
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended **September 30, 2016**
or

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

Commission File Number: 001-35462

Vantiv, Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

26-4532998
(I.R.S. Employer Identification No.)

8500 Governor's Hill Drive
Symmes Township, OH 45249
(Address of principal executive offices)
(513) 900-5250
(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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

As of September 30, 2016, there were 156,287,571 shares of the registrant's Class A common stock outstanding and 35,042,826 shares of the registrant's Class B common stock outstanding.

VANTIV, INC.
FORM 10-Q

For the Quarterly Period Ended September 30, 2016

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NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q, including the sections entitled “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors,” contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements other than statements of historical fact, including statements regarding our future results of operations and financial position, our business strategy and plans, our objectives for future operations, and any statements of a general economic or industry specific nature, are forward-looking statements. You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. Words such as “anticipate,” “estimate,” “expect,” “project,” “plan,” “intend,” “believe,” “may,” “will,” “continue,” “could,” “should,” “can have,” “likely,” or the negative or plural of these words and similar expressions are intended to identify forward-looking statements. We have based these forward-looking statements largely on our current expectations and projections about future events and trends that we believe, based on information currently available to our management, may affect our financial condition, results of operations, business strategy, short-term and long-term business operations and objectives, and financial needs. These forward-looking statements are subject to a number of risks, uncertainties and assumptions, including those described in the “Risk Factors” section of our most recent Annual Report on Form 10-K. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. In light of these risks, uncertainties and assumptions, the future events and trends discussed in this report may not occur and actual results could differ materially and adversely from those anticipated or implied in the forward-looking statements.

You should not rely upon forward-looking statements as predictions of future events. The events and circumstances reflected in the forward-looking statements may not be achieved or occur. Although we believe that the expectations and assumptions reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance, or achievements. We undertake no obligation to publicly update any forward-looking statement after the date of this report, whether as a result of new information, future developments or otherwise, or to conform these statements to actual results or revised expectations, except as may be required by law.

PART I — FINANCIAL INFORMATION**Item 1. Financial Statements**

Vantiv, Inc.
CONSOLIDATED STATEMENTS OF INCOME
Unaudited
(In thousands, except share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Revenue:				
External customers	\$ 897,800	\$ 795,544	\$ 2,565,529	\$ 2,247,484
Related party revenues	16,219	20,454	58,330	60,120
Total revenue	914,019	815,998	2,623,859	2,307,604
Network fees and other costs	423,361	385,548	1,221,510	1,079,043
Sales and marketing	153,248	132,481	433,730	371,461
Other operating costs	72,162	66,563	219,464	211,853
General and administrative	40,727	41,492	133,831	136,395
Depreciation and amortization	66,086	70,638	199,550	206,099
Income from operations	158,435	119,276	415,774	302,753
Interest expense—net	(27,474)	(27,044)	(81,321)	(78,769)
Non-operating expenses	(4,633)	(8,308)	(14,949)	(23,799)
Income before applicable income taxes	126,328	83,924	319,504	200,185
Income tax expense	39,324	24,776	101,591	61,348
Net income	87,004	59,148	217,913	138,837
Less: Net income attributable to non-controlling interests	(20,708)	(17,656)	(52,552)	(41,820)
Net income attributable to Vantiv, Inc.	\$ 66,296	\$ 41,492	\$ 165,361	\$ 97,017
Net income per share attributable to Vantiv, Inc. Class A common stock:				
Basic	\$ 0.43	\$ 0.29	\$ 1.06	\$ 0.67
Diluted	\$ 0.41	\$ 0.27	\$ 1.04	\$ 0.64
Shares used in computing net income per share of Class A common stock:				
Basic	155,740,660	145,015,310	155,603,265	145,039,413
Diluted	197,342,169	201,899,024	197,126,571	201,483,652

See Notes to Unaudited Consolidated Financial Statements.

Vantiv, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Unaudited
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net income	\$ 87,004	\$ 59,148	\$ 217,913	\$ 138,837
Other comprehensive gain (loss), net of tax:				
Gain (loss) on cash flow hedges and other	3,572	(5,173)	(9,654)	(12,873)
Comprehensive income	90,576	53,975	208,259	125,964
Less: Comprehensive income attributable to non-controlling interests	(21,654)	(15,975)	(49,992)	(37,658)
Comprehensive income attributable to Vantiv, Inc.	<u>\$ 68,922</u>	<u>\$ 38,000</u>	<u>\$ 158,267</u>	<u>\$ 88,306</u>

See Notes to Unaudited Consolidated Financial Statements.

Vantiv, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited
(In thousands, except share data)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 183,818	\$ 197,096
Accounts receivable—net	750,449	680,033
Related party receivable	1,521	3,999
Settlement assets	150,901	143,563
Prepaid expenses	42,796	31,147
Other	55,118	61,661
Total current assets	1,184,603	1,117,499
Customer incentives	65,855	57,984
Property, equipment and software—net	344,424	308,009
Intangible assets—net	734,250	863,066
Goodwill	3,366,528	3,366,528
Deferred taxes	622,175	731,622
Other assets	31,350	20,718
Total assets	\$ 6,349,185	\$ 6,465,426
Liabilities and equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 390,470	\$ 364,878
Related party payable	3,367	4,698
Settlement obligations	668,282	677,502
Current portion of note payable to related party	5,979	10,353
Current portion of note payable	92,360	106,148
Current portion of tax receivable agreement obligations to related parties	153,903	31,232
Current portion of tax receivable agreement obligations	59,978	64,227
Deferred income	12,255	14,470
Current maturities of capital lease obligations	7,887	7,931
Other	16,796	13,940
Total current liabilities	1,411,277	1,295,379
Long-term liabilities:		
Note payable to related party	177,778	181,169
Note payable	2,697,965	2,762,469
Tax receivable agreement obligations to related parties	317,215	801,829
Tax receivable agreement obligations	82,468	126,980
Capital lease obligations	15,385	21,801
Deferred taxes	33,845	15,836
Other	41,038	34,897
Total long-term liabilities	3,365,694	3,944,981
Total liabilities	4,776,971	5,240,360
Commitments and contingencies (See Note 6 - Commitments, Contingencies and Guarantees)		
Equity:		
Class A common stock, \$0.00001 par value; 890,000,000 shares authorized; 156,287,571 shares outstanding at September 30, 2016; 155,488,326 shares outstanding at December 31, 2015	1	1
Class B common stock, no par value; 100,000,000 shares authorized; 35,042,826 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	—	—
Preferred stock, \$0.00001 par value; 10,000,000 shares authorized; no shares issued and outstanding	—	—
Paid-in capital	709,847	553,145
Retained earnings	641,665	476,304
Accumulated other comprehensive loss	(16,298)	(9,204)
Treasury stock, at cost; 2,706,593 shares at September 30, 2016 and 2,593,242 shares at December 31, 2015	(73,494)	(67,458)
Total Vantiv, Inc. equity	1,261,721	952,788

Non-controlling interests	310,493	272,278
Total equity	1,572,214	1,225,066
Total liabilities and equity	\$ 6,349,185	\$ 6,465,426

See Notes to Unaudited Consolidated Financial Statements.

Vantiv, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
Unaudited
(In thousands)

	Nine Months Ended September 30,	
	2016	2015
Operating Activities:		
Net income	\$ 217,913	\$ 138,837
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	199,550	206,099
Amortization of customer incentives	18,508	12,535
Amortization and write-off of debt issuance costs	4,818	6,784
Share-based compensation expense	25,892	23,852
Deferred taxes	49,900	35,527
Excess tax benefit from share-based compensation	(11,193)	(15,797)
Tax receivable agreements non-cash items	14,880	21,196
Other	433	—
Change in operating assets and liabilities:		
Accounts receivable and related party receivable	(67,938)	28,743
Net settlement assets and obligations	(16,558)	23,876
Customer incentives	(30,808)	(22,716)
Prepaid and other assets	6,183	2,016
Accounts payable and accrued expenses	24,859	40,051
Payable to related party	(1,331)	1,869
Other liabilities	(4,713)	3,685
Net cash provided by operating activities	430,395	506,557
Investing Activities:		
Purchases of property and equipment	(93,822)	(64,344)
Acquisition of customer portfolios and related assets and other	(2,179)	(39,312)
Purchase of derivative instruments	(21,523)	—
Net cash used in investing activities	(117,524)	(103,656)
Financing Activities:		
Borrowings on revolving credit facility	1,180,000	—
Repayment of revolving credit facility	(1,180,000)	—
Repayment of debt and capital lease obligations	(98,019)	(295,208)
Proceeds from issuance of Class A common stock under employee stock plans	12,340	12,739
Repurchase of Class A common stock	(25,008)	(161,156)
Repurchase of Class A common stock (to satisfy tax withholding obligations)	(6,036)	(16,119)
Settlement of certain tax receivable agreements	(158,115)	(44,800)
Payments under tax receivable agreements	(53,474)	(22,805)
Excess tax benefit from share-based compensation	11,193	15,797
Distributions to non-controlling interests	(9,018)	(12,732)
Other	(12)	—
Decrease in cash overdraft	—	(2,627)
Net cash used in financing activities	(326,149)	(526,911)
Net increase (decrease) in cash and cash equivalents	(13,278)	(124,010)
Cash and cash equivalents—Beginning of period	197,096	411,568
Cash and cash equivalents—End of period	\$ 183,818	\$ 287,558
Cash Payments:		
Interest	\$ 76,404	\$ 73,965
Taxes	35,709	6,484

See Notes to Unaudited Consolidated Financial Statements.

Vantiv, Inc.
CONSOLIDATED STATEMENT OF EQUITY
Unaudited
(In thousands)

	Total Equity	Common Stock				Treasury Stock Shares	Treasury Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests
		Class A		Class B							
		Shares	Amount	Shares	Amount						
Beginning Balance, January 1, 2016	\$ 1,225,066	155,488	\$ 1	35,043	\$ —	2,593	\$(67,458)	\$ 553,145	\$ 476,304	\$ (9,204)	\$ 272,278
Net income	217,913	—	—	—	—	—	—	—	165,361	—	52,552
Issuance of Class A common stock under employee stock plans, net of forfeitures	12,340	1,371	—	—	—	—	—	12,340	—	—	—
Excess tax benefit from employee share-based compensation	11,193	—	—	—	—	—	—	11,193	—	—	—
Repurchase of Class A common stock	(25,008)	(457)	—	—	—	—	—	(25,008)	—	—	—
Repurchase of Class A common stock (to satisfy tax withholding obligation)	(6,036)	(114)	—	—	—	114	(6,036)	—	—	—	—
Termination of certain tax receivable agreements	129,538	—	—	—	—	—	—	129,538	—	—	—
Unrealized loss on hedging activities and other, net of tax	(9,654)	—	—	—	—	—	—	—	—	(7,094)	(2,560)
Distribution to non- controlling interests	(9,018)	—	—	—	—	—	—	—	—	—	(9,018)
Share-based compensation	25,892	—	—	—	—	—	—	21,150	—	—	4,742
Other	(12)	—	—	—	—	—	—	(12)	—	—	—
Reallocation of non- controlling interests of Vantiv Holding due to change in ownership	—	—	—	—	—	—	—	7,501	—	—	(7,501)
Ending Balance, September 30, 2016	<u>\$ 1,572,214</u>	<u>156,288</u>	<u>\$ 1</u>	<u>35,043</u>	<u>\$ —</u>	<u>2,707</u>	<u>\$(73,494)</u>	<u>\$ 709,847</u>	<u>\$ 641,665</u>	<u>\$ (16,298)</u>	<u>\$ 310,493</u>

See Notes to Unaudited Consolidated Financial Statements.

Vantiv, Inc.
CONSOLIDATED STATEMENT OF EQUITY
Unaudited
(In thousands)

	Total Equity	Common Stock				Treasury Stock Shares	Treasury Stock Amount	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interests
		Class A		Class B							
		Shares	Amount	Shares	Amount						
Beginning Balance, January 1, 2015	\$ 1,300,586	145,455	\$ 1	43,043	\$ —	2,174	\$(50,931)	\$ 629,353	\$ 328,358	\$ (3,768)	\$ 397,573
Net income	138,837	—	—	—	—	—	—	97,017	—	—	41,820
Issuance of Class A common stock under employee stock plans, net of forfeitures	12,739	1,353	—	—	—	—	—	12,739	—	—	—
Excess tax benefit from employee share-based compensation	15,797	—	—	—	—	—	—	15,797	—	—	—
Repurchase of Class A common stock (to satisfy tax withholding obligation)	(16,119)	(412)	—	—	—	412	(16,119)	—	—	—	—
Repurchase of Class A common stock	(161,156)	(3,576)	—	—	—	—	—	(161,156)	—	—	—
Unrealized loss on hedging activities and other, net of tax	(12,873)	—	—	—	—	—	—	—	—	(8,711)	(4,162)
Distribution to non- controlling interests	(12,732)	—	—	—	—	—	—	—	—	—	(12,732)
Share-based compensation	23,852	—	—	—	—	—	—	18,411	—	—	5,441
Reallocation of non- controlling interests of Vantiv Holding due to change in ownership	—	—	—	—	—	—	—	33,842	—	—	(33,842)
Ending Balance, September 30, 2015	<u>\$ 1,288,931</u>	<u>142,820</u>	<u>\$ 1</u>	<u>43,043</u>	<u>\$ —</u>	<u>2,586</u>	<u>\$(67,050)</u>	<u>\$ 548,986</u>	<u>\$ 425,375</u>	<u>\$ (12,479)</u>	<u>\$ 394,098</u>

See Notes to Unaudited Consolidated Financial Statements.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

Vantiv, Inc., a Delaware corporation, is a holding company that conducts its operations through its majority-owned subsidiary, Vantiv Holding, LLC (“Vantiv Holding”). Vantiv, Inc. and Vantiv Holding are referred to collectively as the “Company,” “Vantiv,” “we,” “us” or “our,” unless the context requires otherwise.

The Company provides electronic payment processing services to merchants and financial institutions throughout the United States of America and operates in two reportable segments, Merchant Services and Financial Institution Services. For more information about the Company’s segments, refer to Note 10 - Segment Information. The Company markets its services through diverse distribution channels, including national, regional and mid-market sales teams, third-party reseller clients and a telesales operation. The Company also has relationships with a broad range of referral partners that include merchant banks, independent software vendors (“ISVs”), value-added resellers (“VARs”), payment facilitators, independent sales organizations (“ISOs”) and trade associations, as well as arrangements with core processors.

Basis of Presentation and Consolidation

The accompanying consolidated financial statements include those of Vantiv, Inc. and all subsidiaries thereof, including its majority-owned subsidiary, Vantiv Holding, LLC. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and should be read in connection with the Company’s 2015 audited financial statements and notes thereto included in the Company’s Annual Report on Form 10-K. The accompanying consolidated financial statements are unaudited; however, in the opinion of management they include all normal and recurring adjustments necessary for a fair presentation of the Company’s financial position, results of operations and cash flows for the periods presented. Results of operations reported for interim periods are not necessarily indicative of results for the entire year. All intercompany balances and transactions have been eliminated.

As of September 30, 2016, Vantiv, Inc. and Fifth Third Bank (“Fifth Third”) owned interests in Vantiv Holding of 81.68% and 18.32%, respectively (see Note 5 - Controlling and Non-controlling Interests for changes in non-controlling interests).

