm wondering, you talk about monthly trends. What is your view on how much runway that trend has, meaning how long can that source of transactions effectively keep up?

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

Tough question. I don't have my economist hat on. But I would have to guess here. It is just going to run until they run out of the expanding credit. Consumer credit has continued to expand and that is what is driving the spends. How long it can continue on that I think depends how long the FIs are interested in that market, and looking to grow the business.

Guy Baron - *Deutsche Bank - Analyst*

Just a quick housekeeping, Q3 normally seasonally flat to slightly up. Is that right?

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

Yes. I don't see anything that would affect that from a macro standpoint other than the tougher comps from the economy growing stronger.

Guy Baron - *Deutsche Bank - Analyst*

Got it. Thanks.

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

If you will recall, Guy, we had several items last year in the third quarter of 2011 that netted to zero on consolidated basis but did affect each of the segments. About a $4 million gain in the RAS segment from a portfolio sale. We had a $9 million sales tax recovery in the FS segment. That was a one-time good guy and those two were offset by a purchase accounting correction in the international segment, it was about a $12 million hit to earnings.

Guy Baron - *Deutsche Bank - Analyst*

Thanks very much.

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

Sure.

Operator

Our next question comes from Thomas Egan from JPMorgan. Please go ahead.

Thomas Egan - *JPMorgan - Analyst*

Good morning, thanks for taking my question. I wanted to follow-up on an earlier question that Jeff had on the RAS segment. It boils down to what appears to be some pretty stable pricing from first quarter to second quarter. If the average transaction growth was about 3%, it almost looks as if sequentially from first quarter to second quarter that your pricing held up pretty well, maybe it almost looks better. I know there is a lot of moving parts to that. The question is, first, am I reading that right? Has pricing held up as well as it appears to quarter-to-quarter and if it is -- if it hasn't, is there something else driving it, is it debit credit mix or something else driving that?

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

Thomas, thanks for the question. It is holding up. You are reading that right. I would -- at least the way I look at the numbers, I use the normalized transaction growth because that takes out some of the noise. You are looking at 7% transaction growth and 2% decline in rate per transaction, both being normalized. In other words, what is going on underneath in the business. It is holding up.

What helps in that, annual price-ups in some of the portfolio, offset by the multitude of factors that I mentioned earlier. I will tell you, those grow overs that I mentioned earlier, I think is a big piece of that. We are seeing stabilization. If the economy ever does start the recovery, a decent recovery, we can see a nice up lift from the mix shift. But until I think we see a lot more robust recovery than we are seeing now, I'm happy with sitting where it is at a flat to 2%.

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Thomas Egan - *JPMorgan - Analyst*

That's helpful. Thank you.

Operator

This concludes our question-and-answer session. I would like to hand the call back to the speakers for any closing comments.

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

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

Operator

Thank you for your participation in today's call. This concludes the presentation. You may now disconnect.