Madison Strategic Sector Premium Fund
Form DEF 14A
June 07, 2011

Madison Strategic Sector Premium Fund

550 Science Drive

Madison, WI 53711

Notice of Annual Meeting of Shareholders
To be held on July 28, 2011

Notice is hereby given to the holders of common shares of beneficial interest, par value $0.01 per share ("Common Shares"), of the Madison Strategic Sector Premium Fund (the "Fund") that the annual meeting of shareholders of the Fund (the "Annual Meeting") will be held at the offices of the Fund, 550 Science Drive, Madison, WI 53711, on Thursday, July 28, 2011, at 10:00 a.m. (Central time). The Annual Meeting is being held for the following purposes:

1. To elect two Trustees as Class III Trustees to serve until the Fund's 2014 annual meeting of shareholders or until their successors shall have been elected and qualified; and

2. To transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

THE BOARD OF TRUSTEES (THE "BOARD") OF THE FUND, INCLUDING THE INDEPENDENT TRUSTEES, UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL.

The Board has fixed the close of business on June 7, 2011 as the record date for the determination of shareholders entitled to notice of, and to vote at, the Annual Meeting. We urge you to mark, sign, date, and mail the enclosed proxy in the postage-paid envelope provided or record your voting instructions via telephone or the internet so you will be represented at the Annual Meeting.

By order of the Board of Trustees

(signature)

Holly S. Baggot, Secretary of the Fund
Madison, Wisconsin
June 14, 2011

It is important that your shares be represented at the Annual Meeting in person or by proxy. Whether or not you plan to attend the Annual Meeting, please vote by telephone, internet or mail. If voting by mail, please sign, date and return the enclosed proxy card in the accompanying postage-paid envelope. If you attend the Annual Meeting and wish to vote in person, you will be able to do so and your vote at the Annual Meeting will revoke any proxy you may have submitted. Merely attending the Annual Meeting, however, will not revoke any previously submitted proxy. Your vote is extremely important. No matter how many or how few shares you own, please send in your proxy card (or vote by telephone or through the internet pursuant to the instructions contained on the proxy card) today.

Madison Strategic Sector Premium Fund
Annual Meeting July 28, 2011

Madison Strategic Sector Premium Fund
Proxy Statement
For
Annual Meeting of Shareholders
To Be Held on July 28, 2011

This proxy statement ("Proxy Statement") is furnished to the holders of common shares of beneficial interest, par value $0.01 per share ("Common Shares"), of the Madison Strategic Sector Premium Fund (the "Fund") in connection with the solicitation by the Board of Trustees of the Fund (the "Board") of proxies to be voted at the annual meeting of shareholders of the Fund to be held on Thursday, July 28, 2011, and any adjournment or postponement thereof (the "Annual Meeting"). The Annual Meeting will be held at the offices of the Fund, 550 Science Drive, Madison, Wisconsin 53711 at 10:00 a.m. (Central time).

This Proxy Statement gives you the information you need to vote on the matters listed on the accompanying Notice of Annual Meeting of Shareholders ("Notice of Annual Meeting"). Much of the information in this Proxy Statement is required under rules of the Securities and Exchange Commission ("SEC"). If there is anything you don't understand, please contact us at our toll-free number, 800-767-0300.

If you attend the annual meeting and wish to vote in person, you will be able to do so and your vote at the annual meeting will revoke any proxy you may have submitted. Merely attending the annual meeting, however, will not revoke any previously submitted proxy.

The Fund will furnish, without charge, a copy of the Fund's most recent Annual Report and Semi-Annual Report to any shareholder upon request. Requests should be directed to Madison Asset Management, LLC, 550 Science Drive, Madison, Wisconsin 53711, or by calling, toll-free, 800-767-0300.

This Proxy Statement, the Notice of Annual Meeting and the enclosed proxy card are first being sent to the Fund's shareholders on or about June 14, 2011.

- Why is a shareholder meeting being held?

Because the common shares of the Fund are listed on the New York Stock Exchange (the "NYSE") under the ticker symbol "MSP", which requires the Fund to hold an annual meeting of shareholders to elect Trustees each fiscal year.

- What proposal will be voted on?

Shareholders of the Fund are being asked to elect two Trustees as Class III Trustees (Messrs. Frank E. Burgess and Lorence D. Wheeler are the nominees) to serve until the Fund's 2014 annual meeting of shareholders or until their successors shall have been elected and qualified (the "Proposal").

- Will your vote make a difference?

YES! Your vote is important and could make a difference in the governance of the Fund, no matter how many shares you own.

- Who is asking for your vote?

The enclosed proxy is solicited by the Board for use at the Annual Meeting to be held on Thursday, July 28, 2011, and, if the Annual Meeting is adjourned or postponed, at any later meetings, for the purposes stated in the Notice of Annual Meeting.

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- How does the Board recommend that shareholders vote on the proposal?

The Board recommends that you vote "for" the Proposal.

- Who is eligible to vote?

Shareholders of record of the Fund at the close of business on June 7, 2011 (the "Record Date") are entitled to be present and to vote at the Annual Meeting or any adjournment or postponement thereof. Each share is entitled to one vote.

- How do you vote your shares?

Whether or not you plan to attend the Annual Meeting, we urge you to complete, sign, date and return the enclosed proxy card in the postage-paid envelope provided or record your voting instructions via telephone or the Internet so your shares will be represented at the Annual Meeting. If you attend the Annual Meeting and wish to vote in person, you will be able to do so. You may contact Pam Krill at 608-274-0300 to obtain directions to the site of the Annual Meeting. Shares represented by duly executed proxies will be voted in accordance with your instructions. If you sign the proxy, but don't fill in a vote, your shares will be voted in accordance with the Board's recommendation.

If any other business is brought before the Annual Meeting, your shares will be voted at the proxies' discretion.

Shareholders who execute proxies may revoke them at any time before they are voted by filing with the Fund a written notice of revocation, by delivering a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person. Merely attending the Annual Meeting, however, will not revoke any previously submitted proxy.

- How many shares of the Fund were outstanding as of the Record Date?

At the close of business on the Record Date, the Fund had 5,798,291 Common Shares outstanding.

THE PROPOSAL: ELECTION OF TRUSTEES

The Fund's Common Shares are listed on the New York Stock Exchange ("NYSE"), which requires the Fund to hold an annual meeting of shareholders to elect Trustees each fiscal year. Shareholders of the Fund are being asked to elect two Trustees as Class III Trustees (Messrs. Frank E. Burgess and Lorence D. Wheeler are the nominees) to serve until the Fund's 2014 annual meeting of shareholders or until their successors shall have been elected and qualified.

Composition of the Board of Trustees. The Trustees of the Fund are classified into three classes of Trustees: Class I Trustees, Class II Trustees and Class III Trustees. Shareholders are being asked to elect Mr. Frank E. Burgess and Mr. Lorence D. Wheeler as the Class III Trustees at the Annual Meeting. Assuming the nominees are elected at the Annual Meeting, the Board will be constituted as follows:

Class I Trustee. Mr. Philip E. Blake is the sole Class I Trustee. It is currently anticipated that the Class I Trustee will next stand for re-election at the Fund's 2012 annual meeting of shareholders.

Class II Trustees. Ms. Katherine L. Frank and Mr. James R. Imhoff, Jr. are the Class II Trustees.   It is currently anticipated that the Class II Trustees will next stand for re-election at the Fund’s 2013 annual meeting of shareholders.

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Class III Trustees. Mr. Frank E. Burgess and Mr. Lorence D. Wheeler are the Class III Trustees. Messrs. Burgess and Wheeler are standing for election at the Annual Meeting. It is currently anticipated that the Class III Trustees will stand for re-election at the Fund's 2014 annual meeting of shareholders.

Generally, the Trustees of only one class are elected at each annual meeting, so that the regular term of only one class of Trustees will expire annually and any particular Trustee stands for election only once in each three year period. The Class III Trustees will hold office for three years or until their successors shall have been elected and qualified. The other Trustees of the Fund will continue to serve under their current terms. The Class III Trustee nominees are currently Trustees of the Fund. Unless authority is withheld, it is the intention of the persons named in the proxy to vote the proxy "FOR" the election of the Class III Trustee nominees named above. The Class III Trustee nominees have indicated that they have consented to serve as Trustees if elected at the Annual Meeting. If a designated nominee declines or otherwise becomes unavailable for election, however, the proxy confers discretionary power on the persons named therein to vote in favor of a substitute nominee or nominees.

Trustees. Certain information concerning the Trustees and officers of the Fund is set forth in the tables below. The "interested" Trustees (as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the "1940 Act")) are indicated below. Independent Trustees are those who are not interested persons of the Fund, the Fund's investment adviser, Madison Asset Management, LLC ("MAM"), or MAM's parent company, Madison Investment Holdings, Inc. ("MIH") (MAM and MIH are collectively referred to herein as "Madison") and comply with the definition of "independent" as set forth in Rule 10A-3 of the Securities Exchange Act of 1934 (the "Independent Trustees"). The Fund is part of a fund complex (referred to herein as the "Fund Complex") comprised of 43 open-end (mutual) funds and the Fund, a closed-end fund. The business address of each Trustee and officer of the Fund is c/o Madison Asset Management, LLC, 550 Science Drive, Madison, Wisconsin 53711.

Independent Trustees

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen(3)	Other Directorships Held
Philip E. Blake 550 Science Drive Madison, WI 53711 Born 1944	Trustee	Since 2005(2)	Retired investor Lee Enterprises, Inc (news and advertising publisher), Madison, WI, Vice President, 1998 - 2001 Madison Newspapers, Inc., Madison, WI, President and Chief	44	Madison Newspapers, Inc., 1993 – Present; Meriter Hospital & Health Services, 2000 – Present; Edgewood College, 2003 – Present (Chairman of the Board, 2010 – Present); Nerites Corporation (technology company), 2004 – Present; Madison Mosaic Funds (13 mutual

			Executive Officer, 1993 – 2000		funds), 2001– Present; MEMBERS Mutual Funds (13 mutual funds), 2009 – Present; Ultra Series Fund (17 mutual funds), 2009 – Present
James R. Imhoff, Jr. 550 Science Drive Madison, WI 53711 Born 1944	Trustee	Since 2005(2)	Chairman and CEO of First Weber Group, Inc. (real estate brokers), Madison, WI, 1996 – Present	44	Park Bank, 1978 – Present; Madison Mosaic Funds (13 mutual funds), 1996 – Present; Madison/ Claymore Covered Call and Equity Strategy Fund (1 closed end fund), 2005 – Present; MEMBERS Mutual Funds (13 mutual funds), 2009 – Present; Ultra Series Fund (17 mutual funds), 2009 – Present

Lorence D. Wheeler(1) 550 Science Drive Madison, WI 53711 Born 1938	Trustee	Since 2005(2)	Retired investor Credit Union Benefits Services, Inc. (a provider of retirement plans and related services for credit union employees nationwide), Madison, WI, President, 1986 – 1997	44	Grand Mountain Bank FSB and Grand Mountain Bancshares, Inc. 2003 – Present; Madison Mosaic Funds (13 mutual funds), 1996 – Present; Madison/Claymore Covered Call and Equity Strategy Fund (1 closed end fund), 2005 – Present; MEMBERS Mutual Funds (13 mutual funds), 2009 – Present; Ultra Series Fund (17 mutual funds), 2009 – Present

Interested Trustees

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years	Number of Portfolios in Fund Complex Overseen(3)	Other Directorships Held
Frank E. Burgess(1),(4) 550 Science Drive Madison, WI 53711 Born 1942	Trustee and Vice President	Since 2005(2)	President and Executive Director of MIH, 2010 – Present; Managing Director and President of MIH, 1973 – 2010 President and Executive Director of MAM, 2010 – Present; President of MAM, 2004 – 2010	14	Madison Mosaic Funds (13 mutual funds), 1996 – Present; Madison/Claymore Covered Call & Equity Strategy Fund, 2005 – Present; Capitol Bank of Madison, WI, 1995 – Present; American Riviera Bank of Santa Barbara, CA, 2006 – Present

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Katherine L. Frank (4) 550 Science Drive Madison, WI 53711 Born 1960	Trustee(2) and President	President since 2005, Trustee since 2006(2)	Chief Operating Officer and Executive Director of MIH, 2010 – Present; Managing Director and Vice President of MIH, 1986 – 2010 Executive Director and Chief Operating Officer of MAM, 2010 – Present; Vice President of MAM, 2004 – 2010	38	Madison Mosaic Funds (all but Equity Trust, for a total of 7 mutual funds), 2001 – Present; Madison Strategic Sector Premium Fund, 2005 – Present; MEMBERS Mutual Funds (13 mutual funds), 2009 – Present; Ultra Series Fund (17 mutual funds), 2009 – Present

(1) Nominee for election as a Trustee at the Annual Meeting.
(2) Each Trustee is generally expected to serve a three year term concurrent with the class of Trustees for which he or she serves.
(3) The Fund Complex is comprised of 43 open-end (mutual) funds and the Fund, a closed-end fund.
(4) Each of Mr. Burgess and Ms. Frank serve as an officer of MAM. Since MAM serves as the investment adviser to the Fund, each of these individuals is considered an “interested person” of the Fund as the term is defined in the 1940 Act.