The Company accounts for non-controlling interests in accordance with Accounting Standards Codification (“ASC”) 810, *Consolidation*. Non-controlling interests primarily represent Fifth Third’s minority share of net income or loss of and equity in Vantiv Holding. Net income attributable to non-controlling interests does not include expenses incurred directly by Vantiv, Inc., including income tax expense attributable to Vantiv, Inc. All of the Company’s non-controlling interests are presented after Vantiv Holding income tax expense in the accompanying consolidated statements of income as “Net income attributable to non-controlling interests.” Non-controlling interests are presented as a component of equity in the accompanying consolidated statements of financial position.

In July 2016, the Company entered into the following agreements with Fifth Third, which is considered a related party, which extend the existing agreements that were originally set to expire on June 30, 2019:

- Clearing, Settlement and Sponsorship Services Agreement (the “Sponsorship Agreement”) pursuant to which Fifth Third will continue to act as the Company’s member “sponsor” to the Visa, MasterCard and other payment network associations as non-financial institutions (such as payment processors, independent sales organizations, third party service providers, merchants, non-member financial institutions) must obtain the “sponsorship” of a member bank in order to participate in such associations. Under the Sponsorship Agreement Fifth Third transfers the responsibility for all card association requirements and fees to the Company as a “sponsored participant.” Fifth Third is the primary provider of the Company’s payment network sponsorship. The Sponsorship Agreement terminates on December 31, 2024.
- Master Services Agreement (the “Master Services Agreement”) pursuant to which the Company agreed to continue to provide Fifth Third depository institutions with various electronic fund transfer services including debit card processing and automated teller machine (“ATM”) terminal driving services. The Master Services

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Agreement is an exclusive agreement, subject to certain customary qualifications, which is coterminous with the Sponsorship Agreement and terminates on December 31, 2024.

- Referral Agreement (the “Referral Agreement”) pursuant to which Fifth Third will continue to refer various parties exclusively to the Company, including commercial and retail merchant clients of Fifth Third depository institutions that request merchant (credit or debit card) acceptance services. In return for these referrals and the resulting processing service relationships, the Company will make ongoing incentive payments to Fifth Third. The Referral Agreement is coterminous with the Sponsorship Agreement and terminates on December 31, 2024.

Share Repurchase Program

In February 2014, our board of directors authorized a program to repurchase up to \$300 million of our Class A common stock. During the three and nine months ended September 30, 2016, the Company repurchased approximately 457,000 shares of its Class A common stock for approximately \$25 million. The Company has approximately \$50 million of share repurchase authority remaining as of September 30, 2016 under this authorization.

As discussed in Note 11 - Subsequent Events, on October 25, 2016, our board of directors authorized a program to repurchase up to an additional \$250 million of our Class A common stock, providing the Company with approximately \$300 million available for share repurchases.

Purchases under the repurchase program are allowed from time to time in the open market, in privately negotiated transactions, or otherwise. The manner, timing, and amount of any purchases are determined by management based on an evaluation of market conditions, stock price, and other factors. The share repurchase program has no expiration date and the Company may discontinue purchases at any time that management determines additional purchases are not warranted.

Sponsorship

In order to provide electronic payment processing services, Visa, MasterCard and other payment networks require sponsorship of non-financial institutions by a member clearing bank. In July 2016, the Company extended its agreement with Fifth Third (the “Sponsoring Member”) to provide sponsorship services to the Company through December 31, 2024. The Company also has agreements with certain other banks that provide sponsorship into the card networks.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Revenue Recognition

The Company has contractual agreements with its clients that set forth the general terms and conditions of the relationship including line item pricing, payment terms and contract duration. Revenues are recognized as earned (i.e., for transaction based fees, when the underlying transaction is processed) in conjunction with ASC 605, *Revenue Recognition*. ASC 605, *Revenue Recognition*, establishes guidance as to when revenue is realized or realizable and earned by using the following criteria: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the seller’s price is fixed or determinable; and (4) collectibility is reasonably assured.

The Company follows guidance provided in ASC 605-45, *Principal Agent Considerations*, which states that the determination of whether a company should recognize revenue based on the gross amount billed to a customer or the net amount retained is a matter of judgment that depends on the facts and circumstances of the arrangement and that certain factors should be considered in the evaluation. The Company recognizes processing revenues net of interchange fees, which are assessed to the Company’s merchant customers on all processed transactions. Interchange rates are not controlled by the Company, which effectively acts as a clearing house collecting and remitting interchange fee settlement on behalf of issuing banks, debit networks, credit card associations and its processing customers. All other revenue is reported on a gross basis, as the Company contracts directly with the end customer, assumes the risk of loss and has pricing flexibility.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company generates revenue primarily by processing electronic payment transactions. Set forth below is a description of the Company's revenue by segment.

Merchant Services

The Company's Merchant Services segment revenue is primarily derived from processing credit and debit card transactions. Merchant Services revenue is primarily comprised of fees charged to businesses, net of interchange fees, for payment processing services, including authorization, capture, clearing, settlement and information reporting of electronic transactions. The fees charged consist of either a percentage of the dollar volume of the transaction or a fixed fee, or both, and are recognized at the time of the transaction. Merchant Services revenue also includes a number of revenue items that are incurred by the Company and are reimbursable as the costs are passed through to and paid by the Company's clients. These items primarily consist of Visa, MasterCard and other payment network fees. In addition, for sales through ISOs and certain other referral sources in which the Company is the primary party to the contract with the merchant, the Company records the full amount of the fees collected from the merchant as revenue. Merchant Services segment revenue also includes revenue from ancillary services such as fraud management, equipment sales and terminal rent. Merchant Services revenue is recognized as services are performed.

Financial Institution Services

The Company's Financial Institution Services segment revenue is primarily derived from debit, credit and ATM card transaction processing, ATM driving and support, and personal identification number ("PIN") debit processing services. Financial Institution Services revenue associated with processing transactions includes per transaction and account related fees, card production fees and fees generated from the Company's Jeanie network. Financial Institution Services revenue related to card transaction processing is recognized when consumers use their client-issued cards to make purchases. Financial Institution Services also generates revenue through other services, including statement production, collections and inbound/outbound call centers for credit transactions and other services such as credit card portfolio analytics, program strategy and support, fraud and security management and chargeback and dispute services. Financial Institution Services revenue is recognized as services are performed.

Financial Institution Services provides certain services to Fifth Third. Revenues related to these services are included in the accompanying statements of income as related party revenues.

Expenses

Set forth below is a brief description of the components of the Company's expenses:

- *Network fees and other costs* primarily consist of pass through expenses incurred by the Company in connection with providing processing services to its clients, including Visa and MasterCard network association fees, payment network fees, third party processing fees, telecommunication charges, postage and card production costs.
- *Sales and marketing* expense primarily consists of salaries and benefits paid to sales personnel, sales management and other sales and marketing personnel, residual payments made to ISOs and referral partners, and advertising and promotional costs.
- *Other operating costs* primarily consist of salaries and benefits paid to operational and IT personnel, costs associated with operating the Company's technology platform and data centers, information technology costs for processing transactions, product development costs, software consulting fees and maintenance costs.
- *General and administrative* expenses primarily consist of salaries and benefits paid to executive management and administrative employees, including finance, human resources, product development, legal and risk management, share-based compensation costs, equipment and occupancy costs and consulting costs.
- *Non-operating expenses* during the three months and nine months ended September 30, 2016 and 2015 primarily relate to the change in fair value of a tax receivable agreement ("TRA") (see Note 7 - Fair Value Measurements).

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Share-Based Compensation

The Company expenses employee share-based payments under ASC 718, *Compensation—Stock Compensation*, which requires compensation cost for the grant-date fair value of share-based payments to be recognized over the requisite service period. The Company estimates the grant date fair value of the share-based awards issued in the form of options using the Black-Scholes option pricing model. The fair value of restricted stock awards and performance awards is measured based on the market price of the Company's stock on the grant date. For the nine months ended September 30, 2016 and 2015 total share-based compensation expense was \$25.9 million and \$23.9 million, respectively.

In 2016 the Company began offering an Employee Stock Purchase Plan ("ESPP"). The ESPP has 2.5 million shares of common stock reserved for issuance. Full-time and benefits-eligible part-time employees who have completed at least one year of service are eligible to participate. Temporary, seasonal and employees subject to Section 16 reporting are excluded. Shares may be purchased at 85% of the market value at the end of the offering period through accumulation of payroll deductions. The ESPP provides for six month offerings commencing on January 1 and July 1 of each year with purchases on June 30 and December 31 of each year. The expense related to the ESPP's 15% discount is included in total share based compensation expense above.

Earnings Per Share

Basic earnings per share is computed by dividing net income attributable to Vantiv, Inc. by the weighted average shares outstanding during the period. Diluted earnings per share is computed by dividing net income attributable to Vantiv, Inc., adjusted as necessary for the impact of potentially dilutive securities, by the weighted-average shares outstanding during the period and the impact of securities that would have a dilutive effect on earnings per share. See Note 8 - Net Income Per Share for further discussion.

Dividend Restrictions

The Company does not intend to pay cash dividends on its Class A common stock in the foreseeable future. Vantiv, Inc. is a holding company that does not conduct any business operations of its own. As a result, Vantiv, Inc.'s ability to pay cash dividends on its common stock, if any, is dependent upon cash dividends and distributions and other transfers from Vantiv Holding. The amounts available to Vantiv, Inc. to pay cash dividends are subject to the covenants and distribution restrictions in its subsidiaries' loan agreements. As a result of the restrictions on distributions from Vantiv Holding and its subsidiaries, essentially all of the Company's consolidated net assets are held at the subsidiary level and are restricted as of September 30, 2016.

Income Taxes

Vantiv, Inc. is taxed as a C corporation for U.S. income tax purposes and is therefore subject to both federal and state taxation at a corporate level.

Income taxes are computed in accordance with ASC 740, *Income Taxes*, and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. The Company has deferred tax assets and liabilities and maintains valuation allowances where it is more likely than not that all or a portion of deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, such deferred tax assets will be adjusted through the Company's provision for income taxes in the period in which this determination is made. As of September 30, 2016 and December 31, 2015, the Company had recorded no valuation allowances against deferred tax assets.

The Company's consolidated interim effective tax rate is based upon expected annual income from operations, statutory tax rates and tax laws in the various jurisdictions in which the Company operates. Significant or unusual items, including adjustments to accruals for tax uncertainties, are recognized in the quarter in which the related event occurs.

The Company's effective tax rates were 31.8% and 30.6% respectively, for the nine months ended September 30, 2016 and 2015. The effective tax rate for each period reflects the impact of the Company's non-controlling interests not being taxed at the statutory corporate tax rates. As our non-controlling interest declines to the point Vantiv Holding is a wholly-owned subsidiary, we expect our effective rate to increase to approximately 36.0%.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Cash and Cash Equivalents

Cash on hand and investments with original maturities of three months or less (that are readily convertible to cash) are considered to be cash equivalents. Cash equivalents consist primarily of overnight EuroDollar sweep accounts which are maintained at reputable financial institutions with high credit quality and therefore are considered to bear minimal credit risk.

Accounts Receivable—net

Accounts receivable primarily represent processing revenues earned but not collected. For a majority of its customers, the Company has the authority to debit the client's bank accounts through the Federal Reserve's Automated Clearing House; as such, collectibility is reasonably assured. The Company records a reserve for doubtful accounts when it is probable that the accounts receivable will not be collected. The Company reviews historical loss experience and the financial position of its customers when estimating the allowance. As of September 30, 2016 and December 31, 2015, the allowance for doubtful accounts was not material to the Company's statements of financial position.

Customer Incentives

Customer incentives represent signing bonuses paid to customers. Customer incentives are paid in connection with the acquisition or renewal of customer contracts, and are therefore deferred and amortized using the straight-line method based on the contractual agreement. Related amortization is recorded as contra-revenue.

Property, Equipment and Software—net

Property, equipment and software consists of the Company's facilities, furniture and equipment, software, land and leasehold improvements. These assets are depreciated on a straight-line basis over their respective useful lives, which are 15 to 40 years for the Company's facilities and related improvements, 2 to 10 years for furniture and equipment, 3 to 8 years for software and 3 to 10 years for leasehold improvements or the lesser of the estimated useful life of the improvement or the term of lease. Also included in property, equipment and software is work in progress consisting of costs associated with software developed for internal use which has not yet been placed in service. Accumulated depreciation as of September 30, 2016 and December 31, 2015 was \$290.8 million and \$240.3 million, respectively.

The Company capitalizes certain costs related to computer software developed for internal use and amortizes such costs on a straight-line basis over an estimated useful life of 5 to 8 years. Research and development costs incurred prior to establishing technological feasibility are charged to operations as such costs are incurred. Once technological feasibility has been established, costs are capitalized until the software is placed in service.

Goodwill and Intangible Assets

In accordance with ASC 350, *Intangibles—Goodwill and Other*, the Company tests goodwill for impairment for each reporting unit on an annual basis, or when events occur or circumstances indicate the fair value of a reporting unit is below its carrying value. If the fair value of a reporting unit is less than its carrying value, an impairment loss is recorded to the extent that fair value of the goodwill within the reporting unit is less than its carrying value. The Company performed its most recent annual goodwill impairment test for all reporting units as of July 31, 2016 in accordance with ASU 2011-08, "Intangibles - Goodwill and Other (Topic 350) Testing Goodwill for Impairment," which permits the Company to assess qualitative factors to determine whether the existence of events or circumstances leads to the determination that it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Based on this analysis, it was determined that it is not more likely than not that the fair value of the reporting units is less than the carrying value. There have been no other events or changes in circumstances subsequent to the testing date that would indicate impairment of these reporting units as of September 30, 2016.

Intangible assets consist of acquired customer relationships, trade names, customer portfolios and related assets that are amortized over their estimated useful lives. The Company reviews finite lived intangible assets for possible impairment whenever events or changes in circumstances indicate that carrying amounts may not be recoverable. As of September 30, 2016, there have been no such events or circumstances that would indicate potential impairment of finite lived intangible assets.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Settlement Assets and Obligations

Settlement assets and obligations result from Financial Institution Services when funds are transferred from or received by the Company prior to receiving or paying funds to a different entity. This timing difference results in a settlement asset or obligation. The amounts are generally collected or paid the following business day.

The settlement assets and obligations recorded by Merchant Services represent intermediary balances due to differences between the amount the Sponsoring Member receives from the card associations and the amount funded to the merchants. Such differences arise from timing differences, interchange expenses, merchant reserves and exception items. In addition, certain card associations limit the Company from accessing or controlling merchant settlement funds and, instead, require that these funds be controlled by the Sponsoring Member. The Company follows a net settlement process whereby, if the settlement received from the card associations precedes the funding obligation to the merchant, the Company temporarily records a corresponding liability. Conversely, if the funding obligation to the merchant precedes the settlement from the card associations, the amount of the net receivable position is recorded by the Company, or in some cases, the Sponsoring Member may cover the position with its own funds in which case a receivable position is not recorded by the Company.

Derivatives

The Company accounts for derivatives in accordance with ASC 815, *Derivatives and Hedging*. This guidance establishes accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. All derivatives, whether designated in hedging relationships or not, are required to be recorded on the statement of financial position at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and the hedged item will be recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portion of the change in the fair value of the derivative will be recorded in accumulated other comprehensive income (loss) ("AOCI") and will be recognized in the statement of income when the hedged item affects earnings. The Company does not enter into derivative financial instruments for speculative purposes.

