CONCORD EFS INC
Form S-3/A
June 04, 2001

As filed with the Securities and Exchange Commission on June 4, 2001

Registration No. 333-61084

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Amendment No. 1

to

FORM S-3
REGISTRATION STATEMENT
Under
The Securities Act of 1933

Concord EFS, Inc.
(Exact name of registrant as specified in its charter)

Delaware	04-2462252
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2525 Horizon Lake Drive
Suite 120
Memphis, TN 38133
(901) 371-8000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

Dan M. Palmer
Chairman of the Board of Directors and Chief Executive Officer
2525 Horizon Lake Drive
Suite 120
Memphis, TN 38133
(901) 371-8000
(Name, address, including zip code, and telephone number, including area code, of agent for service)

copies to:

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Chicago, Illinois 60603	New York, New York 10006

Approximate date of commencement of proposed sale to the public: As soon as practicable after this registration statement becomes effective.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [_]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [_]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [_]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [_]

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act or until this registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JUNE 4, 2001

PROSPECTUS

19,031,849 Shares

[LOGO OF CONCORD]

Concord EFS, Inc.
Common Stock
$ per share

We are selling 2,000,000 shares of our common stock, and the selling stockholders named in this prospectus are selling 17,031,849 shares. We will not receive any proceeds from the sale of the shares by the selling stockholders. We have granted the underwriters an option to purchase up to 2,854,000 additional shares of common stock to cover over-allotments.

Our common stock is quoted on the Nasdaq National Market under the symbol "CEFT." The last reported sale price of our common stock on the Nasdaq National Market on May 31, 2001 was $50.70 per share.

Investing in our common stock involves risks. See "Risk Factors" beginning on page 6.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$	$
Underwriting Discount	$	$
Proceeds to Concord (before expenses)	$	$
Proceeds to the Selling Stockholders (before expenses)	$	$

The underwriters expect to deliver the shares to purchasers on or about , 2001.

Salomon Smith Barney
Joint Book-Running Manager

Goldman, Sachs & Co.
Joint Book-Running Manager

William Blair & Company
Joint Lead Manager

Banc of America Securities LLC
Bear, Stearns & Co. Inc.
Merrill Lynch & Co.
Morgan Keegan & Company, Inc.

, 2001

[Concord logo/diagrams illustrating payment transaction processing cycle]

You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of any of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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Unless otherwise noted, the industry information provided in this prospectus, including the industry rankings, is based upon information contained in the following industry publications:

- Thomson Financial's 2001 Card Industry Directory, for share of automated teller machines (ATMs) driven as of March 2000,

- Thomson Financial's 2001 EFT Network Data Book, for share of branded network ATMs and share of personal identification number (PIN)-secured debit transactions processed through a debit network, in each case as of March 2000, and growth in number of installed ATMs, ATM transactions and PIN-secured debit transactions between 1995 and projected year-end 2000,

- Thomson Financial's 2001 Debit Card and POS Market Data Book, for share of PIN-secured debit payment transactions acquired by a payment processor, based on 1999 transactions,

- The Nilson Report, Issue No. 739, for share of dollar volume of credit and signature debit card payment transactions, based on 2000 transactions,

- Thomson Financial's 1989 EFT Network Data Book and its 2001 EFT Network Data Book, for decrease in number of regional debit networks between 1989 and 2001 (as projected for 2001),

- The Nilson Report, Issue No. 737, for share of total PIN-secured and signature debit transactions, based on 2000 transactions,

- The Nilson Report, Issue Nos. 720 and 729, for share of all credit, debit and electronic benefits transfer card payment transactions, based on 1999 transactions,

- The Nilson Report, Issue Nos. 632 and 729, with respect to percent of payment transactions represented by cash, checks, credit and debit cards, based on 1995 and 1999 transactions and projected 2005 and 2010 transactions,

- The Nilson Report, Issue No. 726, for projected growth in PIN-secured debit transactions between 1999 and 2005, and

- The Nilson Report, Issue No. 730, for growth in credit card purchase volume between 1995 and projected year-end 2000 and projected growth between 2000 and 2005.

We believe these publications contain the most current industry information published on the matters referenced, as of the date of this prospectus.

PROSPECTUS SUMMARY

You should read the following summary with the more detailed information about us, including the information set forth under the heading "Risk Factors" and our financial statements with their accompanying notes that are included in this prospectus and in the documents incorporated by reference in this prospectus.

Concord EFS, Inc.