Officers. The following information relates to the executive officers of the Fund who are not Trustees. The officers are appointed by the Trustees and serve until their respective successors are chosen and qualified. The Fund’s officers receive no compensation from the Fund but may also be officers or employees of Madison or affiliates of Madison and may receive compensation in such capacities.

Name, Address and Age	Position(s) Held with Fund	Term of Office and Length of Time Served	Principal Occupation(s) During Past 5 Years
Holly S. Baggot 550 Science Drive Madison, WI 53711 Born 1960	Secretary and Assistant Treasurer	Indefinite Term since March 2010	Vice President of MAM, 2009 – Present, and of MIH, April 2010 – Present Secretary and Assistant Treasurer, Madison Mosaic Funds (13 mutual funds), 2009 – Present; Secretary (1999 – Present), Assistant Treasurer (2009 – Present) of MEMBERS Mutual Funds (13 mutual funds) and Ultra Series Fund

			(17 mutual funds) Director-Mutual Funds of MEMBERS Capital Advisors, Inc. (investment advisory firm), Madison, WI, 2008 – 2009, and Director-Mutual Fund Operations, 2006 – 2008, and Operations Officer-Mutual Funds, 2005 – 2006
Ray DiBernardo 550 Science Drive Madison, WI 53711 Born 1962	Vice President	Indefinite Term since March 2005	Vice President of MIH, 2003 – Present, and of MAM, April 2010 – Present
Greg D. Hoppe 550 Science Drive Madison, WI 53711 Born 1969	Treasurer	Indefinite Term since March 2005	Vice President of MIH 1999 – Present, and of MAM, 2009 – Present Treasurer of Madison Mosaic Funds (13 mutual funds), 2009 – Present, and Chief Financial Officer, 1999 – 2009; Vice President of Madison/Claymore Covered Call and Equity Strategy Fund, 2008 – Present; Treasurer of MEMBERS Mutual Funds (13 mutual funds) and Ultra Series Fund (17 mutual funds), 2009 – Present
Pamela M. Krill 550 Science Drive Madison, WI 53711 Born 1966	General Counsel, Chief Legal Officer and Assistant Secretary	Indefinite Term since March 2010	General Counsel and Chief Legal Officer of Madison, 2009 – Present; General Counsel, Chief Legal Officer and Assistant Secretary of Madison Mosaic Funds (13 mutual funds), MEMBERS Mutual Funds (13 mutual funds) and Ultra Series Fund (17 mutual funds), 2009 – Present Managing Associate General Counsel-Securities & Investments Group of CUNA Mutual Insurance Society (insurance company with affiliated investment advisory, brokerage and mutual fund operations), Madison, WI, 2007 – 2009 Shareholder, Securities Practice Group, of Godfrey & Kahn, S.C. (law firm), Madison and Milwaukee, WI, 1994-2007

Paul Lefurgey 550 Science Drive Madison, WI 53711 Born 1964	Vice President	Indefinite Term since March 2010	Managing Director and Head of Fixed Income Investments of MIH, 2005 – Present, and of April MAM, 2010 – Present Vice President, Madison Mosaic Funds (13 mutual funds), MEMBERS Mutual Funds (13 mutual funds) and Ultra Series Fund (17 mutual funds), 2009 – Present
W. Richard Mason 8777 N. Gainey Center Drive, #220 Scottsdale, AZ 85258 Born 1960	Chief Compliance Officer, Corporate Counsel, and Assistant Secretary	Indefinite Term since March 2005	Chief Compliance Officer and Corporate Counsel of Madison, 2009 – Present, and General Counsel and Chief Compliance Officer, 1996 – 2009 Principal of Mosaic Funds Distributor, LLC (an affiliated brokerage firm of MIH), 1998 – Present Secretary, General Counsel, and Chief Compliance Officer of Madison Mosaic Funds (13 mutual funds), 1992 – 2009, and Chief Compliance Officer, Corporate Counsel, and Assistant Secretary, 2009 – Present; Chief Compliance Officer, Corporate Counsel and Assistant Secretary of MEMBERS Mutual Funds (13 mutual funds) and Ultra Series Fund (17 mutual funds), 2009 – Present
Jay R. Sekelsky 550 Science Drive Madison, WI 53711 Born 1959	Vice President	Indefinite Term since March 2005	Chief Investment Officer and Executive Director of Madison, 2010 – Present; Managing Director and Vice President of MIH, 1990 – 2010 Vice President, Madison Mosaic Funds (13 mutual funds), 1996 – Present; Vice President, Madison/Claymore Covered Call and Equity Strategy Fund (1 closed end fund), 2005 – Present; Vice President, MEMBERS Mutual Funds (13 mutual funds) andUltra Series Fund (17 mutual funds), 2009 – Present

Board Qualifications. The members of the Board of Trustees each have experience which led Fund management to the conclusion that the person should serve as a member of the Board, both at the time of the person's appointment to the Board and continuing as of the date of this Proxy Statement. Mr. Burgess is the founder and President of Madison and has over 30 years of experience in the investment management business, while Ms. Frank has been with Madison for more than 20 years and has held executive management positions during her tenure with the firm.

Ms. Frank and Mr. Burgess are the sole members of the Board who are considered "interested" under the 1940 Act. Regarding the Independent Trustees, all three of them have substantial experience operating and overseeing a business, whether it be the retirement plan business (for Mr. Wheeler), the newspaper business (for Mr. Blake) or the real estate business (for Mr. Imhoff). As a result of this experience, each of them has unique perspectives regarding the operation and management of the Fund and the Board's oversight function with respect thereto. They use this collective experience to serve the Fund for the benefit of Fund shareholders. Moreover, each of the Independent Trustees has served in such capacity since the Fund's inception and, as a result, bring substantial and material experience and expertise to their continued roles as Trustees of the Fund.

Board Committees. The Trustees have determined that the efficient conduct of the Trustees' affairs makes it desirable to delegate responsibility for certain specific matters to committees of the Board. The committees meet as often as necessary, either in conjunction with regular meetings of the Trustees or otherwise. The Board currently has two standing committees: the Audit Committee and the Nominating and Governance Committee.

Audit Committee. The Board has an Audit Committee, composed of Philip E. Blake, James R. Imhoff, Jr. (Chair) and Lorence D. Wheeler. In addition to being Independent Trustees as defined above, each of these Trustees also meets the additional independence requirements for audit committee members as defined by the NYSE. The Audit Committee is charged with selecting an independent registered public accounting firm for the Fund and reviewing accounting matters with the Fund's independent registered public accounting firm.

The Audit Committee presents the following report:

The Audit Committee has performed the following functions: (i) the Audit Committee reviewed and discussed the audited financial statements of the Fund with management of the Fund; (ii) the Audit Committee discussed with the Fund's independent registered public accounting firm the matters required to be discussed by the Statement on Auditing Standards No. 61; (iii) the Audit Committee received the written disclosures and the letter from the Fund's independent registered public accounting firm required by applicable requirements of the Public Accounting Oversight Board regarding the independent accountant's communications with the Audit Committee concerning independence, and discussed with the Fund's independent registered public accounting firm the independence of the Fund's independent registered public accounting firm; and (iv) the Audit Committee recommended to the Board of Trustees of the Fund that the financial statements be included in the Fund's Annual Report for the past fiscal period.

The Audit Committee is governed by a written charter, the most recent version of which was approved by the Board on May 14, 2010 (the "Audit Committee Charter"). In accordance with proxy rules promulgated by the SEC, a fund's audit committee charter is required to be filed at least once every three years as an exhibit to a fund's proxy statement. The Fund's Audit Committee Charter was filed in 2010 as Attachment A to the Fund's Proxy Statement. It is also available on the Fund's website at www.madisonfunds.com. You may request a hard copy of the charter by calling the Fund toll-free at 800-767-0300.

Nominating and Governance Committee. The Board has a Nominating and Governance Committee, which is composed of Philip E. Blake, James R. Imhoff, Jr., and Lorence D. Wheeler (Chair), each of whom is an Independent Trustee and is "independent" as defined by NYSE listing standards.

The Nominating and Governance Committee is governed by a written charter (the "Nominating and Governance Committee Charter"), the most recent version of which was approved by the Board on October 21, 2009. In accordance with proxy rules promulgated by the SEC, a fund's nominating committee charter is required to be filed at least once every three years as an exhibit to a fund's proxy statement. The Fund's Nominating and Governance Committee Charter was filed in 2010 as Attachment B to the Fund's Proxy Statement.

As part of its duties, the Nominating and Governance Committee makes recommendations to the full Board with respect to candidates for the Board. The Nominating and Governance Committee will consider trustee candidates recommended by shareholders. In considering candidates submitted by shareholders, the Nominating and Governance Committee will take into consideration the needs of the Board and the qualifications of the candidate. To have a candidate considered by the Nominating and Governance Committee, a shareholder must submit the recommendation in writing and must include the information required by the Procedures for Shareholders to Submit Nominee Candidates, which are set forth as Appendix A to the Nominating and Governance Committee Charter. The shareholder recommendation must be sent to the Fund's Secretary, c/o Madison Asset Management, LLC, 550 Science Drive, Madison, Wisconsin 53711.

The nominees for election at the Annual Meeting currently serve as Trustees and were unanimously nominated by the Board and the Nominating and Governance Committee.

Leadership Structure of the Board. The Board of Trustees is relatively small (with five members, as noted in the table above) and operates in a collegiate atmosphere. Although no member is formally charged with acting as Chairman, Ms. Frank generally acts as the Chairperson during meetings. All Board members are expected to provide their input into establishing the Board's meeting agenda. Likewise, each Board meeting contains a standing agenda item for any Board member to raise new or additional items he or she believes is important in connection with Fund governance. The Board has charged Mr. Wheeler with acting as the Lead Independent Trustee for purposes of communicating with Madison, the Chief Compliance Officer, counsel to the Independent Trustees and Fund counsel on matters relating to the Board as a whole. The Independent Trustees often meet in executive session without representatives of Madison present (including meetings with counsel, the Chief Compliance Officer and the independent registered public accountant).

The Board's Audit Committee and the Board as a whole considers risks in connection with a variety of matters during its regular quarterly review of Fund operations in conjunction with Madison, Fund counsel, independent counsel, and the Fund's Chief Compliance Officer. The Board's committee structure requires an Independent Trustee to serve as chairman of each committee, including the Audit Committee.

Given the small size of the Board, its committee structure lead by Independent Trustees, the openness of Board meetings to active input by all Board members, its utilization of executive sessions, the role of the Lead Independent Trustee and its quarterly focus on compliance and risk management, the Board has determined that its current leadership structure is adequate for the protection of Fund investors.

Shareholders Communications with the Board. Shareholders and other interested parties may contact the Board or any member of the Board by mail. To communicate with the Board or any member of the Board, correspondence should be addressed to the Board or the Board members with whom you wish to communicate by either name or title. All such correspondence should be sent c/o the Fund's Secretary, c/o Madison Asset Management, LLC, 550 Science Drive, Madison, Wisconsin 53711.

Beneficial Ownership of Securities. As of June 7, 2011, each Trustee beneficially owned equity securities of the Fund and other funds in the Fund Complex overseen by the Trustee in the dollar range amounts as specified below:

Trustee	Dollar Range of Equity Securities in the Fund	Aggregate Dollar Range of Equity Securities Overseen by Trustees in the Fund Complex(1)
Independent Trustees		
Philip E. Blake	$10,001-$50,000	Over $100,000
James R. Imhoff, Jr.	$50,001 - $100,000	Over $100,000
Lorence D. Wheeler	$50,001 - $100,000	Over $100,000

Interested Trustees		
Frank E. Burgess	Over $100,000	Over $100,000
Katherine L. Frank	$10,001-$50,000	Over $100,000

(1) The Fund Complex is comprised of 43 open-end (mutual) funds and the Fund, a closed-end fund.

As of June 7, 2011, each Trustee and the Trustees and officers of the Fund as a group owned approximately 1% of the outstanding shares of the Fund.

Board Meetings. Four meetings of the Board were held during the Fund's fiscal year ended December 31, 2010. Four meetings of the Fund's Audit Committee and the Fund's Nominating and Governance Committee were also held during the Fund's fiscal year ended December 31, 2010. Each Trustee attended all (100%) of the meetings of the Board (and any committee thereof on which he or she serves) held during the Fund's last fiscal year ended December 31, 2010. It is the Fund's policy to encourage Trustees to attend annual meetings of shareholders.

Trustee Compensation. The Fund pays an annual retainer and fee per meeting attended to each Trustee who is not affiliated with Madison or its affiliates. The following table provides information regarding the compensation of the Fund's Trustees for its most recently completed fiscal year. The Fund does not accrue or pay retirement or pension benefits to Trustees as of the date of this Proxy Statement.