Tax Receivable Agreements

As of September 30, 2016, the Company is party to several TRAs in which the Company agrees to make payments to various parties of 85% of the federal, state, local and foreign income tax benefits realized by the Company as a result of certain tax deductions. Payments under the TRAs will be based on the tax reporting positions of the Company and are only required to the extent the Company realizes cash savings as a result of the underlying tax attributes. The cash savings realized by the Company are computed by comparing the actual income tax liability of the Company to the amount of such taxes the Company would have been required to pay had there been no deductions related to the tax attributes discussed below. The Company will retain the benefit of the remaining 15% of the cash savings associated with the TRAs. The Company has entered into the following three TRAs:

- TRAs with investors prior to the Company's initial public offering ("IPO") for its use of NPC Group, Inc. net operating losses ("NOLs") and other tax attributes existing at the IPO date (the "NPC TRA"), all of which is currently held by Fifth Third.
- A TRA with Fifth Third (the "Fifth Third TRA") in which the Company realizes tax deductions as a result of the increases in tax basis from the purchase of Vantiv Holding units or from the exchange of Vantiv Holding units for cash or shares of Class A common stock, as well as the tax benefits attributable to payments made under such TRAs.
- A TRA with Mercury Payment Systems, LLC ("Mercury") shareholders (the "Mercury TRA") as part of the acquisition of Mercury as a result of the increase in tax basis of the assets of Mercury resulting from the acquisition and the use of the net operating losses and other tax attributes of Mercury that were acquired as part of the acquisition.

Obligations recorded pursuant to the TRAs are based on estimates of future taxable income and future tax rates. On an annual basis, the Company evaluates the assumptions underlying the TRA obligations.

During 2015, the Company entered into a Repurchase Addendum to Tax Receivable Agreement (the "Mercury TRA Addendum") with each of the pre-acquisition owners of Mercury ("Mercury TRA Holders"). The Mercury TRA Addendum contains the following provisions to acquire a significant portion of the Mercury TRA:

Vantiv, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Beginning December 1st of each of 2015, 2016, 2017, and 2018, and ending June 30th of 2016, 2017, 2018, and 2019, respectively, the Company is granted call options (collectively, the "Call Options") pursuant to which certain additional obligations of the Company under the Mercury TRA would be terminated in consideration for cash payments of \$41.4 million, \$38.1 million, \$38.0 million, and \$43.0 million, respectively.
- In the unlikely event the Company does not exercise the relevant Call Option, the Mercury TRA Holders are granted put options beginning July 10th and ending July 25th of each of 2016, 2017, 2018, and 2019, respectively (collectively, the "Put Options"), pursuant to which certain additional obligations of the Company would be terminated in consideration for cash payments with similar amounts to the Call Options.
- In June 2016, the Company exercised the December 2015 Call Option and made a payment to the Mercury TRA Holders.

On July 27, 2016, the Company entered into a purchase addendum in connection with the Company's TRA with Fifth Third (the "Fifth Third TRA Addendum") to terminate and settle a portion of the Company's obligations owed to Fifth Third under the Fifth Third TRA and the NPC TRA. Under the terms of the Fifth Third TRA Addendum, the Company paid approximately \$116.3 million to Fifth Third to settle approximately \$330.7 million of obligations under the Fifth Third TRA, the difference of which had been recorded as an addition to paid-in capital.

In addition, the Fifth Third TRA Addendum provides that the Company may be obligated to pay up to a total of approximately \$170.7 million to Fifth Third to terminate and settle certain remaining obligations under the Fifth Third TRA and the NPC TRA, totaling an estimated \$394.1 million upon the exercise of the Call Options or Put Options discussed below.

Under the terms of the Fifth Third TRA Addendum, beginning March 1, 2017, June 1, 2017, September 1, 2017, December 1, 2017, March 1, 2018, June 1, 2018, September 1, 2018 and December 1, 2018, and ending March 10, 2017, June 10, 2017, September 10, 2017, December 10, 2017, March 10, 2018, June 10, 2018, September 10, 2018 and December 10, 2018, respectively, the Company is granted call options (collectively, the "Call Options") pursuant to which certain additional obligations of the Company under the Fifth Third TRA and the NPC TRA would be terminated and settled in consideration for cash payments of \$15.1 million, \$15.6 million, \$16.1 million, \$16.6 million, \$25.6 million, \$26.4 million, \$27.2 million and \$28.1 million, respectively.

Under the terms of the Fifth Third TRA Addendum, if the Company does not exercise the relevant Call Option, Fifth Third is granted put options beginning March 20, 2017, June 20, 2017, September 20, 2017, December 20, 2017, March 20, 2018, June 20, 2018, September 20, 2018 and December 20, 2018, and ending March 31, 2017, June 30, 2017, September 30, 2017, December 31, 2017, March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018, respectively (collectively, the "Put Options"), pursuant to which certain additional obligations of the Company would be terminated and settled in consideration for cash payments with similar amounts to the Call Options.

The full carrying amount of the Fifth Third callable/puttable TRA obligations for the options exercisable within 12 months of the balance sheet date have been classified as current obligations in the accompanying balance sheet (\$118.2 million).

Since Fifth Third is a stockholder of the Company, a special committee of the Company's board of directors comprised of independent, disinterested directors authorized the TRA Addendum.

All TRA obligations are recorded based on the full and undiscounted amount of the expected future payments, except for the Mercury TRA which represents contingent consideration relating to an acquired business, and is recorded at fair value for financial reporting purposes (see Note 7 - Fair Value Measurements).

Payments under the TRAs, if necessary, are required to be made no later than January 5th of the second year immediately following the taxable year in which the obligation occurred. The Company made payments under the TRA obligations of approximately \$53.5 million and \$22.8 million in January 2016 and January 2015, respectively. Except to the extent the Company's obligations under the Mercury TRA and Fifth Third and NPC TRAs have been terminated and settled in full in accordance with the terms of each respective TRA addendum, the TRAs will remain, in effect, and the parties thereto will continue to have all rights and obligations thereunder.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*. The update clarifies how cash receipts and cash payments in certain transactions are presented and classified in the statement of cash flows. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The update requires retrospective application to all periods presented but may be applied prospectively if retrospective application is impracticable. The Company is currently evaluating the impact of the adoption of this principle on the Company’s consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation- Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*. The update simplifies several aspects of the accounting for share-based payment award transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. The update is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted in any interim or annual period. The Company is currently evaluating the impact of the adoption of this update on the Company’s consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. This ASU amends the existing guidance by recognizing all leases, including operating leases, with a term longer than 12 months on the balance sheet and disclosing key information about the lease arrangements. The effective date of this update is for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The update requires modified retrospective transition, which requires application of the ASU at the beginning of the earliest comparative period presented in the year of adoption. The Company is currently evaluating the impact of the adoption of this principle on the Company’s consolidated financial statements.

In November 2015, the FASB issued ASU 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*. The update simplifies the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in the balance sheet. The update is effective for public companies for annual reporting periods beginning after December 15, 2016, and interim periods within those fiscal years. The guidance may be adopted prospectively or retrospectively and early adoption is permitted. As of December 31, 2015, the Company elected to early adopt this ASU on a prospective basis and therefore, prior years were not retrospectively adjusted.

In April 2015, the FASB issued ASU 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This standard was clarified in August 2015 with the issuance of ASU 2015-15. The update requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability instead of being presented as an asset. Amortization of the costs will continue to be reported as interest expense. These updates require retrospective application and represent a change in accounting principle. The change in accounting principle, resulting from the Company’s adoption of this ASU in December 2015, has been implemented and the results were not material to the Company’s consolidated statement of financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers*. The ASU supersedes the revenue recognition requirements in ASC 605, *Revenue Recognition*. The new standard provides a five-step analysis of transactions to determine when and how revenue is recognized, based upon the core principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The new standard, as amended, is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The amendment allows companies to use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating which transition approach to use and assessing the impact of the adoption of this principle on the Company’s consolidated financial statements. The Company anticipates adopting this ASU on January 1, 2018.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. INTANGIBLE ASSETS

As of September 30, 2016 and December 31, 2015, the Company's finite lived intangible assets consisted of the following (in thousands):

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
Customer relationship intangible assets	\$ 1,596,581	\$ 1,596,581
Trade name	15,000	21,733
Customer portfolios and related assets	149,644	129,734
Patents	653	366
	<u>1,761,878</u>	<u>1,748,414</u>
Less accumulated amortization on:		
Customer relationship intangible assets	941,325	821,580
Trade name	13,802	14,350
Customer portfolios and related assets	72,501	49,418
	<u>1,027,628</u>	<u>885,348</u>
Intangible assets, net	<u>\$ 734,250</u>	<u>\$ 863,066</u>

Amortization expense on intangible assets for the three months ended September 30, 2016 and 2015 was \$49.7 million and \$51.0 million, respectively. Amortization expense on intangible assets for the nine months ended September 30, 2016 and 2015 was \$149.0 million and \$149.8 million, respectively.

The estimated amortization expense of intangible assets for the remainder of 2016 and the next five years is as follows (in thousands):

Three months ending December 31, 2016	\$ 49,429
2017	176,801
2018	165,424
2019	156,403
2020	83,405
2021	37,262

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. LONG-TERM DEBT

As of September 30, 2016 and December 31, 2015, the Company's long-term debt consisted of the following (in thousands):

	September 30, 2016	December 31, 2015
Term A loan, maturing on June 13, 2019 ⁽¹⁾	\$ 1,819,375	\$ 1,896,250
Term B loan, maturing on June 13, 2021 ⁽²⁾	1,165,000	1,179,000
Leasehold mortgage, expiring on August 10, 2021 ⁽³⁾	10,131	10,131
Less: Current portion of note payable and current portion of note payable to related party ⁽⁴⁾	(98,339)	(116,501)
Less: Original issue discount	(5,062)	(6,024)
Less: Debt issuance costs	(15,362)	(19,218)
Note payable and note payable to related party	\$ 2,875,743	\$ 2,943,638

- (1) Interest at a variable base rate (LIBOR) plus a spread rate (175 basis points) (total rate of 2.27% at September 30, 2016) and amortizing on a basis of 1.25% per quarter during each of the first twelve quarters (September 2014 through June 2017), 1.875% per quarter during the next four quarters (September 2017 through June 2018) and 2.50% during the next three quarters (September 2018 through March 2019) with a balloon payment due at maturity.
- (2) Interest at a variable base rate (LIBOR) with a floor of 75 basis points plus a spread rate (275 basis points) (total rate of 3.50% at September 30, 2016) and amortizing on a basis of 0.25% per quarter, with a balloon payment due at maturity.
- (3) Interest payable monthly at a fixed rate of 6.22%.
- (4) Balance reflects the current portion as a result of an October 2016 debt refinancing. See Note 11 - Subsequent Events for discussion of the October 2016 debt refinancing.

As of September 30, 2016, in addition to the term A loan and term B loan listed in the table above, the Company has access to a \$425 million revolving credit facility under our existing amended and restated loan agreement ("Amended Loan Agreement") entered into in June 2014. The revolving credit facility matures in June 2019 and includes a \$100 million swing line facility and a \$40 million letter of credit facility. The commitment fee rate for the unused portion of the revolving credit facility is 0.25% per year. During the three months ended September 30, 2016 the Company periodically borrowed under its revolving credit facility and repaid the amounts prior to quarter end. There were no outstanding borrowings on the revolving credit facility at September 30, 2016 and December 31, 2015.

As of September 30, 2016 and December 31, 2015, Fifth Third held \$183.8 million and \$191.5 million, respectively, of the term A loans, which were presented as note payable to related party on the Company's consolidated statements of financial position.

On January 6, 2015, the Company made an early principal payment of \$200 million on the term B loan. The Company expensed approximately \$1.8 million in non-operating expenses related to the write-off of deferred financing fees and OID in connection with the early principal payment.

See Note 11 - Subsequent Events for a discussion of the Company's debt refinancing executed on October 14, 2016.

Guarantees and Security

The Company's debt obligations at September 30, 2016 are unconditional and are guaranteed by Vantiv Holding and certain of Vantiv Holding's existing and subsequently acquired or organized domestic subsidiaries. The debt and related guarantees are secured on a first-priority basis (subject to liens permitted under the Amended Loan Agreement) by substantially all the capital stock (subject to a 65% limitation on pledges of capital stock of foreign subsidiaries and domestic holding companies of foreign subsidiaries) and personal property of Vantiv Holding and any obligors as well as any real property in excess of \$10 million in the aggregate held by Vantiv Holding or any obligors (other than Vantiv Holding), subject to certain exceptions.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Covenants

There are certain financial and non-financial covenants contained in the Amended Loan Agreement for the refinanced debt, which are tested on a quarterly basis. The financial covenants require maintenance of certain leverage and interest coverage ratios. At September 30, 2016, the Company was in compliance with these financial covenants.

4. DERIVATIVES AND HEDGING ACTIVITIES***Risk Management Objective of Using Derivatives***

The Company enters into derivative financial instruments to manage differences in the amount, timing and duration of its known or expected cash payments related to its variable-rate debt. As of December 31, 2015, the Company's derivative instruments consisted of interest rate swaps, which hedged the variable rate debt by converting floating-rate payments to fixed-rate payments. In addition to the interest rate swaps, in March the Company entered into interest rate cap agreements in exchange for an upfront premium of \$21.5 million. These interest rate cap agreements cap a portion of the Company's variable rate debt if interest rates rise above the strike rate on the contract. As of September 30, 2016 the interest rate cap agreements had a fair value of \$10.7 million, classified within other current and non-current assets on the Company's consolidated statements of financial position. The interest rate swaps and caps (collectively "interest rate contracts") are designated as cash flow hedges for accounting purposes.

Accounting for Derivative Instruments

The Company recognizes derivatives in other current and non-current assets or liabilities in the accompanying consolidated statements of financial position at their fair values. Refer to Note 7 - Fair Value Measurements for a detailed discussion of the fair value of its derivatives. The Company designates its interest rate contracts as cash flow hedges of forecasted interest rate payments related to its variable-rate debt.

The Company formally documents all relationships between hedging instruments and underlying hedged transactions, as well as its risk management objective and strategy for undertaking hedge transactions. This process includes linking all derivatives that are designated as cash flow hedges to forecasted transactions. A formal assessment of hedge effectiveness is performed both at inception of the hedge and on an ongoing basis to determine whether the hedge is highly effective in offsetting changes in cash flows of the underlying hedged item. Hedge effectiveness is assessed using a regression analysis. If it is determined that a derivative ceases to be highly effective during the term of the hedge, the Company will discontinue hedge accounting for such derivative.

The Company's interest rate contracts qualify for hedge accounting under ASC 815, *Derivatives and Hedging*. Therefore, the effective portion of changes in fair value were recorded in AOCI and will be reclassified into earnings in the same period during which the hedged transactions affected earnings.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish these objectives, the Company uses a combination of interest rate swaps and caps as part of its interest rate risk management strategy. As of September 30, 2016, the Company had a total of 10 outstanding interest rate swaps that were designated as cash flow hedges of interest rate risk. Of the 10 outstanding interest rate swaps, 4 of them cover an exposure period from June 2016 through June 2017 and have a combined notional balance of \$1.1 billion. The remaining 6 interest rate swaps cover an exposure period from January 2016 through January 2019 and have a combined notional balance of \$500 million. Fifth Third is the counterparty to 4 of the 10 outstanding interest rate swaps with notional balances ranging from \$262.5 million to \$250.0 million. Additionally, as of September 30, 2016, the Company had a total of 6 interest rate cap agreements with a combined notional balance of \$1.0 billion, cap strike rate of 0.75%, covering an exposure period from January 2017 to January 2020.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The Company does not offset derivative positions in the accompanying consolidated financial statements. The table below presents the fair value of the Company's derivative financial instruments designated as cash flow hedges included within the accompanying consolidated statements of financial position (in thousands):

	Consolidated Statement of Financial Position Location	September 30, 2016		December 31, 2015	
Interest rate contracts	Other current assets	\$	664	\$	—
Interest rate contracts	Other long-term assets		10,064		—
Interest rate contracts	Other current liabilities		12,836		9,343
Interest rate contracts	Other long-term liabilities		9,552		9,885

Any ineffectiveness associated with such derivative instruments will be recorded immediately as interest expense in the accompanying consolidated statements of income. As of September 30, 2016, the Company estimates that \$15.7 million will be reclassified from accumulated other comprehensive income as an increase to interest expense during the next 12 months.