The Fund's Trustees were compensated as follows:

Trustee	Aggregate Estimated Compensation from the Fund	Total Estimated Compensation from the Fund and Fund Complex(1) Paid to Trustees
Philip Blake	$6,000	$66,000
Frank E. Burgess	$0	$0
Katherine L. Frank	$0	$0
James R. Imhoff, Jr.	$6,000	$66,000
Lorence D. Wheeler	$6,000	$66,000

(1) As of the date of this Proxy Statement, the Fund Complex was comprised of 43 open-end (mutual) funds and the Fund, a closed-end fund.

Shareholder Approval. The affirmative vote of a majority of the Common Shares present in person or represented by proxy and entitled to vote on the matter at the Annual Meeting at which a quorum is present is necessary to approve the proposal. The holders of Common Shares have equal voting rights (i.e., one vote per Common Share). Votes withheld and abstentions will have the same effect as votes against the Proposal, and "broker non-votes" (i.e., Commons Shares held by brokers or nominees as to which (i) instructions have not been received from the beneficial owner or the persons entitled to vote and (ii) the broker does not have discretionary voting power on a particular matter) will have no effect on the outcome of the vote on the Proposal.

Board Recommendation

THE BOARD OF THE FUND, INCLUDING THE INDEPENDENT TRUSTEES, UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE PROPOSAL.

ADDITIONAL INFORMATION

Expenses of Proxy Solicitation. The cost of soliciting proxies will be borne by the Fund, subject to the overall cap on Fund expenses beyond which costs are borne by Madison. In addition, certain officers of the Fund and/or employees of Madison may solicit proxies by telephone or mail (none of whom will receive additional compensation for doing so). Brokerage houses, banks and other fiduciaries may be requested to forward solicitation material to their principals to obtain authorization for the execution of proxies and will reimbursed by the Fund for such out-of-pocket expenses.

Further Information About Voting and the Annual Meeting. Whether or not you plan to attend the Annual Meeting, we urge you to complete, sign, date and return the enclosed proxy card in the postage-paid envelope provided or record your voting instructions via telephone or the Internet so your Common Shares will be represented at the Annual Meeting. Information regarding how to vote via telephone or the Internet is included on the enclosed proxy card.

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If you attend the Annual Meeting and wish to vote in person, you will be able to do so. You may contact Pam Krill at 608-274-0300 to obtain directions to the site of the Annual Meeting.

The Agreement and Declaration of Trust of the Fund requires the presence of a quorum for each matter to be acted upon at the Annual Meeting. The holders of a majority of the Common Shares outstanding, present in person or represented by proxy, constitute a quorum for purposes of the Proposal. Votes withheld and abstentions will be counted as present for quorum purposes; however, "broker non-votes" will not be counted as present for quorum purposes.

All properly executed proxies received prior to the Annual Meeting will be voted at the Annual Meeting in accordance with the instructions marked thereon or otherwise as provided therein. If no specification is made on a proxy card, it will be voted FOR the proposal specified on the proxy card. Shareholders may revoke their proxies at any time prior to the time they are voted by giving written notice to the Secretary of the Fund, by delivering a subsequently dated proxy prior to the date of the Annual Meeting or by attending and voting at the Annual Meeting. Merely attending the Annual Meeting, however, will not revoke any previously submitted proxy.

The Board has fixed the close of business on June 7, 2011 as the Record Date for the determination of shareholders of the Fund entitled to notice of, and to vote at, the Annual Meeting. Shareholders of the Fund on that date will be entitled to one vote on each matter to be voted on by the Fund for each share held and a fractional vote with respect to fractional shares with no cumulative voting rights.

Investment Adviser. Madison Asset Management, LLC, a subsidiary of Madison Investment Holdings, Inc., is the Fund's investment adviser and is responsible for making investment decisions with respect to the investment of the Fund's assets. Madison is located at 550 Science Drive, Madison, Wisconsin 53711. Madison and its affiliated entities act as subadviser for one other closed-end investment company and as investment adviser to individuals, corporations, pension funds, endowments, insurance companies and mutual funds with approximately $15 billion in assets under management among all such entities as of December 31, 2010.

Administrator. Madison Investment Advisors, LLC (a wholly-owned subsidiary of MAM) performs certain accounting and other administrative services for the Fund pursuant to a Services Agreement.

Independent Registered Public Accounting Firm. Grant Thornton, LLP ("GT") has been selected as the independent registered public accounting firm by the Audit Committee of the Fund to audit the accounts of the Fund for and during the Fund's current fiscal year. The Fund does not know of any direct or indirect financial interest of GT in the Fund. Representatives of GT will attend the Annual Meeting, will have the opportunity to make a statement if they desire to do so and will be available to answer questions.

Audit Fees. The aggregate fees billed to the Fund by GT for professional services rendered for the audit of the Fund's annual financial statements for the Fund's fiscal years ended December 31, 2010 and December 31, 2009 were $20,000 and $22,700, respectively.

Audit-Related Fees. The aggregate fees billed by GT and approved by the Audit Committee of the Fund for the Fund's fiscal years ended December 31, 2010 and 2009 for assurance and related services reasonably related to the performance of the audit of the Fund's annual financial statements were $0 and $0, respectively (such fees relate to services rendered, and out of pocket expenses incurred, in connection with Fund registration statements, comfort letters and consents). GT did not perform any other assurance and related services that were required to be approved by the Fund's Audit Committee for such period.

Tax Fees. The aggregate fees billed by GT and approved by the Audit Committee of the Fund for the Fund's fiscal years ended December 31, 2010 and 2009 for professional services rendered for tax compliance, tax advice, and tax planning were \$0 and \$0, respectively (such fees relate to tax services provided by GT in connection with the Fund's tax calculations and tax-related advice for planning purposes). GT did not perform any other tax compliance or tax planning services or render any tax advice that were required to be approved by the Fund's Audit Committee for such period.

Balances at December 31, 2005 (unaudited)

$873,009 $25,279 $ $40,553 $149,751 $657,426

Net income

475,952 91,387 384,565

Other comprehensive income (loss)

(1,517) (1,517)

Cash dividends and distributions

(477,562) (103,522) (374,040)

Non-cash distributions

(610) (610)

Contributions

95,641 95,641

Stock issuance, repurchases and other

(16,786) (18,454) 1,605 63

Adjustment to initially apply SFAS 158, net of tax

(18) (18)

Balances at December 31, 2006

$948,109 $23,744 $ $22,099 $139,221 $763,045

Net income

582,446 114,885 467,561

Other comprehensive income

39,124 39,124

Cash dividends and distributions

(432,263) (82,745) (349,518)

Non-cash distributions

(137) (137)

Contributions

21,058 21,058

Stock issuance, repurchases and other

(376) (1,942) 398 1,168

Balances at December 31, 2007

$1,157,961 $62,868 $ $20,157 $171,759 $903,177

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Chase Paymentech

COMBINED STATEMENTS OF CASH FLOWS

For the years ended

(In thousands)

	December 31,		
	2007	2006	2005 (unaudited)
Operating activities			
Net income	$ 582,446	$ 475,952	$ 283,529
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	66,793	113,663	76,522
Deferred income taxes	4,510	9,286	4,214
Minority interest	191	398	1,606
Provision for doubtful accounts	7,240	8,512	8,530
Losses on investments	1,156	137	298
Other non-cash expense	5,549	5,661	2,728
Changes in operating assets and liabilities:			
Receivables related to merchant processing	1,798,190	(1,729,913)	(846,071)
Accounts receivable	(81,186)	(19,390)	(41,426)
Prepaid expenses and other assets	(7,974)	25,893	(31,575)
Accounts payable	(2,140)	(5,786)	73,970
Liabilities related to merchant processing	428,061	1,604,049	804,559
Accrued assessments	(438)	4,680	2,360
Merchant deposits	(128,727)	64,769	139,501
Other accrued expenses and liabilities	(10,238)	39,509	28,126
Net cash provided by operating activities	2,663,433	597,420	506,871
Investing activities			
Purchases of property and equipment	(66,190)	(50,823)	(33,494)
Purchases of merchant portfolios	(23,399)	(1,566)	(750)
Purchases of investments	(106,283)	(226,631)	(287,727)
Sales of investments	107,304	11,520	35,675
Maturities of investments	60,572	178,052	237,364
Net cash used in investing activities	(27,996)	(89,448)	(48,932)
Financing activities			
Dividends and distributions	(432,459)	(478,152)	(193,795)
Capital contributions	21,058	95,641	
Cash retained as a result of excess tax benefits relating to employee share-based awards	410	2,304	(2,661)
Proceeds from issuance of common stock related to employee share-based awards	1,112	2,471	1,840
Share repurchases related to employee share-based awards	(4,065)	(6,469)	(26,682)
Payments on short-term financing		(23,867)	
Payments on long-term debt	(21,113)	(17,648)	(17,023)
Operating cash attributed to the integration of CMS on October 1, 2005			568,383
Net cash provided by (used in) financing activities	(435,057)	(425,720)	330,062
Effect of exchange rate changes on cash and cash equivalents	11,713	270	967
Increase in cash and cash equivalents	2,212,093	82,522	788,968
Cash and cash equivalents at beginning of year	1,315,890	1,233,368	444,400
Cash and cash equivalents at end of year	$ 3,527,983	$ 1,315,890	$ 1,233,368

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Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited)

NOTE 1 ORGANIZATION AND BUSINESS

Organization

The accompanying combined financial statements include all entities commonly owned by First Data Corporation and its subsidiaries (FDC) and JPMorgan Chase & Co. and its subsidiaries (JPMorgan Chase). The common ownership of these entities, which are primarily joint ventures, occurred over the course of several years and involved multiple transactions between FDC, JPMorgan Chase, Bank One Corporation (Bank One) and the joint ventures. The commonly owned entities include corporations, a general partnership and limited liability companies (LLCs) and are functionally grouped into two operating divisions and a group of holding companies. These entities and their form are shown below, by functional grouping, and are collectively referred to as Chase Paymentech, or the Company:

Name of Entity	**Form of Entity**
Holding Companies	
FDC Offer Corp.	Corporation (incorporated in Delaware in 1999)
Subsidiaries:	
Paymentech, Inc.	Corporation (incorporated in Delaware in 1995)
Paymentech Management Resources, Inc.	Corporation (incorporated in Delaware in 1995)
Paymentech Employee Resources LLC	LLC (formed in Delaware in 1999)
Chase Merchant Services, LLC	LLC (formed in Delaware in 1997)
Chase Paymentech U.S. Operations	
Chase Paymentech Solutions, LLC	LLC (formed in Delaware in 1996)
Subsidiaries:	
Merchant-Link, LLC	LLC (formed in Delaware in 1999)
Paymentech Salem Services, LLC	LLC (formed in Delaware in 2003)
S3 Financial Services, LLC	LLC (formed in Delaware in 2005)
Chase Alliance Partners, LLC	LLC (formed in Delaware in 2007)
Paymentech, LLC	LLC (formed in Delaware in 2007)
Chase Paymentech Canadian Operations	
Chase Paymentech Solutions	General Partnership (formed in Ontario in 2002)

In June 2007, PTI General Partner, LLC and BOPS Holding, LLC, formerly subsidiaries of Chase Paymentech Solutions, LLC, were merged into Chase Paymentech Solutions, LLC. Also in June 2007, Chase Alliance Partners, L.P. and Paymentech, L.P., formerly subsidiaries of Chase Paymentech Solutions, LLC, were merged into Chase Alliance Partners, LLC and Paymentech, LLC, respectively. These mergers had no impact on the operations of the Company.

The aggregate beneficial ownership in Chase Paymentech is approximately 51% ownership by JPMorgan Chase and approximately 49% ownership by FDC. On September 24, 2007, FDC was acquired by Kohlberg Kravis Roberts & Co (KKR). KKR s acquisition of FDC is a change in control, which gives JPMorgan Chase the option to terminate the Company. On May 23, 2008, FDC and JPMorgan Chase entered into an agreement (the Separation Agreement) to end the joint ownership of the Company. The Separation Agreement allows for each owner to receive their ownership share of the Company s net assets including merchant contracts, by value, and their share of sales and certain service professionals. The separation is anticipated to occur prior to December 31, 2008. The accompanying financial statements do not include any adjustments that might result from the outcome of this transaction.

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

With respect to FDC s ownership interest in Chase Paymentech, the Company met the significant subsidiary test provided in SEC Regulation S-X Rule 1-02(w), in that FDC s equity earnings in the Company exceeded 20% of FDC s consolidated income from continuing operations before income taxes for the period from January 1, 2007 through September 24, 2007 (the predecessor period), and for the year ended December 31, 2006. In accordance with SEC Regulation S-X Rule 3-09, these combined financial statements are filed with FDC s Form 10-K as part of Item 15(c). The Company did not meet the significant subsidiary test for the year ended December 31, 2005, as FDC s equity earnings in the Company did not exceed the 20% threshold in SEC Regulation S-X Rule 1- 02(w). While the combined financial statements present financial information for the year ended December 31, 2005, this information is unaudited because the Company was not audited in its combined form for that period.

Holding Companies

FDC Offer Corp. and its subsidiaries, Paymentech, Inc. and Paymentech Management Resources, Inc. (PMRI), are primarily holding companies whose main source of income results from their ownership interests in the Company s U.S. operations. Paymentech Employee Resources LLC is the employer of substantially all employees associated with the U.S. operations. The accompanying combined financial statements include the financial position, results of operations, changes in owners equity and cash flows for these entities for all periods presented.

Chase Merchant Services, LLC (CMS) is a joint venture formed by FDC and JPMorgan Chase in 1997. As discussed below, effective October 1, 2005, all of the assets and liabilities of CMS were transferred to the Company s U.S. operations in exchange for an ownership interest in Chase Paymentech Solutions, LLC. Subsequent to the October 1, 2005 transaction, CMS primary source of income results from its ownership interests in the Company s U.S. operations. The accompanying combined financial statements include the financial position, results of operations, changes in owners equity and cash flows for CMS for all periods subsequent to October 1, 2005.

U.S. Operations

Chase Paymentech Solutions, LLC (Chase Paymentech U.S. or the Company s U.S. operations), formerly Banc One Payment Services, L.L.C. (BOPS), and its subsidiaries comprise the Company s U.S.-based operations. Chase Paymentech U.S. is a joint venture beneficially owned by FDC and JPMorgan Chase, through direct investments as well as through investments in FDC Offer Corp. and CMS. Each of these members in the joint venture hold membership interests which are of a single class and have substantially the same rights and privileges.

BOPS was originally formed as a joint venture between FDC and Bank One in 1996. As a result of JPMorgan Chase s merger with Bank One in July 2004, FDC and JPMorgan Chase beneficially owned both BOPS and CMS, which while commonly owned, were controlled by different management committees and were competitors in the marketplace. To benefit from the complementary technological and management knowledge, as well as the market presence of each of these joint ventures, on October 1, 2005, through a series of transactions, all of the assets and liabilities of CMS were transferred to BOPS, and the joint venture was subsequently renamed Chase Paymentech Solutions, LLC.

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The results of the Company s U.S. operations and cash flows included in the accompanying combined financial statements for the nine month period ended on September 30, 2005 represent the historical results of BOPS. The financial position, results of operations, changes in owners equity and cash flows for all periods presented subsequent to October 1, 2005 reflect the operations of Chase Paymentech U.S. in its current form.

Canadian Operations

Chase Paymentech Solutions (Chase Paymentech Canada or the Company s Canadian operations), formerly Paymentech Canada, is a joint venture beneficially owned by FDC and JPMorgan Chase and comprises the Company s entire Canadian operations. Each of the partners in the joint venture holds partnership interests which are of a single class and have the same rights and privileges.

Business

The Company engages in the electronic payment processing industry for businesses accepting credit, debit, fleet, and stored value card payments, as well as alternative methods of payment via point-of-sale, internet, catalog and recurring billings. The Company provides these services for transactions that originate throughout the world for financial institutions, sales agents and the Company s direct merchants, which are primarily located in North America.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying combined financial statements are presented in conformity with accounting principles generally accepted in the United States of America (U.S. GAAP). All intercompany profits, accounts, and transactions have been eliminated.

Unaudited Financial Information

The unaudited combined financial statements for the year ended December 31, 2005 have been prepared in accordance with U.S. GAAP. These financial statements were prepared on the same basis as the combined financial statements as of December 31, 2007 and 2006 and for the years then ended, and in the opinion of management, reflect all adjustments and accruals considered necessary to fairly present the Company s combined results of operations, changes in owners equity and cash flows.

Reclassifications

Certain activities related to the Company s investments have been reclassified in the Company s combined statements of cash flows in order to present gross cash flows from purchases, sales and maturities of investments in accordance with Statement of Financial Accounting Standards (SFAS) No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. As a result, cash flows from operating activities and investing activities differ from previously filed documents, which presented these activities on a net basis. Certain eliminations of the Company s intercompany activities have been reclassified to each of the appropriate components of owners equity in the Company s combined statements of changes in owners equity. Although these reclassifications do not affect owners equity in total, the components of owners equity differ from

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

previously filed documents, which presented these eliminations separately. These reclassifications did not impact the combined balance sheets and statements of income and comprehensive income. The Company s deferred contract incentives have been reclassified from current to non-current assets and certain liabilities, primarily related to the Company s deferred compensation, long-term incentive, and pension benefit plans, have been reclassified from current to non-current liabilities in the Company s combined balance sheets. The change in classification to non-current reflects the long-term nature of the respective asset or liability. As a result, total current assets and total current liabilities differ from previously filed documents. These reclassifications did not impact total assets, total liabilities or the combined statements of income and comprehensive income. Management does not believe that these reclassifications are material to the combined financial statements.

Use of Estimates

The preparation of combined financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported on the combined financial statements and accompanying notes. Actual results could differ from those estimates.

Foreign Currency Translation

The Company s Canadian operation uses its local currency, the Canadian dollar (CAD), as its functional currency. The assets and liabilities related to the Canadian operations in the accompanying combined balance sheets are translated at period end exchange rates. Resulting translation adjustments are reported as a separate component of owners equity in accumulated other comprehensive income. All income and expense items are translated using the average exchange rate for the period. Net transaction gains and losses are included in earnings. Unless otherwise stated, amounts presented herein related to the Canadian operations are in U.S. dollars.

Cash and Cash Equivalents

The Company considers cash, certificates of deposit, money market funds, and all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

Receivables Related to Merchant Processing

Receivables related to merchant processing represent amounts due from card brands for transactions that have been processed.

Marketable and other securities

The Company has investments in marketable securities, as well as investments in non-marketable equity securities. Investments in marketable securities are classified as available-for-sale and consist of government, government-backed, corporate debt securities, and short term bond mutual funds. Available-for-sale securities are stated at fair value based on quoted market prices, with unrealized gains or losses on the securities, net of any related tax effects, recorded as a separate component of comprehensive income. The cost basis of debt securities is adjusted for the amortization of premiums and accretion of discounts to maturity. Amortization and accretion, as well as interest and dividend income earned, and realized gains and losses on sales of securities are recorded in interest and other income. Realized gains and losses are derived using the average cost method for determining

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Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

the cost of securities sold. A decline in market value of any available-for-sale security below cost that is deemed to be other-than-temporary results in an impairment charge to earnings, and a new cost basis for the security is established.

Investments in non-marketable equity securities are accounted for under the cost method as such investments do not meet the equity method criteria. The Company assesses the potential for impairments to cost method investments when impairment indicators are present. Any resulting impairment that is deemed other-than-temporary is charged to earnings.

Concentrations of Credit Risk

The Company maintains cash and cash equivalents with financial institutions in excess of federally insured levels. The Company believes that the concentration of credit risk with respect to these balances is minimal due to the credit standing of the financial institutions. Concentrations of credit risk with respect to accounts receivable are considered minimal. Amounts receivable are generally deducted from customers accounts either monthly or as debit and credit card transactions are processed. No single customer accounted for more than ten percent of receivables at December 31, 2007 or 2006, or of revenue for the years ended December 31, 2007, 2006, or 2005.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation and amortization. Depreciation for furniture and equipment is recorded on a straight-line basis over periods generally ranging from three to five years. Leasehold improvements are amortized over the lesser of the economic useful life of the improvement or the term of the lease. The Company capitalizes computer software costs in accordance with Statement of Position No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use.* These costs are amortized on a straight-line basis over the period of benefit ranging from three to five years.

Advertising

Advertising costs are expensed as incurred. For the years ended December 31, 2007, 2006, and 2005, the Company incurred $5.2 million, $5.3 million, and $4.1 million in advertising expense, respectively.

Goodwill and Intangible Assets

Goodwill represents the excess of purchase price over identifiable assets acquired, less liabilities assumed from business combinations. The Company s annual impairment tests did not identify any impairment in 2007, 2006, or 2005.

Intangible assets primarily consist of purchased merchant portfolios, technology-based intangible assets, and non-compete/referral agreements. These intangible assets are amortized over their estimated useful lives and are subject to impairment testing whenever events occur that would affect the recoverability of the asset. The Company amortizes these intangible assets, primarily on a straight-line basis, over the estimated period to be benefited. On January 1, 2006, a change in the estimated amortization period for purchased merchant portfolios occurred (as discussed in Note 7). These periods range from four to ten years for the years ended December 31, 2007 and 2006.

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

Other Assets

Other assets consist primarily of deferred charges, company-owned life insurance (COLI) policies held in trust for the Company s deferred compensation plan and deferred contract incentives. Deferred charges represent contributions for services paid on the Company s behalf, which are amortized on a straight-line basis over the period that the services are to be performed. COLI assets are carried at the policies respective cash surrender values. Deferred contract incentives represent initial payments to merchants for new contracts and contract renewals, which are capitalized to the extent recoverable through future operations and are amortized over the term of the contract as a reduction of the associated revenue.

Liabilities Related to Merchant Processing

Liabilities related to merchant processing primarily represent payables to merchants for transactions that have been processed.

Accrued Assessments

Accrued assessments represent fees payable to card brands for debit and credit card transactions that have been processed.

Other Liabilities

Other liabilities consist primarily of accrued liabilities for employee benefit plans, including the defined benefit pension plan, Supplemental Executive Retirement Plan (SERP), deferred compensation plan and long-term incentive plan. The Company adopted SFAS No. 158, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R)* (SFAS 158) as of December 31, 2006 for its pension plan and SERP. SFAS 158 requires a company to recognize the funded status of a benefit plan as an asset or liability in its statement of financial position and to recognize previously unrecognized gains/(losses) and prior service costs as components of comprehensive income, net of tax. The effect of applying the recognition provisions of SFAS 158 to the Company s pension plan was a $28 thousand (pre-tax) decrease in intangible assets related to unrecognized prior service costs and a corresponding increase in accumulated other comprehensive income on the combined balance sheet as of December 31, 2006.

Minority Interest

Minority interest represents the minority stockholders proportionate share of the equity and earnings of Paymentech, Inc. Minority interest represented 0.2%, 0.3% and 0.8% of Paymentech, Inc. s outstanding stock at December 31, 2007, 2006, and 2005, respectively.

Cash Flow Hedges

The Company s Canadian operations utilize forward contracts to hedge exposure to foreign currency fluctuations in the exchange rate for U.S. dollars. Derivative instruments are accounted for as cash flow hedges in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities, as amended by SFAS 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities* (SFAS 133). The Company includes derivatives in prepaid expenses and other current assets or other accrued expenses, as

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

appropriate, on the combined balance sheets at fair value. Changes in the fair value of derivative contracts designated as cash flow hedges are recorded as a component of accumulated other comprehensive income, and reclassified into foreign currency exchange in the combined statements of income and comprehensive income when the underlying hedged item affects earnings.

Share-Based Payments

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123R, *Share-Based Payment* (SFAS 123R) and all related interpretations under the modified prospective method. SFAS 123R requires all share-based payments to employees, including employee stock options and stock appreciation rights (SARs), to be measured at their grant date fair values and expensed over the requisite service periods. The Company had previously adopted the expense provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*. As a result of certain redemption features, discussed in Note 15, concurrent with the adoption of SFAS 123R, the Company also applies the provisions of Accounting Series Release 268, *Redeemable Preferred Stocks* (ASR 268). ASR 268 requires the Company to reclassify amounts relating to outstanding options, and shares issued as a result of exercise of these options, outside of permanent equity (to temporary equity). There were no effects on the Company s results of operations or cash flows as a result of adopting the provisions of SFAS 123R or ASR 268.

Comprehensive Income

Comprehensive income includes net income, changes in unrealized gains and losses on available-for-sale investments, amounts resulting from cash flow hedging activities, changes in the adjustment resulting from foreign currency translation, and certain adjustments to the Pension and SERP liabilities.

Revenue

Revenue represents fees earned for processing credit and debit card transactions for merchants (including merchant discount fees), partially offset by interchange fees and debit network fees. Revenue also includes amounts earned from third party credit and debit authorization services, incentive payments from card brands for participation in certain initiatives, the sale and rental of point-of-sale equipment, merchant call center help desk services, fees for the deployment of point-of-sale supplies and repair of point-of-sale equipment. Revenue is recorded as services are performed or as merchandise is shipped.

Income Taxes

The Company s functional groups discussed in Note 1 have various treatments for tax purposes. FDC Offer Corp. and its subsidiaries are treated as a corporation for U.S. federal and state income tax purposes. CMS is treated as a pass-through entity for U.S. federal and state income tax purposes. The members include their share of the Company s taxable income in their applicable tax returns. The Company s U.S. operations are also treated as a pass-through entity for U.S. federal and most state income tax purposes. Its members include their share of the Company s taxable income in their applicable tax returns. The Company s Canadian operation is treated as a pass-through entity for Canadian federal and provincial income tax purposes. Its partners include their share of the Company s taxable income in their applicable tax returns.