The table below presents the pre-tax effect of the Company's interest rate contracts on the accompanying consolidated statements of comprehensive income for the three and nine months ended September 30, 2016 and 2015 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Derivatives in cash flow hedging relationships:				
Amount of gain (loss) recognized in OCI (effective portion) ⁽¹⁾	\$ 1,247	\$ (9,686)	\$ (22,964)	\$ (22,838)
Amount of (loss) reclassified from accumulated OCI into earnings (effective portion)	(3,923)	(2,392)	(9,010)	(4,685)
Amount of gain recognized in earnings ⁽²⁾	—	—	—	—

⁽¹⁾ "OCI" represents other comprehensive income.

⁽²⁾ Amount represents hedge ineffectiveness and is recorded as a component of interest expense-net in the accompanying consolidated statement of income.

Credit Risk Related Contingent Features

As of September 30, 2016, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was \$23.4 million.

The Company has agreements with each of its derivative counterparties that contain a provision where if the Company defaults on any of its indebtedness, then the Company could also be declared in default on its derivative obligations. As of September 30, 2016, the Company had not posted any collateral related to these agreements. If the Company had breached any of these provisions at September 30, 2016, it could have been required to settle its obligations under the agreements at their termination value of \$23.4 million.

5. CONTROLLING AND NON-CONTROLLING INTERESTS

The Company has various non-controlling interests that are accounted for in accordance with ASC 810, *Consolidation* ("ASC 810"). As discussed in Note 1 - Basis of Presentation and Summary of Significant Accounting Policies, Vantiv, Inc. owns a controlling interest in Vantiv Holding, and therefore consolidates the financial results of Vantiv Holding and its subsidiaries and records non-controlling interest for the economic interests in Vantiv Holding held by Fifth Third. The Exchange Agreement entered into prior to the IPO provides for a 1 to 1 ratio between the units of Vantiv Holding and the common stock of Vantiv, Inc.

In May 2014, the Company entered into a joint venture with a bank partner which provides customers a comprehensive suite of payment solutions. Vantiv Holding owns 51% and the bank partner owns 49% of the joint venture. The joint venture is consolidated by the Company in accordance with ASC 810, with the associated non-controlling interest included in "Net income attributable to non-controlling interests" in the consolidated statements of income.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

As of September 30, 2016, Vantiv, Inc.'s interest in Vantiv Holding was 81.68%. Changes in units and related ownership interest in Vantiv Holding are summarized as follows:

	Vantiv, Inc.	Fifth Third	Total
As of December 31, 2015	155,488,326	35,042,826	190,531,152
<i>% of ownership</i>	81.61%	18.39%	
Share repurchases	(456,600)	—	(456,600)
Equity plan activity ⁽¹⁾	1,255,845	—	1,255,845
As of September 30, 2016	156,287,571	35,042,826	191,330,397
<i>% of ownership</i>	81.68%	18.32%	

⁽¹⁾ Includes stock issued under the equity plans net of Class A common stock withheld to satisfy employee tax withholding obligations upon vesting and forfeitures of restricted Class A common stock awards.

As a result of changes in ownership interests in Vantiv Holding, periodic adjustments are made in order to reflect the portion of net assets of Vantiv Holding attributable to non-controlling unit holders based on changes in the proportionate ownership interests in Vantiv Holding during a period.

The table below provides a reconciliation of net income attributable to non-controlling interests based on relative ownership interests as discussed above (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	\$ 87,004	\$ 59,148	\$ 217,913	\$ 138,837
Items not allocable to non-controlling interests:				
Vantiv, Inc. expenses ⁽¹⁾	23,628	16,158	58,019	36,555
Vantiv Holding net income	\$ 110,632	\$ 75,306	\$ 275,932	\$ 175,392
Net income attributable to non-controlling interests of Fifth Third ⁽²⁾	\$ 20,155	\$ 17,152	\$ 50,082	\$ 39,523
Net income attributable to joint venture non-controlling interest ⁽³⁾	553	504	2,470	2,297
Total net income attributable to non-controlling interests	\$ 20,708	\$ 17,656	\$ 52,552	\$ 41,820

⁽¹⁾ Primarily represents income tax expense related to Vantiv, Inc.

⁽²⁾ Net income attributable to non-controlling interests of Fifth Third reflects the allocation of Vantiv Holding's net income based on the proportionate ownership interests in Vantiv Holding held by the non-controlling unit holders. The net income attributable to non-controlling unit holders reflects the changes in ownership interests summarized in the table above.

⁽³⁾ Reflects net income attributable to the non-controlling interest of the joint venture.

At September 30, 2016, Fifth Third holds the rights, under a warrant, to purchase 7.8 million Class C Non-Voting Units of Vantiv Holding at an exercise price of \$15.98 per unit. The warrant is currently exercisable, in whole or in part, and from time to time. The warrant expires upon the earliest to occur of June 30, 2029 or a change of control where the price paid per unit in such change of control minus the exercise price of the warrant is less than zero. The remaining carrying value of the warrant (\$25 million) is recorded as a component of non-controlling interest on the accompanying statements of financial position.

6. COMMITMENTS, CONTINGENCIES AND GUARANTEES

Legal Reserve

From time to time, the Company is involved in various litigation matters arising in the ordinary course of its business. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, management believes none of these matters, either individually or in the aggregate, would have a material effect upon the Company's consolidated financial statements.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses the hierarchy prescribed in ASC 820, *Fair Value Measurement*, based upon the available inputs to the valuation and the degree to which they are observable or not observable in the market. The three levels in the hierarchy are as follows:

- *Level 1 Inputs*—Quoted prices (unadjusted) for identical assets or liabilities in active markets that are accessible as of the measurement date.
- *Level 2 Inputs*—Inputs other than quoted prices within Level 1 that are observable either directly or indirectly, including but not limited to quoted prices in markets that are not active, quoted prices in active markets for similar assets or liabilities and observable inputs other than quoted prices such as interest rates or yield curves.
- *Level 3 Inputs*—Unobservable inputs reflecting the Company’s own assumptions about the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			December 31, 2015		
	Fair Value Measurements Using					
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Assets:						
Interest rate contracts	\$ —	\$ 10,728	\$ —	\$ —	\$ —	\$ —
Liabilities:						
Interest rate contracts	\$ —	\$ 22,388	\$ —	\$ —	\$ 19,228	\$ —
Mercury TRA	—	—	142,446	—	—	191,207

Interest Rate Contracts

The Company uses interest rate contracts to manage interest rate risk. The fair value of interest rate swaps is determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on the expectation of future interest rates (forward curves) derived from observed market interest rate curves. The fair value of the interest rate caps is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected future cash flows of each interest rate cap. This analysis reflects the contractual terms of the interest rate caps, including the period to maturity, and uses observable market inputs including interest rate curves and implied volatilities. In addition, to comply with the provisions of ASC 820, *Fair Value Measurement*, credit valuation adjustments, which consider the impact of any credit enhancements to the contracts, are incorporated in the fair values to account for potential nonperformance risk. In adjusting the fair value of its interest rate contracts for the effect of nonperformance risk, the Company has considered any applicable credit enhancements such as collateral postings, thresholds, mutual puts, and guarantees.

Although the Company determined that the majority of the inputs used to value its interest rate contracts fell within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its interest rate contracts utilized Level 3 inputs, such as estimates of current credit spreads to evaluate the likelihood of default by itself and its counterparties. However, as of September 30, 2016 and December 31, 2015, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its interest rate contracts and determined that the credit valuation adjustment was not significant to the overall valuation of its interest rate contracts. As a result, the Company classified its interest rate contract valuations in Level 2 of the fair value hierarchy. See Note 4 - Derivatives and Hedging Activities for further discussion of the Company’s interest rate contracts.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

Mercury TRA

The Mercury TRA is considered contingent consideration as it is part of the consideration payable to the former owners of Mercury. Such contingent consideration is measured at fair value and is based on significant inputs not observable in the market, which is classified in Level 3 of the fair value hierarchy. The Mercury TRA is recorded at fair value based on estimates of discounted future cash flows associated with the estimated payments to the Mercury TRA Holders. The significant unobservable input used in the fair value measurement of the Mercury TRA is the discount rate, which was approximately 14% as of September 30, 2016 and December 31, 2015. Any significant increase (decrease) in this input would result in a significantly lower (higher) fair value measurement. The liability recorded is re-measured at fair value at each reporting period with the change in fair value recognized in earnings as a non-operating expense. The change in value of the Mercury TRA from December 31, 2015 to September 30, 2016 consists of the increase in fair value of \$14.9 million and the decrease from payments of \$63.6 million related to the Mercury TRA obligations and the exercised 2015 Call Option. The Company recorded non-operating expenses of \$4.6 million and \$7.5 million related to the change in fair value during the three months ended September 30, 2016 and 2015, respectively. The Company recorded non-operating expenses of \$14.9 million and \$21.2 million related to the change in fair value during the nine months ended September 30, 2016 and 2015, respectively.

The following table summarizes carrying amounts and estimated fair values for the Company's financial instrument liabilities that are not reported at fair value in our consolidated statements of financial position as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016		December 31, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities:				
Note payable	\$ 2,974,082	\$ 2,992,907	\$ 3,060,139	\$ 3,064,989

We consider that the carrying value of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates fair value (level 1) given the short-term nature of these items. The fair value of the Company's note payable was estimated based on rates currently available to the Company for bank loans with similar terms and maturities and is classified in Level 2 of the fair value hierarchy.

8. NET INCOME PER SHARE

Basic net income per share is calculated by dividing net income attributable to Vantiv, Inc. by the weighted-average shares of Class A common stock outstanding during the period.

Diluted net income per share is calculated assuming that Vantiv Holding is a wholly-owned subsidiary of Vantiv, Inc., therefore eliminating the impact of Fifth Third's non-controlling interest. Pursuant to the Exchange Agreement, the Class B units of Vantiv Holding ("Class B units"), which are held by Fifth Third and represent the non-controlling interest in Vantiv Holding, are convertible into shares of Class A common stock on a one-for-one basis. Based on this conversion feature, diluted net income per share is calculated assuming the conversion of the Class B units on an "if-converted" basis. Due to the Company's structure as a C corporation and Vantiv Holding's structure as a pass-through entity for tax purposes, the numerator in the calculation of diluted net income per share is adjusted accordingly to reflect the Company's income tax expense assuming the conversion of the Fifth Third non-controlling interest into Class A common stock. The adjusted effective tax rate used in the calculation was 36.0% for 2016 and 2015, which is the effective rate we expect as our non-controlling interest declines to the point Vantiv Holding is a wholly-owned subsidiary. As of September 30, 2016 and 2015, there were approximately 35.0 million and 43.0 million Class B units outstanding, respectively.

In addition to the Class B units discussed above, potentially dilutive securities during the three and nine months ended September 30, 2016 and 2015 included restricted stock awards, restricted stock units, the warrant held by Fifth Third which allows for the purchase of Class C units of Vantiv Holding, stock options, performance share awards and ESPP purchase rights, all calculated based on the treasury stock method.

The shares of Class B common stock do not share in the earnings or losses of the Company and are therefore not participating securities. Accordingly, basic and diluted net income per share of Class B common stock has not been presented.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

The following table sets forth the computation of basic and diluted net income per share (in thousands, except share data):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic:				
Net income attributable to Vantiv, Inc.	\$ 66,296	\$ 41,492	\$ 165,361	\$ 97,017
Shares used in computing basic net income per share:				
Weighted-average Class A common shares	155,740,660	145,015,310	155,603,265	145,039,413
Basic net income per share	\$ 0.43	\$ 0.29	\$ 1.06	\$ 0.67
Diluted:				
Consolidated income before applicable income taxes	\$ 126,328	\$ 83,924	\$ 319,504	\$ 200,185
Income tax expense excluding impact of non-controlling interest	45,478	30,213	115,021	72,067
Net income attributable to Vantiv, Inc.	\$ 80,850	\$ 53,711	\$ 204,483	\$ 128,118
Shares used in computing diluted net income per share:				
Weighted-average Class A common shares	155,740,660	145,015,310	155,603,265	145,039,413
Weighted-average Class B units of Vantiv Holding	35,042,826	43,042,826	35,042,826	43,042,826
Warrant	5,550,050	12,826,059	5,428,637	12,124,954
Stock options	506,635	517,379	547,640	743,307
Restricted stock awards, restricted stock units and employee stock purchase plan	501,998	497,450	504,203	533,152
Diluted weighted-average shares outstanding	197,342,169	201,899,024	197,126,571	201,483,652
Diluted net income per share	\$ 0.41	\$ 0.27	\$ 1.04	\$ 0.64

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The activity of the components of accumulated other comprehensive income (loss) related to cash flow hedging and other activities for the three and nine months ended September 30, 2016 and 2015 is presented below (in thousands):

	AOCI Beginning Balance	Total Other Comprehensive Income (Loss)					AOCI Ending Balance
		Pretax Activity	Tax Effect	Net Activity	Attributable to non- controlling interests	Attributable to Vantiv, Inc.	
Three Months Ended September 30, 2016							
Net change in fair value recorded in accumulated OCI	\$ (26,644)	\$ 1,247	\$ (386)	\$ 861	\$ (227)	\$ 634	\$ (26,010)
Net realized loss reclassified into earnings ^(a)	7,720	3,923	(1,212)	2,711	(719)	1,992	9,712
Net change	<u>\$ (18,924)</u>	<u>\$ 5,170</u>	<u>\$ (1,598)</u>	<u>\$ 3,572</u>	<u>\$ (946)</u>	<u>\$ 2,626</u>	<u>\$ (16,298)</u>
Three Months Ended September 30, 2015							
Net change in fair value recorded in accumulated OCI	\$ (11,606)	\$ (9,686)	\$ 2,814	\$ (6,872)	\$ 2,235	\$ (4,637)	\$ (16,243)
Net realized loss reclassified into earnings ^(a)	2,831	2,392	(693)	1,699	(554)	1,145	3,976
Other	(212)	—	—	—	—	—	(212)
Net change	<u>\$ (8,987)</u>	<u>\$ (7,294)</u>	<u>\$ 2,121</u>	<u>\$ (5,173)</u>	<u>\$ 1,681</u>	<u>\$ (3,492)</u>	<u>\$ (12,479)</u>
Nine Months Ended September 30, 2016							
Net change in fair value recorded in accumulated OCI	\$ (14,336)	\$ (22,964)	\$ 7,080	\$ (15,884)	\$ 4,210	\$ (11,674)	\$ (26,010)
Net realized loss reclassified into earnings ^(a)	5,132	9,010	(2,780)	6,230	(1,650)	4,580	9,712
Net change	<u>\$ (9,204)</u>	<u>\$ (13,954)</u>	<u>\$ 4,300</u>	<u>\$ (9,654)</u>	<u>\$ 2,560</u>	<u>\$ (7,094)</u>	<u>\$ (16,298)</u>
Nine Months Ended September 30, 2015							
Net change in fair value recorded in accumulated OCI	\$ (5,288)	\$ (22,838)	\$ 6,645	\$ (16,193)	\$ 5,238	\$ (10,955)	\$ (16,243)
Net realized loss reclassified into earnings ^(a)	1,732	4,685	(1,365)	3,320	(1,076)	2,244	3,976
Other	(212)	—	—	—	—	—	(212)
Net change	<u>\$ (3,768)</u>	<u>\$ (18,153)</u>	<u>\$ 5,280</u>	<u>\$ (12,873)</u>	<u>\$ 4,162</u>	<u>\$ (8,711)</u>	<u>\$ (12,479)</u>

^(a) The reclassification adjustment on cash flow hedge derivatives affected the following lines in the accompanying consolidated statements of income:

OCI Component	Affected line in the accompanying consolidated statements of income
Pretax activity ⁽¹⁾	Interest expense-net
Tax effect	Income tax expense
OCI attributable to non-controlling interests	Net income attributable to non-controlling interests

⁽¹⁾ The three and nine months ended September 30, 2016 and 2015 reflect amounts of losses reclassified from AOCI into earnings, representing the effective portion of the hedging relationships, and are recorded in interest expense-net.