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The Company uses the asset and liability method required by SFAS No. 109, *Accounting for Income Taxes,* in accounting for income taxes. Deferred tax assets and liabilities are recorded for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements, using statutory tax rates for the applicable entity in effect for the year in which the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the results of operations in the period that includes the enactment date. A valuation allowance is recorded to reduce the carrying amounts of deferred tax assets unless it is more likely than not that such assets will be realized.

Asset Impairment

In accordance with the provisions of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* management reviews the carrying value of its long-lived assets whenever events indicate that their carrying amounts may not be recoverable. If, upon review, an impairment of the value of the asset is indicated, an impairment loss would be recorded in the period such determination is made. No impairments were recorded for the years ended December 31, 2007, 2006, or 2005.

NOTE 3 NEW ACCOUNTING PRONOUNCEMENTS

Accounting for Uncertainty in Income Taxes

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. (FIN) 48, *Accounting for Uncertainty in Income Taxes*, *An Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 provides a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 defines the threshold for recognizing tax return positions in the financial statements as more likely than not that the position is sustainable, based on its merits. FIN 48 also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. FIN 48 is effective for nonpublic enterprises for fiscal years beginning after December 15, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to the beginning balance of retained earnings in the period of adoption. The Company plans to adopt this interpretation in 2008 and is currently evaluating the impact of implementing FIN 48 on its combined financial statements.

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. This statement defines fair value, establishes a fair value hierarchy to be used in U.S. GAAP, and expands disclosures about fair value measurements. Although this statement does not require any new fair value measurements, the application could change current practice. The statement is effective for recurring fair value measurements of assets and liabilities for fiscal years beginning after November 15, 2007, and for nonrecurring measurements of nonfinancial assets and liabilities for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of implementing this statement on its combined financial statements.

The Fair Value Option

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an Amendment of FASB Statement No. 11*5 (SFAS 159). SFAS 159 gives entities the ability to elect to measure many financial instruments and certain other items at fair value. The fair value

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

election is made on an instrument by instrument basis and is irrevocable. Unrealized gains and losses on items elected for fair value accounting are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. At this time, the Company does not anticipate electing the fair value option.

Business Combinations

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* (SFAS 141R). Under Statement 141R, an acquiring entity will be required to recognize all the assets acquired, liabilities assumed, and noncontrolling interests at the acquisition-date fair value. These acquisition-date fair value provisions apply to contingent consideration, in-process research and development and acquisition contingencies. The new standard also requires expensing associated acquisition costs and restructuring charges. SFAS 141R is effective as of the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company plans to adopt the provisions of this statement prospectively for business combinations with closing dates after January 1, 2009.

Noncontrolling Interests

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This standard requires the recognition of a noncontrolling interest (minority interest) as a component of equity in the consolidated financial statements and separate from the parent s equity. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement. SFAS 160 is effective for the Company s fiscal year beginning after December 15, 2008, and will be applied prospectively except for the presentation and disclosure requirements, which must be applied retrospectively for all periods presented. The Company is currently evaluating the impact that adopting SFAS 160 will have on its combined financial statements.

NOTE 4 PROPERTY AND EQUIPMENT

A summary of property and equipment by major class as of December 31, 2007 and 2006 is as follows (in thousands):

	2007	**2006**
Furniture and equipment	$ 179,343	$ 153,266
Capitalized software	103,765	92,809
Leasehold improvements	14,364	12,005
	297,472	258,080
Less accumulated depreciation and amortization	(194,440)	(173,788)
Property and equipment, net	$ 103,032	$ 84,292

Depreciation and amortization expense related to property and equipment was $47.4 million, $38.8 million, and $34.4 million for the years ended December 31, 2007, 2006, and 2005, respectively. For the years ended December 31, 2007 and 2006, software costs of $13.8 million and $11.4 million were capitalized, respectively.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

NOTE 5 COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office space and certain equipment under operating leases with remaining terms ranging up to eleven years. The office space leases contain renewal options and generally require the Company to pay certain operating expenses.

Future minimum lease commitments under non-cancelable leases as of December 31, 2007 are as follows (in thousands):

2008	$ 8,645
2009	8,970
2010	9,631
2011	8,990
2012	9,122
Thereafter	33,169
	$78,527

The combined statements of income and comprehensive income include rental expense for operating leases of $11.7 million, $9.7 million, and $8.6 million for the years ended December 31, 2007, 2006, and 2005, respectively.

Guarantees

Under the card brand rules, when a merchant acquirer processes bankcard transactions, it has certain obligations for those transactions. These obligations arise from disputes between cardholders and merchants due to the cardholders dissatisfaction with merchandise quality or the merchants service, which are not resolved with the merchant. In such cases, the transactions are charged back to the respective merchants and the related purchase amounts are refunded to the cardholders by the card issuer. If the merchant does not fund the refund due to insolvency, bankruptcy or other extraneous reasons, the Company, in certain circumstances is liable for the full amount of the transaction. This obligation is considered a guarantee under FIN No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*.

A cardholder generally has until the later of four months from the date of purchase or delivery of products or services to present a chargeback. Management believes that the maximum exposure for its obligation at any time does not exceed the total amount of bankcard transactions processed for the preceding four-month period. For the four-month periods from September through December 2007, 2006, and 2005, these amounts were $254.3 billion, $231.5 billion, and $175.0 billion, respectively.

The Company records a provision for its estimated obligation based upon factors surrounding the credit risk of specific customers, historical credit losses, current processing volume and other relevant factors. As shown in Note 6, for the years ended December 31, 2007, 2006, and 2005, the Company incurred aggregate merchant credit losses, net of recoveries, of $9.6 million, $9.0 million, and $9.6 million, respectively, on total processed volumes of $719.1 billion, $660.6 billion, and $332.1 billion, respectively.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The Company calculates its provision and evaluates the appropriateness of its reserve on a monthly basis. The provision for credit losses is included in operating expenses on the combined statements of income and comprehensive income. The reserve for this obligation is included in accounts receivable on the combined balance sheets. The Company believes the recorded reserve approximates the fair value of its contingent obligation.

The Company also requires cash deposits, guarantees and letters of credit from certain merchants to minimize its obligation. As of December 31, 2007 and 2006, the Company held cash deposits of $524.2 million and $651.7 million, respectively, which were classified as merchant deposits on the combined balance sheets. The Company also held collateral in the form of letters of credit totaling $203.2 million and $192.1 million at December 31, 2007 and 2006, respectively, and merchant certificates of deposit totaling $51.9 million and $49.0 million at December 31, 2007 and 2006, respectively.

Other Contingencies

Both the Company and its customers handle sensitive information, such as credit card numbers and personal consumer data, utilizing computer and telecommunications systems operated by the Company, its customers and outside third party providers. Despite internal controls and card brand imposed data security rules, which are in place to protect this information, ever-evolving technology presents inherent risks of data compromises. Data compromises of customers systems can result in significant financial liability to the Company if the fines and liability for fraudulent card usage exceeds its customers financial capacity. While the Company has not experienced significant losses in the past, data compromise of sensitive data processed by the Company or a third party vendor could have a material impact on the Company s financial position and results of operations.

In the course of business, the Company is a defendant in various lawsuits. Management believes that the resolution of these lawsuits will not have a material impact on the Company s combined financial position or results of operations.

NOTE 6 ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of specific customers, historical trends and other relevant factors, as discussed in Note 5. Write-offs are recorded as a reduction to the allowance for doubtful accounts when deemed uncollectible.

A summary of the allowance for doubtful accounts is as follows (in thousands):

	2007	2006	2005
Reserve balance at beginning of year	$ 12,397	$ 12,941	$ 8,489
Additional reserve attributed to the integration of CMS on October 1, 2005			5,449
Provision for doubtful accounts	7,240	8,512	8,530
Write-offs, net	(9,562)	(9,032)	(9,612)
Effects of foreign currency translation	121	(24)	85
Reserve balance at end of year	$ 10,196	$ 12,397	$ 12,941

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

NOTE 7 GOODWILL AND INTANGIBLE ASSETS

Goodwill

A summary of goodwill is as follows (in thousands):

	2007	2006
Balance at beginning of year	$ 372,284	$ 372,563
Effects of foreign currency translation	21,857	(279)
Balance at end of year	$ 394,141	$ 372,284

Intangible Assets

A summary of intangible assets and accumulated amortization by intangible asset category as of December 31, 2007 and 2006 is as follows (in thousands):

	Gross Carrying Amount			
	Merchant Portfolios	Non-compete/ Referral Agreements	Pension Intangibles	Total
Balance at December 31, 2005	$ 543,995	$ 14,529	$ 28	$ 558,552
Additions	1,566			1,566
Effects of foreign currency translation	(151)	(32)		(183)
Adjustment for SFAS 158 (Note 14)			(28)	(28)
Balance at December 31, 2006	545,410	14,497		559,907
Additions	23,399			23,399
Effects of foreign currency translation	11,617	2,540		14,157
Balance at December 31, 2007	$ 580,426	$ 17,037	$	$ 597,463

	Accumulated Amortization			
	Merchant Portfolios	Non-compete/ Referral Agreements	Pension Intangibles	Total
Balance at December 31, 2005	$ (418,634)	$ (4,823)	$	$ (423,457)
Additions	(73,433)	(1,456)		(74,889)
Effects of foreign currency translation	249	49		298
Balance at December 31, 2006	(491,818)	(6,230)		(498,048)

Additions	(17,904)	(1,544)		(19,448)
Effects of foreign currency translation	(5,806)	(1,213)		(7,019)
Balance at December 31, 2007	$ (515,528)	$ (8,987)	$	$ (524,515)

Amortization expense related to intangible assets was $19.4 million, $74.9 million, and $42.1 million for the years ended December 31, 2007, 2006, and 2005, respectively.

The Company periodically evaluates the appropriateness of the amortization period to determine whether circumstances warrant revised estimates of the useful lives of its contributed and purchased merchant portfolios

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

and other intangible assets. If, upon review, such revision of useful life is necessary, the remaining unamortized cost would be amortized over the revised useful life. In performing these reviews, the Company takes into account all currently available data. As a result of additional analysis of attrition statistics and other data, the Company s U.S. operations revised the estimated useful lives of some of its purchased merchant portfolios effective January 1, 2006 from useful lives of eleven to forty years to useful lives of ten years. This change in estimate was applied on a prospective basis and resulted in additional amortization in 2006 of $13.8 million, which is included in depreciation and amortization on the combined statements of income and comprehensive income.

During 2007 and 2006, the Company purchased merchant portfolios totaling $23.4 million and $1.6 million, respectively, with a weighted-average amortization period of nine and four years, respectively, and no significant residual value.

The following table presents the Company s estimated amortization expense relating to intangible assets as of December 31, 2007, for the following years ending December 31, (in thousands):

2008	$ 17,448
2009	13,444
2010	11,989
2011	11,284
2012	9,492
Thereafter	9,291
	$ 72,948

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS

Carrying amounts for certain of the Company s financial instruments including cash and cash equivalents, accounts receivable, receivables related to merchant processing, accounts payable and liabilities related to merchant processing approximate fair value due to their short maturities. COLI policies included in other assets are recorded at their cash surrender values, which approximate fair value. Accordingly, these instruments are not presented in the following table. The following table provides carrying amounts and estimated fair values of certain financial instruments (in thousands):

	2007		**2006**	
	Carrying amount	**Estimated fair value**	**Carrying amount**	**Estimated fair value**
Marketable securities classified as investments	$ 71,772	$ 71,772	$ 133,385	$ 133,385
Current portion of long-term debt			16,922	15,956

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate that value:

Marketable securities classified as investments: These investments are carried at fair value, which is estimated based on quoted market prices.

Current portion of long-term debt: The fair value of the current portion of long-term debt is based on the present value of estimated cash flow for debt service based on the Company s incremental borrowing rate.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

NOTE 9 MARKETABLE AND OTHER SECURITIES

The Company s investments include marketable securities classified as available-for-sale and carried at fair market value, as well as $2.8 million in non-marketable equity securities at December 31, 2007 and 2006, accounted for under the cost method. The amortized cost and estimated fair value of available-for-sale securities, including certain highly liquid securities that are classified as cash equivalents on the combined balance sheets, were as follows for the dates indicated (in thousands):

	At December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government obligations	$ 5,035	$ 85	$ (1)	$ 5,119
Government agency obligations	9,825	104	(43)	9,886
Corporate obligations	25,310	23	(222)	25,111
Mutual funds	47,693	525		48,218
Total	$ 87,863	$ 737	$ (266)	$ 88,334

	At December 31, 2006			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Debt securities:				
U.S. Government obligations	$ 6,052	$ 13	$ (60)	$ 6,005
Government agency obligations	12,827	32	(119)	12,740
Corporate obligations	77,654	21	(25)	77,650
Mutual funds	37,463		(473)	36,990
Total	$ 133,996	$ 66	$ (677)	$ 133,385

The Company assesses the potential for other-than-temporary impairments of available-for-sale securities each reporting period and of cost method investments whose fair values are not readily determinable when impairment indicators are present. For the years ended December 31, 2007 and 2006, there were no declines in the value of investments deemed to be other-than-temporary. For the year ended December 31, 2005, the Company recognized an impairment of $126 thousand on a cost method investment for a decline in fair value deemed to be other-than-temporary.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The following table presents unrealized losses and fair value for securities that were in an unrealized loss position, including certain highly liquid securities classified as cash equivalents on the combined balance sheets, at December 31, 2007 and 2006 (in thousands):

	At December 31, 2007					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Debt securities:						
U.S. Government obligations	$	$	$ 1,008	$ (1)	$ 1,008	$ (1)
Government agency obligations			1,958	(43)	1,958	(43)
Corporate obligations	1,130	(220)	56	(2)	1,186	(222)
Total	$ 1,130	$ (220)	$ 3,022	$ (46)	$ 4,152	$ (266)

	At December 31, 2006					
	Less than 12 Months		12 Months or Greater		Total	
	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss	Estimated Fair Value	Unrealized Loss
Debt securities:						
U.S. Government obligations	$ 501	$ (2)	$ 3,480	$ (58)	$ 3,981	$ (60)
Government agency obligations	632	(1)	7,118	(118)	7,750	(119)
Corporate obligations	4,113	(1)	2,984	(24)	7,097	(25)
Mutual Funds			36,990	(473)	36,990	(473)
Total	$ 5,246	$ (4)	$ 50,572	$ (673)	$ 55,818	$ (677)

As the Company has both the intent and ability to hold securities with unrealized losses until a recovery of fair value, which may be at maturity, the Company does not consider such securities to be other-than-temporarily impaired at December 31, 2007. Realized gains and losses from sales of available-for-sale securities were $57 thousand and $1.2 million, respectively, during 2007. There were no significant realized gains and losses from sales of available-for-sale securities during 2006 or 2005.

The cost and estimated fair value of the Company s debt securities (including certain highly liquid securities that are classified as cash equivalents in the combined balance sheets) are shown below by contractual maturity (in thousands). Expected maturities may differ from contractual maturities based on the Company s investment policies.

	2007		2006	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	$ 29,291	$ 29,310	$ 71,370	$ 71,357
Due in one through five years	5,614	5,761	17,158	17,089
Due in five through ten years	1,258	1,245	1,478	1,468
Due after ten years	4,007	3,800	6,527	6,481

Total	$ 40,170	$ 40,116	$ 96,533	$ 96,395

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For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

NOTE 10 DEBT

Pursuant to an asset purchase agreement, the Company was required to pay five annual non-interest bearing installments of CAD $20.0 million to The Bank of Nova Scotia (Scotiabank), the first of which was paid in November 2003. The final payment was made in November 2007. The combined balance sheet as of December 31, 2006 includes this amount as current portion of long-term debt, net of imputed interest (at a rate of 1.75%), of $246 thousand. Related interest expense of $264 thousand, $552 thousand, and $781 thousand, is included in interest expense in the combined statements of income and comprehensive income for the years ended December 31, 2007, 2006, and 2005, respectively.

NOTE 11 CASH FLOW HEDGES

The Company s Canadian operations utilizes derivative financial instruments to enhance its ability to manage cash flow risks with respect to changes in foreign currency exchange rates. These risks arise from the Canadian operation s U.S. dollar-denominated promissory note payable to the Company s U.S. operations, and the repayment of such debt. The Company s derivative instruments consist of short-term foreign currency forward contracts. In 2005, the maximum term of these forward contracts was three months. Throughout 2006 and 2007, the Company s strategy has been to hedge its foreign currency risks using contracts that mature within one month.

The Company designates its forward derivative contracts as cash flow hedges accounted for pursuant to SFAS 133. Changes in the fair value of the contracts are initially recorded to accumulated other comprehensive income, and in each reporting period, an amount that offsets the hedged item s transaction gain or loss is reclassified to foreign currency exchange on the accompanying combined statements of income and comprehensive income. The net loss on derivatives for the years ended December 31, 2007, 2006, and 2005, was $1.8 million, $2.3 million, and $956 thousand, respectively. No contracts were held as of December 31, 2007 or 2006.

The Company formally documents all relationships between hedging instruments and the underlying hedged items, as well as its risk management objective and strategy for undertaking the hedge transaction. The Company applies strict policies to manage risks, including prohibition against derivatives trading, derivatives market-making or any other speculative activities.

The Company s counterparty in all derivative transactions is JPMorgan Chase. The credit risk inherent in these agreements represents the possibility that a loss may occur from the nonperformance of the counterparty to the agreements. The Company believes its risk is minimal. The Company s exposure is in U.S. dollars, so there is minimal risk that appropriate derivatives to maintain the hedging program would not be available in the future.

NOTE 12 INCOME TAXES

The components of pretax income excluding minority interest are as follows (in thousands):

	For the years ended December 31, 2007	2006	2005
Income before income taxes and minority interest domestic	$ 638,157	$ 535,640	$ 350,123
Income before income taxes and minority interest foreign	24,893	12,476	(3,413)
Total	$ 663,050	$ 548,116	$ 346,710

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The components of the provision for income taxes are as follows (in thousands):

	For the years ended December 31,		
	2007	**2006**	**2005**
Current			
Federal income taxes	$ 59,985	$ 50,289	$ 49,701
State income taxes, net of U.S. federal income tax benefit	15,930	12,090	7,822
Foreign income taxes	8	7	
Total	75,923	62,386	57,523
Deferred			
Federal income taxes	4,376	9,328	4,150
State income taxes, net of U.S. federal income tax benefit	114	52	(98)
Total	4,490	9,380	4,052
Total provision for income taxes	$ 80,413	$ 71,766	$ 61,575

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before income taxes and minority interest due to the following:

	2007	**2006**	**2005**
Statutory tax rate applied to income before income taxes and minority interest	35.0%	35.0%	35.0%
State income taxes, net of U.S. federal income tax benefit	1.6%	1.4%	1.4%
Effect of flow-through income	(24.6)%	(23.5)%	(19.2)%
Amortization of goodwill, merchant portfolios and other intangibles	0.1%	0.1%	0.2%
Share-based payment excess deferred taxes	0.0%	0.0%	0.2%
Other, net	0.0%	0.1%	0.2%
Effective tax rate	12.1%	13.1%	17.8%

The effective tax rates include the effect of flow-through income that is included in JPMorgan Chase s and FDC s applicable tax returns. The change in the effective tax rate from 2005 to 2006 is primarily the result of the integration of CMS in October 2005 that reduced the ownership percentage of FDC Offer Corp. and subsidiaries in the U.S. operations and in turn reduced the percentage of income subject to tax at FDC Offer Corp. and subsidiaries.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the book and tax bases of the Company s assets and liabilities. Net deferred tax assets and liabilities are included in deferred income taxes on the combined balance sheets. The components of the Company s deferred tax items consist of the following at December 31, (in thousands):

	2007	2006
Deferred tax assets related to:		
Accrued expenses and reserves	$ 187	$ 185
Accrued pension benefits	1,419	1,293
Other employee benefits	4,803	3,920
Tax attribute carryforwards	651	620
Other	117	14
Total deferred tax assets	7,177	6,032
Valuation allowance	(651)	(620)
Realizable deferred tax assets	6,526	5,412
Deferred tax liabilities related to:		
Depreciation and amortization	(37,119)	(33,257)
Net deferred tax liabilities	$ (30,593)	$ (27,845)

As of December 31, 2007 and 2006, the Company had recorded a valuation allowance of $651 thousand and $620 thousand respectively, against U.S. capital loss carryforwards. It is more likely than not that the tax benefit of those capital losses will not be recognized due to statutory limitations.

Income tax payments of $72.3 million in 2007 are less than current expense primarily due to the benefit of deferral due to tax fiscal year and tax benefits associated with the exercise of stock options. Net income tax payments of $58.2 million in 2006 are less than current expense primarily due to refunds received from prior years, the benefit of deferral due to tax fiscal year and tax benefits associated with the exercise of stock options. Income tax payments of $51.8 million in 2005 are less than current expense primarily due to tax benefits associated with the exercise of stock options and the benefit of deferral due to tax fiscal year.

NOTE 13 SEGMENT REPORTING

Operating segments are defined by SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information,* as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker (CODM) in deciding how to allocate resources and in assessing performance. The Company s CODM is its Chief Executive Officer. The Company classifies its business into two reporting segments for financial reporting purposes consisting of its U.S. and Canadian operations.

The business segments measurements provided to, and evaluated by, the Company s CODM are computed in accordance with the accounting policies described in Note 2.

The Company s U.S. operations process electronic payments of credit, debit, fleet, and stored value card transactions primarily for merchants throughout North America.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The Company s Canadian operations process electronic payments of credit and debit card transactions, including the rental of point-of-sale equipment for merchants in Canada.

Financial information for the Company s operating segments is summarized as follows (in thousands):

	As of and for the year ended December 31, 2007			
	U.S.	Canada	Corporate and eliminations	Combined
Revenues:				
Transaction and processing services	$ 1,170,621	$ 81,790	$	$ 1,252,411
Transaction and processing services inter-segment	17,152		(17,152)	
Point-of-sale equipment and supplies	3,777	30,044		33,821
Total segment reporting revenues	$ 1,191,550	$ 111,834	$ (17,152)	$ 1,286,232

	As of and for the year ended December 31, 2007			
	U.S.	Canada	Corporate and eliminations	Combined
Interest and other, net	$ 76,425	$ 1,445	$ 21	$ 77,891
Depreciation and amortization	43,861	22,932		66,793
Income before income taxes and minority interest	638,634	24,813	(397)	663,050
Provision for income taxes	11,674		68,739	80,413
Total assets	6,291,384	417,137	(16,161)	6,692,360
Goodwill	247,549	146,592		394,141
Long-lived assets, net	96,518	79,462		175,980
Expenditures for long-lived assets	56,977	32,612		89,589

	As of and for the year ended December 31, 2006			
	U.S.	Canada	Corporate and Eliminations	Combined
Revenues:				
Transaction and processing services	$ 1,112,781	$ 66,892	$	$ 1,179,673
Transaction and processing services inter-segment	15,032		(15,032)	
Point-of-sale equipment and supplies	1,477	25,433		26,910
Total segment reporting revenues	$ 1,129,290	$ 92,325	$ (15,032)	$ 1,206,583
Interest and other, net	$ 66,790	$ (701)	$ 741	$ 66,830
Depreciation and amortization	94,358	19,305		113,663
Income before income taxes and minority interest	535,461	12,476	179	548,116

Provision for income taxes	8,556		63,210	71,766
Total assets	5,731,888	463,806	(14,745)	6,180,949
Goodwill	247,549	124,735		372,284
Long-lived assets, net	83,410	62,741		146,151
Expenditures for long-lived assets	40,826	11,563		52,389

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

	As of and for the year ended December 31, 2005			
	U.S.	Canada	Corporate and Eliminations	Combined
Revenues:				
Transaction and processing services	$ 728,255	$ 56,055	$	$ 784,310
Transaction and processing services inter-segment	14,066		(14,066)	
Point-of-sale equipment and supplies	1,974	22,814		24,788
Total segment reporting revenues	$ 744,295	$ 78,869	$ (14,066)	$ 809,098
Interest and other, net	$ 31,425	$ (6,104)	$ 1,338	$ 26,659
Depreciation and amortization	60,285	16,237		76,522
Income (loss) before income taxes and minority interest	350,423	(3,413)	(300)	346,710
Provision for income taxes	4,165		57,410	61,575
Total assets	4,133,085	383,679	(88,414)	4,428,350
Goodwill	247,549	125,014		372,563
Long-lived assets, net	135,488	70,396		205,884
Expenditures for long-lived assets	22,017	12,227		34,244

NOTE 14 BENEFIT PLANS

Defined Benefit Pension Plans

The Company provides a qualified noncontributory defined benefit pension plan (Pension Plan) for its eligible U.S. employees. The net periodic pension expense included in salaries and employee benefits on the combined statements of income and comprehensive income for the Pension Plan was $4.0 million, $3.6 million, and $2.8 million for the years ended December 31, 2007, 2006, and 2005, respectively.

The Company funds at least the minimum amount required under the Employee Retirement Income Security Act of 1974. Contributions are intended to provide not only for benefits attributed to compensation to date, but also for compensation increases to be earned in the future. Each participant s cash balance account is credited with an amount equal to 4% of the participant s eligible compensation, plus interest at a rate of 5% per year. Each participant becomes fully vested in benefits under this plan after five years of service. Prior to that time, no portion of a participant s benefit is vested. Effective January 1, 2008, the vesting period under this plan was reduced from five to three years.