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. SEGMENT INFORMATION

The Company’s segments consist of the Merchant Services segment and the Financial Institution Services segment, which are organized by the products and services the Company provides. The Company’s Chief Executive Officer (“CEO”), who is the chief operating decision maker (“CODM”), evaluates the performance and allocates resources based on the operating results of each segment. The Company’s reportable segments are the same as the Company’s operating segments and there is no aggregation of the Company’s operating segments. Below is a summary of each segment:

- *Merchant Services*—Provides merchant acquiring and payment processing services to large national merchants, regional and small-to-mid sized businesses. Merchant services are sold to small to large businesses through diverse distribution channels. Merchant Services includes all aspects of card processing including authorization and settlement, customer service, chargeback and retrieval processing and interchange management.
- *Financial Institution Services*—Provides card issuer processing, payment network processing, fraud protection, card production, prepaid program management, ATM driving and network gateway and switching services that utilize the Company’s proprietary Jeanie debit payment network to a diverse set of financial institutions, including regional banks, community banks, credit unions and regional PIN networks. Financial Institution Services also provides statement production, collections and inbound/outbound call centers for credit transactions, and other services such as credit card portfolio analytics, program strategy and support, fraud and security management and chargeback and dispute services.

Segment operating results are presented below (in thousands). The results reflect revenues and expenses directly related to each segment. The Company does not evaluate performance or allocate resources based on segment asset data, and therefore such information is not presented.

Segment profit reflects total revenue less network fees and other costs and sales and marketing costs of the segment. The Company’s CODM evaluates this metric in analyzing the results of operations for each segment.

	Three Months Ended September 30, 2016		
	Merchant Services	Financial Institution Services	Total
Total revenue	\$ 793,860	\$ 120,159	\$ 914,019
Network fees and other costs	389,448	33,913	423,361
Sales and marketing	147,663	5,585	153,248
Segment profit	\$ 256,749	\$ 80,661	\$ 337,410

	Three Months Ended September 30, 2015		
	Merchant Services	Financial Institution Services	Total
Total revenue	\$ 687,394	\$ 128,604	\$ 815,998
Network fees and other costs	342,518	43,030	385,548
Sales and marketing	126,400	6,081	132,481
Segment profit	\$ 218,476	\$ 79,493	\$ 297,969

	Nine Months Ended September 30, 2016		
	Merchant Services	Financial Institution Services	Total
Total revenue	\$ 2,251,033	\$ 372,826	\$ 2,623,859
Network fees and other costs	1,117,602	103,908	1,221,510
Sales and marketing	416,107	17,623	433,730
Segment profit	\$ 717,324	\$ 251,295	\$ 968,619

Vantiv, Inc.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

	Nine Months Ended September 30, 2015		
	Merchant Services	Financial Institution Services	Total
Total revenue	\$ 1,935,364	\$ 372,240	\$ 2,307,604
Network fees and other costs	962,714	116,329	1,079,043
Sales and marketing	353,435	18,026	371,461
Segment profit	\$ 619,215	\$ 237,885	\$ 857,100

A reconciliation of total segment profit to the Company's income before applicable income taxes is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Total segment profit	\$ 337,410	\$ 297,969	\$ 968,619	\$ 857,100
Less: Other operating costs	(72,162)	(66,563)	(219,464)	(211,853)
Less: General and administrative	(40,727)	(41,492)	(133,831)	(136,395)
Less: Depreciation and amortization	(66,086)	(70,638)	(199,550)	(206,099)
Less: Interest expense—net	(27,474)	(27,044)	(81,321)	(78,769)
Less: Non-operating expenses	(4,633)	(8,308)	(14,949)	(23,799)
Income before applicable income taxes	\$ 126,328	\$ 83,924	\$ 319,504	\$ 200,185

11. SUBSEQUENT EVENTS

October 2016 Share Repurchase Authorization

In February 2014, the Company's board of directors authorized a program to repurchase up to \$300 million of the Company's Class A common stock, of which approximately \$50 million remains available for share repurchases. On October 25, 2016, the board of directors authorized a program to repurchase up to an additional \$250 million of the Company's Class A common stock, providing the Company with approximately \$300 million available for share repurchases. Purchases under the program may be made from time to time in the open market, in privately negotiated transactions, or otherwise. The manner, timing and amount of any purchases will be determined by management based on an evaluation of market conditions, stock price and other factors. The Company's share repurchase program does not obligate it to acquire any specific number or amount of shares, there is no guarantee as to the exact number or amount of shares that may be repurchased, if any, and the Company may discontinue purchases at any time that it determines additional purchases are not warranted. As of the date of this filing, no share repurchases have been transacted under the October 2016 authorization.

October 2016 Debt Refinancing

On October 14, 2016, Vantiv, LLC completed a debt refinancing by entering into a second amended and restated loan agreement ("Second Amended Loan Agreement"). The Second Amended Loan Agreement provides for senior secured credit facilities (the "Senior Secured Credit Facilities") comprised of a \$2.5 billion tranche A loan maturing in October 2021, a \$765.0 million tranche B loan maturing in October 2023 and a \$650.0 million revolving credit facility maturing in October 2021. The tranche A term loans amortize in equal quarterly installments equal to 1.25% per quarter during each of the first twelve quarters, 1.875% per quarter during the next four quarters and 2.50% during the next three quarters, with a balloon payment at maturity and bear interest at a variable rate (LIBOR) plus a spread rate (125 to 200 basis points based on leverage ratio). The tranche B term loans amortize in equal quarterly installments of 0.25% per quarter, with a balloon payment at maturity and bear interest at a variable rate (LIBOR) with a floor of 75 basis points plus a spread rate (250 basis points). Proceeds from the refinancing will be used for general corporate expenses. The existing revolving credit facility was also terminated. The revolving credit facility includes a \$100.0 million swing line facility and a \$40.0 million letter of credit facility. The commitment fee rate for the unused portion of the revolving credit facility is 25 basis points to 37.5 basis points per year based on leverage ratio.

The obligations under the Senior Secured Credit Facilities are unconditionally guaranteed by Vantiv Holding and certain of Vantiv, LLC's existing and subsequently acquired or organized domestic subsidiaries. The Senior Secured Credit Facilities and related guarantees are secured on a first-priority basis (subject to liens permitted under the second amended and

Vantiv, Inc.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (continued)

restated loan agreement) by a lien on substantially all the tangible and intangible assets of Vantiv, LLC and the guarantors, including all of the capital stock held by such obligors (subject to a 65% limitation on pledges of capital stock of foreign subsidiaries and domestic holding companies of foreign subsidiaries), subject to certain exceptions.

The Second Amended Loan Agreement requires Vantiv, LLC to maintain a maximum leverage ratio (based upon the ratio of total funded debt to consolidated EBITDA) and a minimum interest coverage ratio (based upon the ratio of consolidated EBITDA to cash interest expense), each of which will be tested quarterly based on the last four fiscal quarters, commencing on September 30, 2016. The maximum leverage ratio starts at 6.25:1.00 and becomes more restrictive over time. The minimum interest coverage ratio is 4.00:1.00 and is constant throughout the term of the agreement.

Vantiv, Inc.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This management's discussion and analysis provides a review of the results of operations, financial condition and liquidity and capital resources of Vantiv, Inc. ("Vantiv", "we", "us", "our", or the "company" refer to Vantiv, Inc. and its consolidated subsidiaries) and outlines the factors that affected recent results, as well as factors that may affect future results. Our actual results in the future may differ materially from those anticipated in these forward looking statements as a result of many factors, including those set forth under "Risk Factors," "Forward Looking Statements" and elsewhere in this report, as well as in our 10-K filed with the SEC on February 10, 2016. The following discussion should be read in conjunction with our unaudited consolidated financial statements and related notes appearing elsewhere in this report, as well as management's discussion and analysis and consolidated financial statements for the year ended December 31, 2015 included in our most recent Annual Report on Form 10-K.

General

We are the second largest merchant acquirer and the largest PIN debit acquirer by number of transactions, according to the Nilson Report, and a leading payment processor in the United States differentiated by our integrated technology platform, breadth of distribution and superior cost structure. Our integrated technology platform enables us to efficiently provide a comprehensive suite of services to both merchants and financial institutions of all sizes as well as to innovate, develop and deploy new services, while providing us with significant economies of scale. Our broad and varied distribution provides us with a growing and diverse client base of merchants and financial institutions.

We offer a broad suite of payment processing services that enable our clients to meet their payment processing needs through a single provider, including in omni-channel environments that span point-of-sale, ecommerce and mobile devices. We enable merchants of all sizes to accept and process credit, debit and prepaid payments and provide them supporting value-added services, such as security solutions and fraud management, information solutions, and interchange management. We also provide mission critical payment services to financial institutions, such as card issuer processing, payment network processing, fraud protection, card production, prepaid program management, ATM driving and network gateway and switching services that utilize our proprietary Jeanie PIN debit payment network.

Our integrated technology platform provides our merchant and financial institution clients with differentiated payment processing solutions and provides us with significant strategic and operational benefits. Our clients access our processing solutions primarily through a single point of service, which is easy to use and enables our clients to acquire additional services as their business needs evolve. Small and mid-sized merchants are able to easily connect to our integrated technology platform using our application process interfaces, or APIs, software development kits, or SDKs, and other tools we make available to technology partners, which we believe enhances our capacity to sell to such merchants. Our integrated technology platform allows us to collect, manage and analyze data across both our Merchant Services and our Financial Institution Services segments that we can then package into information solutions for our clients. It provides insight into market trends and opportunities as they emerge, which enhances our ability to innovate and develop new value-added services, including security solutions and fraud management, and it allows us to easily deploy new solutions that span the payment processing value chain, such as ecommerce and mobile services, which are high growth market opportunities. It is highly scalable, which enables us to efficiently manage, update and maintain our technology, increase capacity and speed, and realize significant operating leverage. We believe our integrated technology platform is a key differentiator from payment processors that operate on multiple technology platforms and provides us with a significant competitive advantage.

We distribute our services through multiple sales channels that enable us to efficiently and effectively target a broad range of merchants and financial institutions. Our sales channels include direct and indirect sales forces, which include our referral partner relationships, which provide us with a growing and diverse client base. We have a national sales force that targets financial institutions and large national merchants, a regional and mid-market sales team that sells solutions to merchants and third-party reseller clients and a telesales operation that targets small and mid-sized merchants. Our indirect sales force includes Independent Sales Organizations, or ISOs, that target small and mid-sized merchants. We have referral partner relationships with merchant banks, independent software vendors, or ISVs, value-added resellers, or VARs, payment facilitators, and trade associations that target a broad range of merchants, including difficult to reach small and mid-sized merchants. We also have relationships with third-party reseller partners and arrangements with core processors that target small and mid-sized financial institutions.

Executive Overview

Revenue for the three months ended September 30, 2016 increased 12% to \$914.0 million from \$816.0 million in 2015. Revenue for the nine months ended September 30, 2016 increased 14% to \$2,623.9 million from \$2,307.6 million in 2015.

Income from operations for the three months ended September 30, 2016 increased 33% to \$158.4 million from \$119.3 million in 2015. Income from operations for the nine months ended September 30, 2016 increased 37% to \$415.8 million from \$302.8 million in 2015.

Net income for the three months ended September 30, 2016 increased to \$87.0 million from \$59.1 million in 2015. Net income attributable to Vantiv, Inc. for the three months ended September 30, 2016 increased to \$66.3 million from \$41.5 million in 2015. Net income for the nine months ended September 30, 2016 increased to \$217.9 million from \$138.8 million in 2015. Net income attributable to Vantiv, Inc. for the nine months ended September 30, 2016 increased to \$165.4 million from \$97.0 million in 2015. See the “Results of Operations” section of this Management’s Discussion and Analysis for a discussion of our financial results.

In February 2014, our board of directors authorized a program to repurchase up to \$300 million of our Class A common stock. During the three and nine months ended September 30, 2016, we repurchased approximately 457,000 shares of our Class A common stock for approximately \$25 million. We currently have approximately \$50 million of share repurchase authority remaining as of September 30, 2016 under this authorization. As discussed in Note 11 - Subsequent Events in the Notes to Unaudited Consolidated Financial Statements, on October 25, 2016, our board of directors authorized a program to repurchase up to an additional \$250 million of our Class A common stock, providing us with approximately \$300 million available for share repurchases.

On July 27, 2016, we entered into a purchase addendum in connection with our tax receivable agreement (“TRA”) with Fifth Third (the “Fifth Third TRA Addendum”) to terminate and settle a portion of our obligations owed to Fifth Third under a TRA (the “Fifth Third TRA”) and the NPC Group, Inc. TRA (the “NPC TRA”). Additionally, on July 27, 2016, we entered into a Clearing, Settlement and Sponsorship Services Agreement, a Master Services Agreement and a Referral Agreement with Fifth Third, which extend the existing agreements that were originally set to expire on June 30, 2019. See Note 1- Basis of Presentation and Summary of Significant Accounting Policies in the Notes to Unaudited Consolidated Financial Statements for details of the Fifth Third TRA Addendum and extension of existing contracts.

Our Segments, Revenue and Expenses

Segments

We report our results of operations in two segments, Merchant Services and Financial Institution Services. We evaluate segment performance based upon segment profit, which is defined as net revenue, which represents total revenue less network fees and other costs, less sales and marketing expense attributable to that segment.

Merchant Services

We have a broad and diversified merchant client base. Our merchant client base has low client concentration and is heavily weighted in non-discretionary everyday spend categories, such as grocery and pharmacy, and includes large national retailers. We provide a comprehensive suite of payment processing services to our merchant services clients. We authorize, clear, settle and provide reporting for electronic payment transactions, as further discussed below.

Acquiring and Processing. We provide merchants with a broad range of credit, debit and prepaid payment processing services. We give them the ability to accept and process Visa, MasterCard, American Express, Discover and PIN debit network card transactions originated at the point of sale as well as for ecommerce and mobile transactions. This service includes all aspects of card processing, including authorization and settlement, customer service, chargeback and retrieval processing and network fee and interchange management.

Value-added Services. We offer value-added services that help our clients operate and manage their businesses including omni-channel acceptance, prepaid services and gift card solutions. We also provide security solutions such as point-to-point encryption and tokenization both at the point of sale and for ecommerce transactions.