The Company also provides a SERP for highly compensated employees that will provide certain benefits upon retirement, death, or disability. The net periodic expense included in salaries and employee benefits on the combined statements of income and comprehensive income for the SERP was $227 thousand, $173 thousand, and $77 thousand for the years ended December 31, 2007, 2006, and 2005, respectively.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

A summary of the Pension Plan s and the SERP s change in benefit obligation, change in plan assets, and funded status are as follows as of and for the years ended December 31, 2007 and 2006 (in thousands):

	Pension Plan		SERP	
	2007	2006	2007	2006
Change in benefit obligation:				
Benefit obligation at beginning of year	$ 21,001	$ 18,445	$ 587	$ 443
Service cost	4,238	3,690	181	137
Interest cost	1,218	1,027	38	31
Benefits paid	(2,368)	(2,590)	(121)	(133)
Actuarial (gain)/loss	(283)	429	24	109
Benefit obligation at end of year	23,806	21,001	709	587
Change in plan assets:				
Fair value of plan assets at beginning of year	17,766	14,897		
Actual return on plan assets	965	1,809		
Employer contributions	6,200	3,650	121	133
Benefits paid	(2,368)	(2,590)	(121)	(133)
Fair value of plan assets at end of year	22,563	17,766		
Funded status	$ (1,243)	$ (3,235)	$ (709)	$ (587)

Amounts related to the funded statuses of the Pension Plan and SERP are included in other non-current liabilities in the combined balance sheets.

Amounts recognized in accumulated other comprehensive income, net of tax, at December 31, 2007 and 2006 consisted of (in thousands):

	Pension Plan		SERP	
	2007	2006	2007	2006
Adjustment for the adoption of SFAS 158	$	$ 2,163	$	$ 62
Net actuarial loss	2,264		80	
Prior service cost/(credit)	14		(9)	
Amounts recognized in accumulated other comprehensive income	$ 2,278	$ 2,163	$ 71	$ 62

The estimated net actuarial loss and prior service cost that will be amortized from accumulated other comprehensive income, pre-tax, into net periodic benefit cost during 2008 are $118 thousand and $5 thousand for the Pension Plan, respectively. The estimated net actuarial loss and prior service credit that will be amortized from accumulated comprehensive income, pre-tax, into net periodic benefit cost during 2008 are $5 thousand and $3 thousand for the SERP, respectively.

The Pension Plan s and SERP s accumulated benefit obligations were $23.8 million and $709 thousand, respectively, at December 31, 2007, and $21.0 million and $587 thousand, respectively, at December 31, 2006.

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NOTES TO COMBINED FINANCIAL STATEMENTS

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the year ended December 31, 2005 (unaudited) (Continued)

A summary of the components of net periodic pension expense and changes recognized in other comprehensive income, pre-tax, for the years ended December 31, 2007, 2006, and 2005 is as follows (in thousands):

	Pension Plan		
	2007	**2006**	**2005**
Service cost	$ 4,238	$ 3,690	$ 2,817
Interest cost	1,218	1,027	821
Expected return on plan assets	(1,699)	(1,351)	(1,064)
Amortization of net actuarial loss	212	261	201
Amortization of prior service cost	5	2	(1)
Net periodic benefit cost	3,974	3,629	2,774
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net actuarial loss	451		
Amortization of net actuarial loss	(212)		
Amortization of prior service cost	(5)		
Total recognized in other comprehensive income	234		
Total recognized in net periodic benefit cost and other comprehensive income	$ 4,208	$ 3,629	$ 2,774

	SERP		
	2007	**2006**	**2005**
Service cost	$ 181	$ 137	$ 56
Interest cost	38	31	24
Amortization of net actuarial loss	11	8	
Amortization of prior service credit	(3)	(3)	(3)
Net periodic benefit cost	227	173	77
Other changes in plan assets and benefit obligations recognized in other comprehensive income:			
Net actuarial loss	24		
Amortization of net actuarial loss	(11)		
Amortization of prior service credit	3		
Total recognized in other comprehensive income	16		
Total recognized in net periodic benefit cost and other comprehensive income	$ 243	$ 173	$ 77

Weighted-average assumptions used to determine the benefit obligations of the Pension Plan and SERP at December 31, 2007 and 2006 were:

	Pension Plan	
	2007	2006
Discount rate	6.25%	5.75%
Expected rate of increase in compensation levels	5.00%	5.00%
Expected long-term rate of return on assets	8.50%	8.50%

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the year ended December 31, 2005 (unaudited) (Continued)

	SERP	
	2007	**2006**
Discount rate	6.25%	5.75%
Expected rate of increase in compensation levels	5.00%	5.00%

Weighted-average assumptions used to determine net periodic benefit cost for the Pension Plan and SERP for the years ended December 31, 2007, 2006, and 2005 were:

	Pension Plan		
	2007	**2006**	**2005**
Discount rate	5.75%	5.50%	5.50%
Expected rate of increase in compensation levels	5.00%	5.00%	5.00%
Expected long-term rate of return on assets	8.50%	8.50%	8.50%

	SERP		
	2007	**2006**	**2005**
Discount rate	5.75%	5.50%	5.50%
Expected rate of increase in compensation levels	5.00%	5.00%	5.00%

Future benefits are assumed to increase in a manner consistent with past experience of the Pension Plan and SERP, which includes assumed salary increases as presented above. In developing these assumptions, the Company evaluated input from actuaries and plan asset managers, including their review of asset class return expectations, historical average annual returns, and long-term inflation assumptions.

The Pension Plan weighted-average asset allocation and target allocation as of December 31, 2007 and 2006 presented as a percentage of total plan assets were as follows:

	Asset Allocation		Target Allocation	
	2007	**2006**	**2007**	**2006**
Equity securities	69%	72%	70%	70%
Debt securities	29	23	25	25
Cash and cash equivalents	2	5	5	5
Total	100%	100%	100%	100%

It is the Company s policy to invest Pension Plan assets in a diversified portfolio utilizing the target asset allocation as a guide. Deviations from the target allocation may be authorized by the Employee Benefits Committee. Investment risk is limited by diversification both within and between asset classes. The investment objective for the Pension Plan is to earn long-term investment returns in excess of inflation and at least equal to the actuarial discount rate used to calculate the Pension Plan s liability. Contributions to and disbursements from the fund are used to rebalance towards the target allocation to the extent practical.

Pension Plan assets included shares of a money market fund managed by JPMorgan Asset Management, a subsidiary of JPMorgan Chase, with a fair value of $445 thousand and $819 thousand, representing 2% and 5%, of total plan assets as of December 31, 2007 and 2006, respectively.

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The Company expects to contribute approximately $8.0 million to the Pension Plan in 2008. As of December 31, 2007, the future benefit payments expected to be paid by the Pension Plan and the SERP for each of the following years are as follows (in thousands):

	Pension Plan	SERP
2008	$ 1,945	$ 10
2009	2,215	19
2010	2,642	27
2011	2,820	34
2012	2,986	40
2013 through 2017	18,627	297
	$ 31,235	$ 427

Defined Contribution Plans

The Company provides a Retirement Savings Plan (Savings Plan) for its eligible U.S. employees. The Savings Plan is a defined contribution plan under sections 401(a) and 401(k) of the Internal Revenue Code which provides savings and investment opportunities. Pretax contributions of up to 6% of an eligible employee s defined compensation are matched 50% by the Company. Salaries and employee benefits included $3.0 million, $2.2 million, and $1.7 million of expense relating to the Savings Plan on the combined statements of income and comprehensive income for the years ended December 31, 2007, 2006, and 2005, respectively. Savings Plan assets included 31 thousand and 39 thousand shares of JPMorgan common stock, representing 2% and 3%, of plan assets as of December 31, 2007 and 2006, respectively.

The Company provides a Registered Retirement Savings Plan (Registered Savings Plan) for its eligible Canadian employees. The Registered Savings Plan is a defined contribution plan which provides savings and investment opportunities. Pretax contributions of up to 6% of an eligible employee s defined compensation are matched 50% by the Company. Salaries and employee benefits included $337 thousand, $300 thousand, and $262 thousand of expense relating to the Registered Savings Plan on the combined statements of income and comprehensive income for the years ended December 31, 2007, 2006, and 2005, respectively.

The Company provides a registered defined contributory pension plan for its eligible Canadian employees. The net periodic expense included in salaries and employee benefits for this plan was $657 thousand, $536 thousand, and $457 thousand on the combined statements of income and comprehensive income for the years ended December 31, 2007, 2006, and 2005, respectively.

Long-Term Incentive Plan

Certain employees of the Company are participants in a Long-Term Incentive Plan (LTIP), which provides for cash awards, subject to certain vesting periods and adjustments based on the performance of JPMorgan Chase and FDC. The LTIP began in 2005, and awards vest over a three-year period with 50% of the award vesting after two years of service and the remaining 50% vesting after the third year of service. The Company records expense using the accelerated expense attribution method over the related vesting periods. For the years ended December 31, 2007, 2006, and 2005, $14.5 million, $12.0 million, and $4.1 million, respectively, of expense relating to LTIP grants were included in salaries and employee benefits on the combined statements of income and comprehensive income. The related liability is included in other accrued liabilities on the combined balance sheets.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

Deferred Compensation Plan

The Company has a deferred compensation plan, which provides highly compensated employees the opportunity to defer up to 90% of their annual base salary, 90% of their bonus compensation, and 90% of their LTIP. Each plan participant is fully vested in all deferred compensation and earnings credited to his or her account.

The liability under the deferred compensation plan was $10.9 million and $7.9 million at December 31, 2007 and 2006, respectively. The Company s expense under the deferred compensation plan, net of the investment return on related trust assets, totaled $453 thousand, $261 thousand, and $266 thousand for the years ended December 31, 2007, 2006, and 2005, respectively.

In connection with the deferred compensation plan, the Company has placed certain assets in a rabbi trust to enhance the security of the benefits payable under the plan. The assets of the trust, which consist of COLI policies and money market funds, are not generally available to the Company or its creditors, except to pay participants benefits or in the event of the Company s insolvency. Trust assets of $11.0 million and $7.2 million at December 31, 2007 and 2006, respectively, were included in other assets on the combined balance sheets. The COLI policies had cash surrender values of $9.3 million and $7.2 million at December 31, 2007 and 2006, respectively.

Stop Loss Insurance

The Company provides medical insurance through a variety of third party Administrative Services Agreements. In order to manage its insurance risk, the Company purchases individual and aggregate stop loss coverage policies. The policies provide for payment of eligible expenses in excess of the Company s individual obligation of $150 thousand per covered individual, not to exceed $2 million over the lifetime of a covered individual. Aggregate stop loss coverage provided for in the policies becomes effective at the Aggregate Benefit Attachment Point, which was $15.0 million, $11.6 million, and $7.4 million for 2007, 2006, and 2005 respectively. A risk exists to the Company with respect to recoveries under the stop loss contracts in the event the stop loss company is unable to meet its obligations.

The Company s estimated liability for claims incurred but not reported at December 31, 2007 and 2006 was $1.2 million and $1.8 million, respectively, which is included in other accrued expenses on the combined balance sheets.

NOTE 15 SHARE-BASED PAYMENT

Under a share-based payment plan (Stock Option Plan) established in 1999, the Company granted non-qualified stock options to certain employees. The purpose of the Stock Option Plan is to provide an incentive to key employees to better align their interests with the interests of the Company. The Company issued the last option grants under this plan in 2004 and does not intend to provide for any additional grants of options in the future.

The Stock Option Plan allows for grants of options to purchase up to 10 million shares of Class B Common Stock of Paymentech, Inc. ($0.01 par value) (the Shares). The options are granted with exercise prices equal to or greater than the fair market value of Paymentech, Inc. s stock on the date of grant; have graded vesting over a period of three years with 50% of the award vesting on the second anniversary of the date of grant, and the remaining 50% on the third anniversary of the date of grant; and expire 10 years from the date of grant.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

Upon exercise of the options for the issuance of Shares, the Shares become subject to both put and call redemption features. Holders of Shares may require the Company to repurchase any or all of such holder s Shares during the period beginning on the 180th day following the date of issuance of such Shares and ending at the end of the 200th day following the date of issuance of such Shares. If the holder does not elect to exercise their put right, the Company has the right, but not the obligation, to call for purchase any or all of such holder s Shares at any time beginning on the 201st day following the date of issuance. In either event, the purchase price for such Shares will be the fair market value of such Shares on the date of redemption. In addition to these restrictions, in the event the shareholder does not exercise their put rights and the Company does not exercise its call rights, the shareholder is obligated to offer their Shares to the Company for purchase upon the same terms they propose to sell such Shares to a third party. When options are exercised, the Company issues new shares.

Accelerated Vesting and Modifications

The Stock Option Plan provides that, in the event of changes in equity securities by reason of change in capitalization, such as a reclassification, recapitalization, merger, consolidation, reorganization or other similar event, appropriate adjustments in the aggregate number of Shares subject to the Stock Option Plan and/or the exercise price and number of Shares purchasable upon the exercise of any option previously granted will be made. Additionally, the plan provides that upon such events, any unvested options would become fully vested.