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We provide our services to merchants of varying sizes, which provides us with a number of key benefits. Due to the large transaction volume that they generate, large national merchants provide us with significant operating scale efficiencies and recurring revenues. Small and mid-sized merchants are more difficult to reach on an individual basis, but generally generate higher per transaction fees.

We distribute our comprehensive suite of services to a broad range of merchants, including difficult to reach small and mid-sized merchants, through multiple sales channels as further discussed below.

- **Direct:** Includes a national sales force that targets large national merchants, a regional and mid-market sales team that sells solutions to merchants and third party reseller clients, and a telesales operation that targets small and mid-sized merchants.
- **Indirect:** Includes Independent Sales Organizations (ISOs) that target small and mid-sized merchants.
- **Merchant Bank:** Includes referral partner relationships with financial institutions that target their financial services customers as merchant referrals to us.
- **Integrated Payments (IP):** Includes referral partner relationships with independent software vendors (ISVs), value-added resellers (VARs), and payment facilitators that target their technology customers as merchant referrals to us.
- **eCommerce:** Includes a sales force that targets internet retail, online services and direct marketing merchants.

These sales channels utilize multiple strategies and leverage relationships with referral partners that sell our solutions to small and mid-sized merchants. We offer certain of our services on a white-label basis which enables them to be marketed under our partners' brand. We select referral partners that enhance our distribution and augment our services with complimentary offerings. We believe our sales structure provides us with broad geographic coverage and access to various industries and verticals.

Financial Institution Services

Our financial institution client base is also generally well diversified which includes regional banks, community banks, credit unions and regional PIN debit networks. We generally focus on small to mid-sized institutions with less than \$15 billion in assets. Smaller financial institutions generally do not have the scale or infrastructure typical of large institutions and are more likely to outsource their payment processing needs. We provide integrated card issuer processing, payment network processing and value-added services to our financial institutions clients. These services are discussed further below.

Integrated Card Issuer and Processing. We process and service credit, debit, ATM and prepaid transactions. We process and provide statement production, collections and inbound/outbound call centers. Our card processing solution includes processing and other services such as card portfolio analytics, program strategy and support, fraud and security management and chargeback and dispute services. We also offer processing for specialized accounts, such as business cards, home equity lines of credit and health savings accounts. We provide authorization support in the form of online or batch settlement, as well as real-time transaction research capability and archiving and daily and monthly cardholder reports for statistical analysis.

Value-added Services. We provide additional services to our financial institution clients that complement our issuing and processing services. These services include fraud protection, card production, prepaid cards, ATM driving, portfolio optimization, data analytics and card program marketing. We also provide network gateway and switching services that utilize our Jeanie PIN network. Our Jeanie network offers real-time electronic payment, network bill payment, single point settlement, shared deposit taking and customer select PINs.

We distribute our services to financial institutions by utilizing direct sales forces as well as a diverse group of referral partner relationships. These sales channels utilize multiple strategies and leverage relationships with core processors that sell our solutions to small and mid-sized financial institutions. We offer certain of our services on a white-label basis which enables them to be marketed under our client's brand. We select resellers that enhance our distribution and augment our services with complementary offerings. Our relationships with core processors are necessary for developing the processing environments required by our financial institution clients. Many of our core processing relationships are non-contractual and continue for so long as an interface between us and the core processor is needed to accommodate one or more common financial institution customers.

Revenue

We generate revenue primarily by processing electronic payment transactions. Set forth below is a description of our revenues by segment and factors impacting segment revenues.

Our Merchant Services segment revenues are primarily derived from processing credit and debit card transactions. Merchant Services revenue is primarily comprised of fees charged to businesses, net of interchange fees, for payment processing services, including authorization, capture, clearing, settlement and information reporting of electronic transactions. The fees charged consist of either a percentage of the dollar volume of the transaction or a fixed fee, or both, and are recognized at the time of the transaction. Merchant Services revenue also includes a number of revenue items that are incurred by us and are reimbursable as the costs are passed through to and paid by our clients. These items primarily consist of Visa, MasterCard and other payment network fees. In addition, for sales through referral partners in which we are the primary party to the contract with the merchant, we record the full amount of the fees collected from the merchant as revenue. Associated residual payments made to referral partners are included in sales and marketing expenses. Merchant Services revenue also includes revenue from ancillary services such as fraud management, equipment sales and terminal rent. Revenue in our Merchant Services segment is impacted primarily by transaction volume, average transaction size, the mix of merchant types in our client portfolio, the performance of our merchant clients and the effectiveness of our distribution channels.

Our Financial Institution Services revenues are primarily derived from debit, credit and ATM card transaction processing, ATM driving and support, and PIN debit processing services. Financial Institution Services revenue associated with processing transactions includes per transaction and account related fees, card production fees and fees generated from our Jeanie network. Financial Institution Services revenue is impacted by the number of financial institutions using our services as well as their transaction volume. The number of financial institutions in the United States has declined as a result of prevailing economic conditions and consolidation, as well as other market and regulatory pressures. These factors have contributed to industry-wide pricing compression of the fees that financial institutions are willing to pay for payment processing.

Network Fees and Other Costs

Network fees and other costs primarily consist of pass through expenses incurred by us in connection with providing processing services to our clients, including Visa and MasterCard network association fees, payment network fees, third party processing expenses, telecommunication charges, postage and card production costs.

Net Revenue

Net revenue is revenue, less network fees and other costs and reflects revenue generated from the services we provide to our clients. Management uses net revenue to assess our operating performance. We believe that net revenue, when reviewed together with revenue, is meaningful to our investors in order to understand our performance.

Expenses

Set forth below is a brief description of the components of our expenses, aside from the network fees and other costs discussed above:

- *Sales and marketing* expense primarily consists of salaries and benefits paid to sales personnel, sales management and other sales and marketing personnel, residual payments made to ISOs and referral partners and advertising and promotional costs.
- *Other operating costs* primarily consist of salaries and benefits paid to operational and IT personnel, costs associated with operating our technology platform and data centers, information technology costs for processing transactions, product development costs, software consulting fees and maintenance costs.
- *General and administrative* expenses primarily consist of salaries and benefits paid to executive management and administrative employees, including finance, human resources, product development, legal and risk management, share-based compensation costs, equipment and occupancy costs and consulting costs.
- *Depreciation and amortization* expense consists of our depreciation expense related to investments in property, equipment and software as well as our amortization of intangible assets, principally customer relationships acquired in connection with the acquisition of a majority interest in Vantiv Holding in June 2009 and our subsequent acquisitions.
- *Interest expense—net* consists primarily of interest on borrowings under our senior secured credit facilities less interest income earned on our cash and cash equivalents.
- *Income tax expense* represents federal, state and local taxes based on income in multiple jurisdictions.

- *Non-operating expenses* during the three and nine months ended September 30, 2016 and 2015 primarily relate to the change in the fair value of the tax receivable agreement (“TRA”) entered into as part of the acquisition of Mercury Payment Systems, LLC (“Mercury”).

Non-Controlling Interest

As a result of the non-controlling ownership interests in Vantiv Holding held by Fifth Third, our results of operations include net income attributable to non-controlling interests. Future sales or redemptions of ownership interests in Vantiv Holding by Fifth Third will continue to reduce the amount recorded as non-controlling interest and increase net earnings attributable to our Class A stockholders. In addition, net income attributable to non-controlling interests includes the non-controlling interest related to a joint venture with a bank partner. Net income attributable to non-controlling interests for the three months ended September 30, 2016 and 2015 was \$20.7 million and \$17.7 million, respectively. Net income attributable to non-controlling interests for the nine months ended September 30, 2016 and 2015 was \$52.6 million and \$41.8 million, respectively.

Factors and Trends Impacting Our Business and Results of Operations

We expect a number of factors will impact our business, results of operations and financial condition. In general, our revenue is impacted by the number and dollar volume of card based transactions which in turn are impacted by general economic conditions, consumer spending and the emergence of new technologies and payment types, such as ecommerce, mobile payments, and prepaid cards. In our Merchant Services segment, our net revenues are impacted by the mix of the size of merchants that we provide services to as well as the mix of transaction volume by merchant category. In our Financial Institution Services segment, our net revenues are also impacted by the mix of the size of financial institutions to which we provide services as well as consolidation and market and industry pressures, which have contributed and are expected to continue to contribute to pricing compression of payment processing fees in this segment. We also expect our results of operations to be impacted by the factors discussed below.

Pro Forma Adjusted Net Income

We use pro forma adjusted net income for financial and operational decision making as a means to evaluate period-to-period comparisons of our performance and results of operations. Pro forma adjusted net income is also incorporated into performance metrics underlying certain share-based payments issued under the 2012 Vantiv, Inc. Equity Incentive Plan and our annual incentive plan. We believe pro forma adjusted net income provides useful information about our performance and operating results, enhances the overall understanding of past financial performance and future prospects and allows for greater transparency with respect to key metrics used by management in its financial and operational decision making.

In calculating pro forma adjusted net income, we make certain non-GAAP adjustments, as well as pro forma adjustments, to adjust our GAAP operating results for the items discussed below. This non-GAAP measure should be considered together with GAAP operating results.

Non-GAAP Adjustments

Transition, Acquisition and Integration Costs

In connection with our acquisitions, we incurred costs associated with the acquisitions and related integration activities, consisting primarily of consulting fees for advisory, conversion and integration services and related personnel costs. Also included in these expenses are costs related to employee termination benefits and other transition activities. These transition, acquisition and integration costs are included in other operating costs and general and administrative expenses.

Share-Based Compensation

We have granted share-based awards to certain employees and members of our board of directors and intend to continue to grant additional share-based awards in the future. Share-based compensation is included in general and administrative expense.

Intangible Amortization Expense

These expenses represent amortization of intangible assets acquired through business combinations and customer portfolio and related asset acquisitions.

Non-operating Expense

Non-operating expenses for the three and nine months ended September 30, 2016 and 2015 primarily related to the change in fair value of the Mercury TRA.

Pro Forma Adjustments

Income Tax Expense Adjustments

Our effective tax rate reported in our results of operations reflects the impact of our non-controlling interest not being taxed at the statutory corporate tax rate. For purposes of calculating pro forma adjusted net income, income tax expense is adjusted to reflect an effective tax rate assuming conversion of Fifth Third's non-controlling interests into shares of Class A common stock, including the income tax effect of the non-GAAP adjustments described above. The adjusted effective tax rate was 36% for 2016 and 2015.

Tax Adjustments

In addition to the adjustment described above, income tax expense is also adjusted for the cash tax benefits resulting from certain tax attributes, primarily the amortization of tax intangible assets resulting from or acquired with our acquisitions, the tax basis step up associated with our separation from Fifth Third and the purchase or exchange of Class B units of Vantiv Holding, net of payment obligations under TRAs established at the time of our initial public offering ("IPO") and in connection with our acquisition of Mercury. The estimate of the cash tax benefits is based on the consistent and highly predictable realization of the underlying tax attributes.

The following table provides a schedule of the tax adjustments discussed above which are reflected in the pro forma adjusted net income table below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Fifth Third Tax Benefit ^(a)	\$ 11,927	\$ 9,992	\$ 35,781	\$ 29,976
Mercury Tax Benefit ^(b)	4,665	8,607	13,995	25,822
Total Tax Benefits	16,592	18,599	49,776	55,798
Less: TRA payments ^(c)	(14,103)	(15,809)	(42,309)	(47,428)
TRA Tax Benefits ^(d)	2,489	2,790	7,467	8,370
Acquired Tax Benefits ^(e)	16,413	14,052	47,575	31,808
Pro Forma Tax Benefits ^(f)	\$ 18,902	\$ 16,842	\$ 55,042	\$ 40,178

^(a) Represents the cash tax benefits which are shared with Fifth Third Bank pursuant to a TRA.

^(b) Represents the cash tax benefits shared with Mercury former shareholders pursuant to a TRA.

^(c) Represents the amount of the TRA payment to be made to Fifth Third Bank and Mercury shareholders (85% payment).

^(d) Represents the 15% benefit that we retain for the shared tax benefits related to the TRAs.

^(e) Represents the tax benefits wholly owned by us, acquired through acquisition or termination of TRAs in which we retain 100% of the benefit.

^(f) Represents the net cash tax benefit retained by us from the use of the tax attributes, as reflected in the Pro forma Tax Adjustments.

Additionally, as a result of the Fifth Third TRA Addendum entered into on July 27, 2016, as discussed in Note 1 - Basis of Presentation and Summary of Significant Accounting Policies in the Notes to Unaudited Consolidated Financial Statements, beginning in 2017 we will reflect the retention of the cash tax benefits resulting from the realization of the tax attributes underlying each respective TRA termination in pro forma adjusted net income.

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The table below provides a reconciliation of GAAP income before applicable income taxes to pro forma adjusted net income for the three and nine months ended September 30, 2016 and 2015:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
	(in thousands)		(in thousands)	
Income before applicable income taxes	\$ 126,328	\$ 83,924	\$ 319,504	\$ 200,185
Non-GAAP Adjustments:				
Transition, acquisition and integration costs	2,761	11,359	22,332	49,378
Share-based compensation	9,600	7,132	25,892	23,852
Intangible amortization	47,797	48,682	142,704	143,431
Non-operating expenses	4,633	8,308	14,949	23,799
Non-GAAP Adjusted Income Before Applicable Taxes	191,119	159,405	525,381	440,645
Less: Pro Forma Adjustments				
Income tax expense	68,803	57,386	189,137	158,632
Tax adjustments	(18,902)	(16,842)	(55,042)	(40,178)
JV non-controlling interest	354	319	1,581	1,470
Pro Forma Adjusted Net Income	\$ 140,864	\$ 118,542	\$ 389,705	\$ 320,721

Results of Operations

The following tables set forth our statements of income in dollars and as a percentage of net revenue for the periods presented.

	Three Months Ended September 30,		\$ Change	% Change
	2016	2015		
	(dollars in thousands)			
Revenue	\$ 914,019	\$ 815,998	\$ 98,021	12 %
Network fees and other costs	423,361	385,548	37,813	10 %
Net revenue	490,658	430,450	60,208	14 %
Sales and marketing	153,248	132,481	20,767	16 %
Other operating costs	72,162	66,563	5,599	8 %
General and administrative	40,727	41,492	(765)	(2)%
Depreciation and amortization	66,086	70,638	(4,552)	(6)%
Income from operations	\$ 158,435	\$ 119,276	\$ 39,159	33 %
Non-financial data:				
Transactions (in millions)	6,270	5,776		9 %

As a Percentage of Net Revenue

	Three Months Ended September 30,	
	2016	2015
Net revenue	100.0%	100.0%
Sales and marketing	31.2%	30.8%
Other operating costs	14.7%	15.5%
General and administrative	8.3%	9.6%
Depreciation and amortization	13.5%	16.4%
Income from operations	32.3%	27.7%

	Nine Months Ended September 30,		\$ Change	% Change
	2016	2015		
	(dollars in thousands)			
Revenue	\$ 2,623,859	\$ 2,307,604	\$ 316,255	14 %
Network fees and other costs	1,221,510	1,079,043	142,467	13 %
Net revenue	1,402,349	1,228,561	173,788	14 %
Sales and marketing	433,730	371,461	62,269	17 %
Other operating costs	219,464	211,853	7,611	4 %
General and administrative	133,831	136,395	(2,564)	(2)%
Depreciation and amortization	199,550	206,099	(6,549)	(3)%
Income from operations	\$ 415,774	\$ 302,753	\$ 113,021	37 %
Non-financial data:				
Transactions (in millions)	18,273	16,907		8 %

As a Percentage of Net Revenue

	Nine Months Ended September 30,	
	2016	2015
Net revenue	100.0%	100.0%
Sales and marketing	30.9%	30.2%
Other operating costs	15.7%	17.3%
General and administrative	9.5%	11.1%
Depreciation and amortization	14.2%	16.8%
Income from operations	29.7%	24.6%

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015 and Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Revenue

Revenue increased 12% to \$914.0 million for the three months ended September 30, 2016 from \$816.0 million for the three months ended September 30, 2015. The increase was due primarily to transaction growth of 9%. Additionally, growth in our Merchant Services segment as a result of our continued penetration of small and mid-sized merchants contributed to higher revenue per transaction.