As a result of JPMorgan Chase s merger with Bank One in July 2004, which was a change in control under the Stock Option Plan, all outstanding options became fully vested. As a result of the October 1, 2005 integration of CMS into the Company, which had a dilutive effect for the entity which provides the Stock Option Plan, the Company modified the exercise prices and number of outstanding options to maintain the value of the options to the option holders. The modification affected 241 option holders. As the value of the options was the same before and after the modification, no incremental expense was recorded in 2005 as a result of the modification.

The following schedule summarizes stock option activity for the year ended December 31, 2007 (in thousands, except per share data):

	Number of options	**Weighted-average exercise price**	**Weighted-average remaining life (years)**
Outstanding at December 31, 2006	360	$ 25.10	
Exercised	(92)	$ 24.93	
Forfeited or expired	(9)	$ 21.68	
Outstanding at December 31, 2007	259	$ 25.28	3.9
Options exercisable at December 31, 2007	259	$ 25.28	3.9

The Company made no option grants and recognized no compensation cost related to options in 2007, 2006 or 2005. Tax expense related to stock option activity was $67 thousand, and $690 thousand for the years ended December 31, 2006 and 2005 respectively. No tax expense was recognized in 2007 related to stock option activity.

As a result of the redemption features in the Stock Option Plan, the Company expects to repurchase 61 thousand outstanding Shares in 2008.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

The intrinsic value of options outstanding and exercisable as of December 31, 2007 was $5.6 million. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006, and 2005, was $1.9 million, $3.9 million, and $9.0 million, respectively.

NOTE 16 SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental cash flow disclosures and non-cash financing activities for the years ended December 31, 2007, 2006, and 2005 are as follows (in thousands):

	2007	**2006**	**2005**
Supplemental cash flow information:			
Cash paid for income taxes	$ 72,315	$ 58,195	$ 51,780
Cash paid for interest	15,693	17,687	4,340
Supplemental non-cash financing activities:			
Capital contribution for services paid on the Company s behalf	$	$	$ 30,434

NOTE 17 RELATED PARTIES

The Company has multiple relationships with JPMorgan Chase and FDC as described below.

JPMorgan Chase

JPMorgan Chase serves as the Company s primary bank and provides depository accounts, as well as investment, treasury management, and hedging services. Amounts related to these services are included in interest and other income, interest expense and operating expenses on the combined statements of income and comprehensive income.

Pursuant to a referral agreement, JPMorgan Chase is obligated to refer customers for credit and debit card processing services to the Company. Fees related to these referrals offset revenue on the combined statements of income and comprehensive income. The payable related to these services is included in current liabilities on the combined balance sheets.

JPMorgan Chase has agreed to indemnify the Company against certain losses, if any, which would result from the provision of bankcard processing services to certain merchants. Pursuant to these indemnification agreements, the Company pays JPMorgan Chase an indemnification fee which is included in operating expenses on the combined statements of income and comprehensive income.

In addition to referral and indemnification agreements, the Company has entered into various contracts with JPMorgan Chase relating to transaction services. Under these contracts both the Company and JPMorgan Chase perform services for each other, such as merchant and private label transaction services, statement preparation, development and support services, as well as gateway services, sponsorship for VISA, MasterCard and other card brands and debit networks, and other services. The related revenue and fees for these services are included in revenue and operating expenses, respectively, on the combined statements of income and comprehensive income. The related receivable and amounts accrued for these services are included in accounts receivable and current liabilities, respectively, on the combined balance sheets.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

JPMorgan Chase leases office space to the Company. Rent associated with these leases is included in operating expenses on the combined statements of income and comprehensive income.

FDC

The Company has entered into agreements with various subsidiaries and affiliates of FDC, for the transaction servicing of some of the Company s U.S. and international merchant transactions, as well as the provision of related services, such as chargeback management, fraud monitoring, collections, merchant settlement, payer authentication, multi-currency, customer service, and MasterCard sponsorship necessary to process Canadian MasterCard transactions. The negotiation and execution of revised U.S. and Canadian agreements covering certain of the above described services are pending. Fees related to these services are included in operating expenses, and assessments offset revenue, on the combined statements of income and comprehensive income. The related payables are included in payables to related parties, other accrued expenses and accrued assessments on the combined balance sheets.

The Company utilizes the services of TASQ Technology, Inc. (TASQ), a wholly-owned subsidiary of FDC, for the deployment of card processing point-of-sale equipment and related software at customer locations in the U.S. The Company also purchases supplies from TASQ for distribution to its U.S. and Canadian merchants. Amounts accrued for these services are included in current liabilities on the combined balance sheets. Expenses related to these services and supplies offset revenue on the sale of point-of-sale equipment and are included in revenue on the combined statements of income and comprehensive income.

Pursuant to an agreement with a debit network owned by FDC, the Company processes debit card transactions via that debit network and is required to pay certain debit network fees. Fees paid related to this agreement are included in operating expenses on the combined statements of income and comprehensive income. Fees accrued related to these services are included in other accrued expenses on the combined balance sheets.

The Company entered into agreements with FDC to provide data transmission, authorization and portfolio management services. Revenue for these services is included in revenue on the combined statements of income and comprehensive income. The related receivable is included in accounts receivable on the combined balance sheets.

The Company entered into an employee lease arrangement under which FDC provided employees to work at the direction of the Company. The term of the agreement was from January 1, 2006 through December 31, 2006. Expenses incurred under this leasing arrangement are included in salaries and employee benefits on the combined statements of income and comprehensive income for the year ended December 31, 2006. The payable related to these services is included in payables to related parties and other accrued expenses on the combined balance sheet as of December 31, 2006.

The Company has various other arrangements with JPMorgan Chase and FDC under which other services may be provided or received. The related amount of revenues and expenses for these services are less than 1% of total revenues and expenses on the combined statements of income and comprehensive income, respectively, for the years ended December 31, 2007, 2006, and 2005.

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NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

A summary of the amounts included on the combined balance sheets as of December 31, 2007 and 2006 and the combined statements of income and comprehensive income for the years ended December 31, 2007, 2006, and 2005 is as follows (in thousands):

		2007	
Related Party	**Nature of Relationship**	**Receivables from (payables to) related parties, net**	**Revenue (expense), net**
JPMorgan Chase	Banking and investment management services	$ (702)	$ 50,052
	Customer referral program	(1,288)	(7,240)
	Transaction and related services, net	481	8,925
	Indemnification agreements	(345)	(1,382)
	Rent		(2,761)
FDC	Transaction servicing and related services	(31,923)	(193,073)
	Point-of-sale equipment and supplies	(2,086)	(23,091)
	Debit interchange	(3,712)	(29,097)
	Data transmission, authorization and portfolio management services	1,632	9,605

		2006	
Related Party	**Nature of Relationship**	**Receivables from (payables to) related parties, net**	**Revenue (expense), net**
JPMorgan Chase	Banking and investment management services	$ 2,411	$ 57,150
	Customer referral program	(312)	(3,267)
	Transaction and related services, net	1,085	2,966
	Indemnification agreements	(333)	(2,422)
	Rent		(1,478)
FDC	Transaction servicing and related services	(31,501)	(214,356)
	Point-of-sale equipment and supplies	(11,554)	(31,633)
	Debit interchange	(1,951)	(16,936)
	Employee lease arrangement	(2,583)	(14,921)
	Data transmission, authorization and portfolio management services	1,500	10,291

Related Party	**Nature of Relationship**	**2005 Revenue (expense), net**
JPMorgan Chase	Banking and investment management services	$ 19,804
	Customer referral program	(1,543)
	Transaction and related services, net	(476)
	Rent	(1,667)

FDC	Transaction servicing and related services	(99,843)
	Point-of-sale equipment and supplies	(22,714)
	Debit interchange	(12,294)
	Data transmission, authorization and portfolio management services	9,898

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

NOTE 18 OWNERS EQUITY

As discussed in Note 1, the Company includes a combination of corporations, LLCs and a general partnership. Information regarding the capital structure of these entities is shown below.

Corporations

FDC Offer Corp.

FDC Offer Corp. s authorized and outstanding common stock as of December 31, 2007 and 2006 consisted of 1,000 shares of common stock (FDC Offer Corp. Common Stock), par value $0.01 per share. All FDC Offer Corp. Common Stock outstanding is owned by JPMorgan Chase and FDC. The shares of FDC Offer Corp. are restricted from transfer, without the consent of the other shareholder.

Paymentech, Inc.

Paymentech, Inc. s authorized capital stock consists of a total of 70,000,000 shares, as follows: 60,000,000 shares of Class A Common Stock, par value $0.01 per share, and 10,000,000 Shares of Class B Common Stock, par value $0.01 per share.

As of December 31, 2007 and 2006 there were 36,451,566 shares of Class A Common Stock outstanding. FDC Offer Corp holds all issued and outstanding Class A Common Stock. Holders of shares of Class A Common Stock are entitled to one vote per share on all matters submitted to a vote of stockholders. There is no right to cumulative voting for the election of directors. Holders of shares of Class A Common Stock are entitled to receive dividends, paid in accordance with the instructions of the board of directors out of funds legally available therefore. In the event of liquidation, holders of shares of Class A Common Stock are entitled to share ratably in all assets remaining after payment of liabilities. Holders of shares of Class A Common Stock have no conversion, redemption or preemptive rights. The rights of the holders of Class B Common Stock will, in some instances, restrict the rights of the holders of Class A Common Stock.

As of December 31, 2007 and 2006 there were 60,615 and 113,966 Shares of Class B Common Stock outstanding, respectively. Unless otherwise noted, the holders of Shares of Class B Common Stock have the same rights as holders of shares of Class A Common Stock. Holders of shares of Class B Common Stock are entitled to one-tenth of one vote per share on all matters submitted to a vote of stockholders, and are entitled to receive dividends, paid in accordance with the instructions of the board of directors out of funds legally available therefore. Dividends so declared must be paid equally with respect to shares of Class A Common Stock and shares of Class B Common Stock. Likewise, in the event of liquidation, holders of Shares of Class B Common Stock are entitled to share ratably with holders of Class A Common Stock in all assets remaining after payment of liabilities. Holders of Class A Common Stock are prohibited from using their superior voting power to impair the rights of holders of Class B Common Stock.

As discussed in Note 15, the Class B Common Stock (or Class B Shares) is subject to certain redemption features. Additionally, should the Company undertake a public offering pursuant to an effective registration statement under the Securities Act of 1933, as amended, each outstanding share of Class B Common Stock would be automatically converted into one share of Class A Common Stock upon the date of the closing of the sale.

Chase Paymentech

NOTES TO COMBINED FINANCIAL STATEMENTS

For the years ended December 31, 2007 and 2006 and

the year ended December 31, 2005 (unaudited) (Continued)

LLC s

All of the Company s LLCs are governed by Limited Liability Company Agreements, by and among their respective owner(s) (the Members). All membership interests in the LLCs are of a single class and have the same rights and privileges. Certain of the Members of Chase Paymentech Solutions, LLC have the right to elect the LLC s managers.

Partnership

JPMorgan Chase and FDC partnership interests in Chase Paymentech Solutions are of a single class and have the same rights and privileges.

Other Comprehensive Income

The cumulative balance of each component of other comprehensive income, and associated income tax effects, are as follows (in thousands):

	Beginning balance	**Pretax gain (loss) amount**	**Tax benefit (expense)**	**Ending balance**
December 31, 2005				
Net unrealized gains (losses) on investments	$ (1,944)	$ 1,123	$ 10	$ (811)
Cash flow hedges	(26)	31		5
Foreign currency translation adjustment	25,360	3,037		28,397
Minimum pension liability adjustment	(2,032)	(432)	152	(2,312)
	$ 21,358	$ 3,759	$ 162	$ 25,279
December 31, 2006				
Net unrealized gains (losses) on investments	$ (811)	$ 224	$ (15)	$ (602)
Cash flow hedges	5	(5)		
Foreign currency translation adjustment	28,397	(1,826)		26,571
Minimum pension liability adjustment	(2,312)	194	(89)	(2,207)
Adjustment to initially apply SFAS 158		(28)	10	(18)
	$ 25,279	$ (1,441)	$ (94)	$ 23,744
December 31, 2007				
Net unrealized gains (losses) on investments	$ (602)	$ 1,082	$ (18)	$ 462
Foreign currency translation adjustment	26,571	38,184		64,755
Pension and SERP liability adjustments	(2,225)	(250)	126	(2,349)
	$ 23,744	$ 39,016	$ 108	$ 62,868

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.

FIRST DATA CORPORATION

(Registrant)

By: /s/ MICHAEL D. CAPELLAS
Michael D. Capellas

Chief Executive Officer and

Chairman of the Board

Date: March 31, 2009

By: /s/ PHILIP M. WALL
Philip M. Wall

Executive Vice President and

Chief Financial Officer

Date: March 31, 2009