Revenue increased 14% to \$2,623.9 million for the nine months ended September 30, 2016 from \$2,307.6 million for the nine months ended September 30, 2015. The increase was due primarily to transaction growth of 8%. Additionally, growth in our Merchant Services segment as a result of our continued penetration of small and mid-sized merchants contributed to higher revenue per transaction.

Network Fees and Other Costs

Network fees and other costs increased 10% to \$423.4 million for the three months ended September 30, 2016 from \$385.5 million for the three months ended September 30, 2015. The increase was due primarily to transaction growth of 9%.

Network fees and other costs increased 13% to \$1,221.5 million for the nine months ended September 30, 2016 from \$1,079.0 million for the nine months ended September 30, 2015. The increase was due primarily to a combination of transaction growth of 8% and rising pass through expenses.

Net Revenue

Net revenue, which is revenue less network fees and other costs, increased 14% to \$490.7 million for the three months ended September 30, 2016 from \$430.5 million for the three months ended September 30, 2015 due to the factors discussed above.

Net revenue, which is revenue less network fees and other costs, increased 14% to \$1,402.3 million for the nine months ended September 30, 2016 from \$1,228.6 million for the nine months ended September 30, 2015 due to the factors discussed above.

Sales and Marketing

Sales and marketing expense increased 16% to \$153.2 million for the three months ended September 30, 2016 from \$132.5 million for the three months ended September 30, 2015. The increase was primarily attributable to higher residual payments to referral partners as a result of increased revenue in our Merchant Services segment in connection with the continued penetration of small and mid-sized merchants.

Sales and marketing expense increased 17% to \$433.7 million for the nine months ended September 30, 2016 from \$371.5 million for the nine months ended September 30, 2015. The increase was primarily attributable to higher residual payments to referral partners as a result of increased revenue in our Merchant Services segment in connection with the continued penetration of small and mid-sized merchants.

Other Operating Costs

Other operating costs increased 8% to \$72.2 million for the three months ended September 30, 2016 from \$66.6 million for the three months ended September 30, 2015. When excluding transition, acquisition and integration costs, other operating costs increased 15% to \$70.4 million for the three months ended September 30, 2016 from \$61.5 million for the three months ended September 30, 2015. The increase is primarily attributable to an increase in information technology and operation costs, in support of our revenue growth.

Other operating costs increased 4% to \$219.5 million for the nine months ended September 30, 2016 from \$211.9 million for the nine months ended September 30, 2015. When excluding transition, acquisition and integration costs, other operating costs increased 12% to \$211.7 million for the nine months ended September 30, 2016 from \$188.5 million for the nine months ended September 30, 2015. The increase is primarily attributable to an increase in information technology and operation costs, in support of our revenue growth.

General and Administrative

General and administrative expenses decreased 2% to \$40.7 million for the three months ended September 30, 2016 from \$41.5 million for the three months ended September 30, 2015. When excluding transition, acquisition and integration costs as well as share-based compensation costs, general and administrative expenses increased 7% to \$30.1 million for the three months ended September 30, 2016 from \$28.1 million for the three months ended September 30, 2015. General and administrative expenses continue to grow slower than net revenue as we continue to drive efficiencies in the back office.

General and administrative expenses decreased 2% to \$133.8 million for the nine months ended September 30, 2016 from \$136.4 million for the nine months ended September 30, 2015. When excluding transition, acquisition and integration costs as well as share-based compensation costs, general and administrative expenses increased 8% to \$93.4 million for the nine months ended September 30, 2016 from \$86.5 million for the nine months ended September 30, 2015. General and administrative expenses continue to grow slower than net revenue as we continue to drive efficiencies in the back office.

Depreciation and Amortization

Depreciation expense associated with our property, equipment and software decreased to \$16.4 million for the three months ended September 30, 2016 from \$19.6 million for the three months ended September 30, 2015.

Depreciation expense associated with our property, equipment and software decreased to \$50.6 million for the nine months ended September 30, 2016 from \$56.3 million for the nine months ended September 30, 2015.

Amortization expense associated with intangible assets, which consist primarily of customer relationship intangible assets, decreased to \$49.7 million for the three months ended September 30, 2016 from \$51.0 million for the three months ended September 30, 2015.

Amortization expense associated with intangible assets, which consist primarily of customer relationship intangible assets, decreased slightly to \$149.0 million for the nine months ended September 30, 2016 from \$149.8 million for the nine months ended September 30, 2015.

Income from Operations

Income from operations increased 33% to \$158.4 million for the three months ended September 30, 2016 from \$119.3 million for the three months ended September 30, 2015.

Income from operations increased 37% to \$415.8 million for the nine months ended September 30, 2016 from \$302.8 million for the nine months ended September 30, 2015.

Interest Expense—Net

Interest expense—net increased to \$27.5 million for the three months ended September 30, 2016 from \$27.0 million for the three months ended September 30, 2015. The increase in interest expense—net is primarily attributable to our interest rate swaps.

Interest expense—net increased to \$81.3 million for the nine months ended September 30, 2016 from \$78.8 million for the nine months ended September 30, 2015. The increase in interest expense—net is primarily attributable to our interest rate swaps.

Non-Operating Expense

Non-operating expenses were \$4.6 million and \$14.9 million for the three and nine months ended September 30, 2016, respectively, primarily relating to the change in fair value of the TRA entered into as part of the acquisition of Mercury.

Non-operating expenses were \$8.3 million and \$23.8 million for the three and nine months ended September 30, 2015, respectively, primarily relating to the change in fair value of the Mercury TRA.

Income Tax Expense

Income tax expense for the three months ended September 30, 2016 was \$39.3 million compared to \$24.8 million for the three months ended September 30, 2015, reflecting effective rates of 31.1% and 29.5%, respectively. Income tax expense for the nine months ended September 30, 2016 was \$101.6 million compared to \$61.3 million for the nine months ended September 30, 2015, reflecting effective rates of 31.8% and 30.6%, respectively. Our effective rate reflects the impact of our non-controlling interests not being taxed at the statutory corporate tax rates. As our non-controlling interest declines to the point Vantiv Holding is a wholly-owned subsidiary, we expect our effective rate to increase to approximately 36.0%.

Segment Results

The following tables provide a summary of the components of segment profit for our two segments for the three and nine months ended September 30, 2016 and 2015.

Merchant Services

	Three Months Ended September 30,			
	2016	2015	\$ Change	% Change
	(dollars in thousands)			
Total revenue	\$ 793,860	\$ 687,394	\$ 106,466	15%
Network fees and other costs	389,448	342,518	46,930	14%
Net revenue	404,412	344,876	59,536	17%
Sales and marketing	147,663	126,400	21,263	17%
Segment profit	\$ 256,749	\$ 218,476	\$ 38,273	18%
Non-financial data:				
Transactions (in millions)	5,241	4,743		10%

	Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change
	(dollars in thousands)			
Total revenue	\$ 2,251,033	\$ 1,935,364	\$ 315,669	16%
Network fees and other costs	1,117,602	962,714	154,888	16%
Net revenue	1,133,431	972,650	160,781	17%
Sales and marketing	416,107	353,435	62,672	18%
Segment profit	\$ 717,324	\$ 619,215	\$ 98,109	16%
Non-financial data:				
Transactions (in millions)	15,244	13,887		10%

Net Revenue

Net revenue in this segment increased 17% to \$404.4 million for the three months ended September 30, 2016 from \$344.9 million for the three months ended September 30, 2015. The increase during the three months ended September 30, 2016 was due primarily to transaction growth of 10% and a 6% increase in net revenue per transaction associated with our continued penetration of small and mid-sized merchants.

Net revenue in this segment increased 17% to \$1,133.4 million for the nine months ended September 30, 2016 from \$972.7 million for the nine months ended September 30, 2015. The increase during the nine months ended September 30, 2016 was due primarily to transaction growth of 10% and a 6% increase in net revenue per transaction associated with our continued penetration of small and mid-sized merchants.

Sales and Marketing

Sales and marketing expense increased 17% to \$147.7 million for the three months ended September 30, 2016 from \$126.4 million for the three months ended September 30, 2015. The increase was primarily attributable to higher residual payments to referral partners as a result of increased revenue in connection with the continued penetration of small and mid-sized merchants.

Sales and marketing expense increased 18% to \$416.1 million for the nine months ended September 30, 2016 from \$353.4 million for the nine months ended September 30, 2015. The increase was primarily attributable to higher residual payments to referral partners as a result of increased revenue in connection with the continued penetration of small and mid-sized merchants.

Financial Institution Services

	Three Months Ended September 30,			
	2016	2015	\$ Change	% Change
	(dollars in thousands)			
Total revenue	\$ 120,159	\$ 128,604	\$ (8,445)	(7)%
Network fees and other costs	33,913	43,030	(9,117)	(21)%
Net revenue	86,246	85,574	672	1 %
Sales and marketing	5,585	6,081	(496)	(8)%
Segment profit	\$ 80,661	\$ 79,493	\$ 1,168	1 %
Non-financial data:				
Transactions (in millions)	1,029	1,033		— %

	Nine Months Ended September 30,			
	2016	2015	\$ Change	% Change
	(dollars in thousands)			
Total revenue	\$ 372,826	\$ 372,240	\$ 586	— %
Network fees and other costs	103,908	116,329	(12,421)	(11)%
Net revenue	268,918	255,911	13,007	5 %
Sales and marketing	17,623	18,026	(403)	(2)%
Segment profit	\$ 251,295	\$ 237,885	\$ 13,410	6 %
Non-financial data:				
Transactions (in millions)	3,029	3,020		— %

Net Revenue

Net revenue in this segment increased 1% to \$86.2 million for the three months ended September 30, 2016 from \$85.6 million for the three months ended September 30, 2015. The increase during the three months ended September 30, 2016 was due to a 1% increase in net revenue per transaction primarily due to value-added services including the impact of EMV card reissuance and fraud related services.

Net revenue in this segment increased 5% to \$268.9 million for the nine months ended September 30, 2016 from \$255.9 million for the nine months ended September 30, 2015. The increase during the nine months ended September 30, 2016 was due to a 5% increase in net revenue per transaction primarily due to value-added services including the impact of EMV card reissuance and fraud related services.

Sales and Marketing

Sales and marketing expense decreased \$0.5 million to \$5.6 million for the three months ended September 30, 2016 from \$6.1 million for the three months ended September 30, 2015.

Sales and marketing expense decreased \$0.4 million to \$17.6 million for the nine months ended September 30, 2016 from \$18.0 million for the nine months ended September 30, 2015.

Liquidity and Capital Resources

Our liquidity is funded primarily through cash provided by operations, debt and a line of credit, which is generally sufficient to fund our operations, planned capital expenditures, tax distributions made to our non-controlling interest holders, required payments under TRAs, debt service and acquisitions. As of September 30, 2016, our principal sources of liquidity consisted of \$183.8 million of cash and cash equivalents and \$425 million of availability under the revolving portion of our senior secured credit facilities. Our total indebtedness, including capital leases, was \$3.0 billion as of September 30, 2016.

During the three and nine months ended September 30, 2016, we repurchased approximately 457,000 shares of our Class A common stock for approximately \$25 million. We have approximately \$50 million of share repurchase authority remaining as of September 30, 2016 under a program authorized by the board of directors on February 12, 2014 to repurchase

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up to an additional \$300 million of our Class A common stock. As discussed in Note 11 - Subsequent Events in the Notes to Unaudited Consolidated Financial Statements, on October 25, 2016, our board of directors authorized a program to repurchase up to an additional \$250 million of our Class A common stock, providing us with approximately \$300 million available for share repurchases.

Purchases under the repurchase program are allowed from time to time in the open market, in privately negotiated transactions, or otherwise. The manner, timing, and amount of any purchases are determined by management based on an evaluation of market conditions, stock price, and other factors. The share repurchase program has no expiration date and we may discontinue purchases at any time that management determines additional purchases are not warranted.

In connection with our IPO, we entered into the Exchange Agreement with Fifth Third, under which Fifth Third has the right, from time to time, to exchange their units in Vantiv Holding for shares of our Class A common stock or, at our option, cash. If we choose to satisfy the exchange in cash, we anticipate that we will fund such exchange through cash from operations, funds available under the revolving portion of our senior secured credit facilities, equity financings or a combination thereof.

We do not intend to pay cash dividends on our Class A common stock in the foreseeable future. Vantiv, Inc. is a holding company that does not conduct any business operations of its own. As a result, Vantiv, Inc.'s ability to pay cash dividends on its common stock, if any, is dependent upon cash dividends and distributions and other transfers from Vantiv Holding. The amounts available to Vantiv, Inc. to pay cash dividends are subject to the covenants and distribution restrictions in its subsidiaries' loan agreements.

In addition to principal needs for liquidity discussed above, our strategy includes investing in and leveraging our integrated business model and technology platform, broadening and deepening our distribution channels, entry into new geographic markets and development of additional payment processing services. Our near-term priorities for capital allocation include investing in our operations to support organic growth, debt reduction and share repurchases. Long-term priorities remain unchanged and include investing for growth through strategic acquisitions and returning excess capital to shareholders.

We anticipate that to the extent that we require additional liquidity, it will be funded through the incurrence of other indebtedness, equity financings or a combination thereof. We cannot assure that we will be able to obtain this additional liquidity on reasonable terms, or at all. Additionally, our liquidity and our ability to meet our obligations and fund our capital requirements are also dependent on our future financial performance, which is subject to general economic, financial and other factors that are beyond our control. Accordingly, we cannot assure that our business will generate sufficient cash flow from operations or that future borrowings will be available under our credit facilities or otherwise to meet our liquidity needs. If we decide to pursue one or more significant acquisitions, we may incur additional debt or sell additional equity to finance such acquisitions.

Cash Flows

The following table presents a summary of cash flows from operating, investing and financing activities for the nine months ended September 30, 2016 and 2015 (in thousands).

	Nine Months Ended September 30,	
	2016	2015
Net cash provided by operating activities	\$ 430,395	\$ 506,557
Net cash used in investing activities	(117,524)	(103,656)
Net cash used in financing activities	(326,149)	(526,911)

Cash Flow from Operating Activities

Net cash provided by operating activities was \$430.4 million for the nine months ended September 30, 2016 as compared to \$506.6 million for the nine months ended September 30, 2015. The decrease is due primarily to an increase in accounts receivable balance and a decrease in net settlement asset and obligations. Settlement assets and obligations can fluctuate due to seasonality as well as day of the month end.

[Table of Contents](#)*Cash Flow from Investing Activities*

Net cash used in investing activities was \$117.5 million for the nine months ended September 30, 2016 as compared to \$103.7 million for the nine months ended September 30, 2015. The increase was primarily due to an increase in capital expenditures and the premium paid to enter into the interest rate caps.

Cash Flow from Financing Activities

Net cash used in financing activities was \$326.1 million for the nine months ended September 30, 2016 as compared to \$526.9 million for the nine months ended September 30, 2015. Cash used in financing activities for the nine months ended September 30, 2016 consisted primarily of the repayment of debt and capital leases, repurchases of Class A common stock, payments under the tax receivable agreements, and distributions to non-controlling interests. Cash used in financing activities for the nine months ended September 30, 2015 consisted primarily of the repayment of debt and capital leases, including the early principal payment of \$200 million on the term B loan in January 2015, repurchases of Class A common stock, payments under the tax receivable agreements and distributions to non-controlling interests.

Credit Facilities

On October 14, 2016, Vantiv, LLC completed a debt refinancing by entering into a second amended and restated loan agreement (“Second Amended Loan Agreement”). The Second Amended Loan Agreement provides for senior secured credit facilities comprised of a \$2.5 billion tranche A loan maturing in October 2021, a \$765.0 million tranche B loan maturing in October 2023 and a \$650.0 million revolving credit facility maturing in October 2021. The tranche A term loans amortize in equal quarterly installments equal to 1.25% per quarter during each of the first twelve quarters, 1.875% per quarter during the next four quarters and 2.50% during the next three quarters, with a balloon payment at maturity and bear interest at a variable rate (LIBOR) plus a spread rate (125 to 200 basis points based on leverage ratio). The tranche B term loans amortize in equal quarterly installments of 0.25% per quarter, with a balloon payment at maturity and bear interest at a variable rate (LIBOR) with a floor of 75 basis points plus a spread rate (250 basis points). See Note 11 - Subsequent Events in the Notes to Unaudited Consolidated Financial Statements for more details of the debt refinancing.

The Second Amended Loan Agreement requires us to maintain a leverage ratio no greater than established thresholds (based upon the ratio of total funded debt to consolidated EBITDA, as defined in the loan agreement) and a minimum interest coverage ratio (based upon the ratio of consolidated EBITDA to interest expense), which are tested quarterly based on the last four fiscal quarters, commencing on September 30, 2016. The required financial ratios become more restrictive over time, with the specific ratios required by period set forth in the below table.

Period	Leverage Ratio (must not exceed)	Interest Coverage Ratio (must exceed)
July 1, 2016 to September 30, 2016	6.25 to 1.00	4.00 to 1.00
December 31, 2016 to September 30, 2017	5.50 to 1.00	4.00 to 1.00
December 31, 2017 to September 30, 2018	4.75 to 1.00	4.00 to 1.00
December 31, 2018 and thereafter	4.25 to 1.00	4.00 to 1.00

As of September 30, 2016, we were in compliance with these covenants with a leverage ratio of 3.40 to 1.00 and an interest coverage ratio of 8.83 to 1.00.

Interest Rate Swaps and Caps

As of September 30, 2016, we have a total of 10 outstanding interest rate swaps and 6 interest rate cap agreements that were designated as cash flow hedges of interest rate risk. See Note 4 - Derivatives and Hedging Activities in the Notes to Unaudited Consolidated Financial Statements for more information about the interest rate swaps and caps.

Tax Receivable Agreements

As of September 30, 2016, we are party to several TRAs in which we agree to make payments to various parties of 85% of the federal, state, local and foreign income tax benefits realized by us as a result of certain tax deductions. Payments under the TRAs will be based on our tax reporting positions and are only required to the extent we realize cash savings as a result of the underlying tax attributes. The cash savings realized by us are computed by comparing our actual income tax

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liability to the amount of such taxes we would have been required to pay had there been no deductions related to the tax attributes discussed below. We will retain the benefit of the remaining 15% of the cash savings associated with the TRAs. We have entered into the following three TRAs:

- TRAs with investors prior to our initial public offering (“IPO”) for its use of NPC Group, Inc. net operating losses (“NOLs”) and other tax attributes existing at the IPO date under the NPC TRA, all of which is currently held by Fifth Third.
- The Fifth Third TRA in which we realize tax deductions as a result of the increases in tax basis from the purchase of Vantiv Holding units or from the exchange of Vantiv Holding units for cash or shares of Class A common stock, as well as the tax benefits attributable to payments made under such TRAs.
- A TRA with Mercury shareholders (the “Mercury TRA”) as part of the acquisition of Mercury as a result of the increase in tax basis of the assets of Mercury resulting from the acquisition and the use of the net operating losses and other tax attributes of Mercury that were acquired as part of the acquisition.

Obligations recorded pursuant to the TRAs are based on estimates of future taxable income and future tax rates. On an annual basis, we evaluate the assumptions underlying the TRA obligations.

During 2015, we entered into the Mercury TRA Addendum with each of the pre-acquisition owners of Mercury (“Mercury TRA Holders”). The Mercury TRA Addendum contains the following provisions to acquire a significant portion of the Mercury TRA:

- Beginning December 1st of each of 2015, 2016, 2017, and 2018, and ending June 30th of 2016, 2017, 2018, and 2019, respectively, we are granted call options (collectively, the “Call Options”) pursuant to which certain of our additional obligations under the Mercury TRA would be terminated in consideration for cash payments of \$41.4 million, \$38.1 million, \$38.0 million, and \$43.0 million, respectively.
- In the unlikely event we do not exercise the relevant Call Option, the Mercury TRA Holders are granted put options beginning July 10th and ending July 25th of each of 2016, 2017, 2018, and 2019, respectively (collectively, the “Put Options”), pursuant to which certain of our additional obligations would be terminated in consideration for cash payments with similar amounts to the Call Options.
- In June 2016, we exercised the December 2015 Call Option and made a payment to the Mercury TRA Holders.

Except to the extent our obligations under the Mercury TRA have been terminated and settled in full in accordance with the terms of the Mercury TRA Addendum, the Mercury TRA will remain in effect, and the parties thereto will continue to have all rights and obligations thereunder.

On July 27, 2016, we entered into a purchase addendum in connection with our TRA with Fifth Third (the “Fifth Third TRA Addendum”) to terminate and settle a portion of our obligations owed to Fifth Third under the Fifth Third TRA and the NPC TRA. Under the terms of the Fifth Third TRA Addendum, we paid approximately \$116.3 million to Fifth Third to settle approximately \$330.7 million of obligations under the Fifth Third TRA, the difference of which had been recorded as an addition to paid-in capital.

In addition, the Fifth Third TRA Addendum provides that we may be obligated to pay up to a total of approximately \$170.7 million to Fifth Third to terminate and settle certain remaining obligations under the Fifth Third TRA and the NPC TRA, totaling an estimated \$394.1 million upon the exercise of the Call Options or Put Options discussed below.

Under the terms of the Fifth Third TRA Addendum, beginning March 1, 2017, June 1, 2017, September 1, 2017, December 1, 2017, March 1, 2018, June 1, 2018, September 1, 2018 and December 1, 2018, and ending March 10, 2017, June 10, 2017, September 10, 2017, December 10, 2017, March 10, 2018, June 10, 2018, September 10, 2018 and December 10, 2018, respectively, we are granted call options (collectively, the “Call Options”) pursuant to which certain additional obligations of us under the Fifth Third TRA and the NPC TRA would be terminated and settled in consideration for cash payments of \$15.1 million, \$15.6 million, \$16.1 million, \$16.6 million, \$25.6 million, \$26.4 million, \$27.2 million and \$28.1 million, respectively.

Under the terms of the Fifth Third TRA Addendum, if we do not exercise the relevant Call Option, Fifth Third is granted put options beginning March 20, 2017, June 20, 2017, September 20, 2017, December 20, 2017, March 20, 2018, June

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20, 2018, September 20, 2018 and December 20, 2018, and ending March 31, 2017, June 30, 2017, September 30, 2017, December 31, 2017, March 31, 2018, June 30, 2018, September 30, 2018 and December 31, 2018, respectively (collectively, the “Put Options”), pursuant to which certain additional obligations of us would be terminated and settled in consideration for cash payments with similar amounts to the Call Options.

Since Fifth Third is a stockholder of us, a special committee of our board of directors comprised of independent, disinterested directors authorized the TRA Addendum.

All TRA obligations are recorded based on the full and undiscounted amount of the expected future payments, except for the Mercury TRA which represents contingent consideration relating to an acquired business, and is recorded at fair value for financial reporting purposes (see Note 7 - Fair Value Measurements in the Notes to Unaudited Consolidated Financial Statements).

Payments under the TRAs, if necessary, are required to be made no later than January 5th of the second year immediately following the taxable year in which the obligation occurred. We made payments under the TRA obligations of approximately \$53.5 million and \$22.8 million in January 2016 and January 2015, respectively. Except to the extent our obligations under the Mercury TRA and Fifth Third and NPC TRAs have been terminated and settled in full in accordance with the terms of each respective TRA addendum, the TRAs will remain, in effect, and the parties thereto will continue to have all rights and obligations thereunder.

If Fifth Third had exchanged its remaining Class B units of Vantiv Holding, had exercised the remaining warrant and exchanged the Class C units of Vantiv Holding, all for shares of Class A common stock on September 30, 2016, we would have recorded an additional full and undiscounted TRA obligation of approximately \$1.2 billion. This estimate is subject to material change based on changes in Fifth Third’s tax basis in the partnership interest, changes in tax rates, or significant changes in our stock price.

The timing and/or amount of aggregate payments due under the TRAs may vary based on a number of factors, including the amount and timing of the taxable income we generate in the future and the tax rate then applicable, the use of loss carryovers and amortizable basis.

Contractual Obligations

There have been no significant changes to contractual obligations and commitments compared to those disclosed in our Annual Report on Form 10-K as of December 31, 2015 filed with the SEC on February 10, 2016.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our unaudited consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. On an ongoing basis, we evaluate our critical estimates giving consideration to a combination of factors, including historical experience, current conditions and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

During the nine months ended September 30, 2016, we have not adopted any new critical accounting policies, have not changed any critical accounting policies and have not changed the application of any critical accounting policies from the year ended December 31, 2015. Our critical accounting policies and estimates are described fully within Management’s Discussion and Analysis of Financial Condition and Results of Operations included within our Annual Report on Form 10-K filed with the SEC on February 10, 2016.

Off-Balance Sheet Arrangements

We have no off-balance sheet financing arrangements.

Item 3. Quantitative and Qualitative Disclosure About Market Risk

We are exposed to interest rate risk in connection with our senior secured credit facilities, which are subject to variable interest rates. We hedge a portion of our exposure to interest rate fluctuations through the utilization of interest rate swaps and caps in order to mitigate the risk of this exposure.

As of September 30, 2016 we had a total of 10 outstanding interest rate swaps. Of the 10 outstanding swaps, 4 of them cover an exposure period from June 2016 through June 2017 and have a combined notional balance of \$1.1 billion. The remaining 6 interest rate swaps cover an exposure period from January 2016 through January 2019 and have a combined notional balance of \$500 million. As of September 30, 2016, we had \$1.4 billion of variable rate debt not subject to a fixed rate swap effective at September 30, 2016. However, we have 6 interest rate cap agreements with a combined \$1.0 billion notional balance and a cap strike rate of 0.75% covering an exposure period from January 2017 to January 2020.

Based on the amount outstanding under our senior secured credit facilities at September 30, 2016, a change in one percentage point in variable interest rates, after the effect of our interest rate swaps effective at September 30, 2016, would cause an increase or decrease in interest expense of \$14.3 million on an annual basis.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2016. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives. Based on the evaluation of our disclosure controls and procedures as of September 30, 2016, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

There were no changes in our internal control over financial reporting that occurred during the three months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we are involved in various litigation matters arising in the ordinary course of our business. While it is impossible to ascertain the ultimate resolution or range of financial liability with respect to these contingent matters, management believes none of these matters, either individually or in the aggregate, would have a material adverse effect on us.

Item 1A. Risk Factors

You should carefully consider the risks described under “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our common stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of Vantiv. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the risks of our businesses described elsewhere in this Quarterly Report on Form 10-Q. There have been no material changes from the risk factors disclosed in Part I, Item 1A “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table sets forth information regarding shares of Class A common stock repurchased by us during the three months ended September 30, 2016:

Period	Total Number of Shares Purchased ⁽¹⁾⁽²⁾	Average Price Paid per Share	Total Shares Purchased as Part of Publicly Announced Plans or Programs ⁽²⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (in millions) ⁽²⁾
July 1, 2016 to July 31, 2016	3,679	\$ 57.18	—	\$ 74.6
August 1, 2016 to August 31, 2016	456,600	\$ 53.46	456,600	\$ 49.6
September 1, 2016 to September 30, 2016	170	\$ 55.38	—	\$ 49.6

⁽¹⁾ Includes shares of Class A common stock surrendered to us to satisfy tax withholding obligations in connection with the vesting of restricted stock awards.

⁽²⁾ In February 2014, our board of directors authorized a program to repurchase up to \$300 million of our Class A common stock. During the three months ended September 30, 2016, we repurchased 456,600 shares of our Class A common stock for approximately \$25 million. Purchases under the repurchase program are allowed from time to time in the open market, in privately negotiated transactions, or otherwise. The manner, timing, and amount of any purchases are determined by management based on an evaluation of market conditions, stock price, and other factors. The share repurchase program has no expiration date and we may discontinue purchases at any time that management determines additional purchases are not warranted.

Item 5. Other Information

None.

Item 6. Exhibits

See the Exhibit Index immediately following the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

VANTIV, INC.

Dated: October 26, 2016

By: /s/ STEPHANIE L. FERRIS

Name: Stephanie L. Ferris

Title: Chief Financial Officer

Dated: October 26, 2016

By: /s/ CHRISTOPHER THOMPSON

Name: Christopher Thompson

Title: SVP, Controller and Chief Accounting Officer

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
10.1	Amendment and Restatement Agreement, dated as of October 14, 2016, among Vantiv, LLC, Vantiv Holding, LLC, the other Loan Parties, JPMorgan Chase Bank, N.A., as Administrative Agent, and the other agents and lenders party thereto.	8-K	001-35462	10.1	October 18, 2016
10.2	Second Amended and Restated Loan Agreement, dated as of October 14, 2016, by and among Vantiv, LLC, various lenders from time to time party thereto, JPMorgan Chase Bank, N.A. as Administrative Agent, and the other agents party thereto.	8-K	001-35462	10.2	October 18, 2016
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.				
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.				
101	Interactive Data Files.				

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles D. Drucker, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vantiv, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 26, 2016

/s/ CHARLES D. DRUCKER

Charles D. Drucker

President and Chief Executive Officer

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Stephanie L. Ferris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Vantiv, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

October 26, 2016

/s/ STEPHANIE L. FERRIS

Stephanie L. Ferris

Chief Financial Officer

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of Vantiv, Inc. (the "Company") on Form 10-Q for the period ending September 30, 2016 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company does hereby certify, pursuant to 18 U.S.C. § 1350 (as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002), that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

The foregoing certification (i) is given to such officers' knowledge, based upon such officers' investigation as such officers reasonably deem appropriate; and (ii) is being furnished solely pursuant to 18 U.S.C. § 1350 (section 906 of the Sarbanes-Oxley Act of 2002) and is not being filed as part of the Report or as a separate disclosure document.

October 26, 2016

/s/ CHARLES D. DRUCKER

Charles D. Drucker

President and Chief Executive Officer

October 26, 2016

/s/ STEPHANIE L. FERRIS

Stephanie L. Ferris

Chief Financial Officer

[A signed original of this written statement required by Section 906 has been provided to Vantiv, Inc. and will be retained by Vantiv, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.]