Concord EFS, Inc. is a leading, vertically integrated electronic transaction processor. We acquire, route, authorize, capture and settle virtually all types of electronic payment and deposit access transactions for financial institutions and merchants nationwide. Our primary activities consist of Network Services, which provides automated teller machine (ATM) processing, debit card processing, deposit risk management and coast-to-coast debit network access principally for financial institutions, and Payment Services, which provides payment processing for supermarkets, major retailers, petroleum dealers, convenience stores, trucking companies and independent retailers. In 2000, we processed approximately 8.0 billion transactions. We are ranked as a market leader in several important categories, including:

in our Network Services business:

- #1 in the number of ATMs driven--we drive 16% of all ATMs in the United States,

. #1 in the number of ATMs carrying a specific regional debit network brand--more than 50% of the ATMs in the United States carry our STARsm, MAC(R) or Cash Station(R) brand, and

. #1 in the number of personal identification number (PIN)-secured debit payment transactions processed through a debit network--we process 50% of all PIN-secured debit payment transactions through our combined debit network, and

in our Payment Services business:

. #1 in the number of PIN-secured debit payment transactions acquired by a payment processor--we acquire 20% of all PIN-secured debit payment transactions,

. #4 in the total number of credit, debit and electronic benefits transfer (EBT) card payment transactions processed--we process 9% of all credit, debit and EBT card payment transactions, and

. #4 in the total dollar volume of credit and signature debit card payment transactions processed--we process 6% of all dollar volume for credit and signature debit card payments.

We have attained our leadership position as a result of being one of the few fully integrated electronic transaction solutions providers and by focusing on selected industries moving rapidly to cashless commerce. Our portfolio of debit, credit, EBT, check and ATM services allows us to offer virtually any electronic payment or deposit access product needed by merchants and financial institutions. We believe that our strong internal growth rates and high rate of recurring revenues reflect our ability to satisfy and retain our existing customers and to acquire new customers.

In 2000, our revenue was $1,407.1 million and our operating income was $293.5 million. Between 1996 and 2000, our operating income grew at a compound annual rate of 38.4%. Over this same period, our operating margin expanded from 18.3% to 20.9%.

In 2000, we provided transaction services, including data capture, authorization and settlement services, for over 300,000 merchant locations. We own and operate the STAR debit network, which is comprised of the STAR, MAC and Cash Station debit networks, and we provide processing services for approximately 48,000 ATMs nationwide, of which we own approximately 700.

Investment Highlights

We believe that the following factors are important in order to understand the growth potential of our business:

Industry Factors

Key U.S. industry trends include:

. PIN-secured debit transactions at the point of sale are estimated to have grown at a compound annual rate of 36% between 1995 and 2000 (as projected for 2000) to a total of 3.6 billion transactions.

- The percentage of total payment transactions in which cash or checks were used as the method of payment decreased from 77% in 1995 to 72% in 1999 and is expected to further decrease to 61% by 2005.

- ATM transaction volume is estimated to have grown at a compound annual rate of 6% between 1995 and 2000 (as projected for 2000) to a total of 13.2 billion transactions.

- The number of regional debit networks is estimated to have fallen from approximately 100 in 1989 to approximately 35 in 2001 (as projected for 2001).

- Consumer expenditures on credit cards are estimated to have increased to $1,274 billion in 2000 (as projected for 2000) from $744 billion in 1995, representing a compound annual growth rate of 11%.

- Consumers between the ages of 21 and 44 are the greatest users of ATMs and PIN-secured debit for payment, with greatest usage among consumers age 25 to 34, according to a 1999 study performed by The Applied Management & Planning Group on behalf of Star Systems, Inc. (STAR).

Company Factors

- We are focused on select markets that are switching rapidly to electronic transaction processing. We believe, therefore, that our transaction volume will grow more rapidly than the overall market.

- We are a fully integrated company providing end-to-end payment services. We believe this gives us a competitive advantage, because it allows our customers to acquire from us a full set of payment services required to process transactions and allows us to price our services competitively.

- On February 1, 2001, we acquired STAR, the nation's largest PIN-secured debit network, which owns and operates the STAR debit network and processes ATM and point of sale (POS) transactions on behalf of financial institutions and merchants, and on August 21, 2000, we completed our acquisition of Cash Station, Inc., a leading Midwest PIN-secured debit network based in Chicago, Illinois. Following these acquisitions, our combined debit network, which is comprised of our STAR, MAC and Cash Station networks, now has approximately 6,200 financial institution members with approximately 124 million cards. Consumers carrying these cards have access to their deposit accounts at approximately 180,000 ATMs and an estimated 800,000 branded POS locations coast-to-coast.

- Our national network of cards and terminals provides the critical mass necessary to bring new products to the financial services industry, including person-to-person payments, check electronification and secure debit payments on the Internet.

- We strive to maintain a highly-efficient operating structure, including an emphasis on low overhead and cost control efforts. Our ownership of a national bank also allows us to reduce payments to outside vendors.

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Operating Strategy

Our operating strategy is to:

- focus on markets which are switching rapidly to electronic payment cards,
- utilize a multi-faceted sales approach to target selected vertical markets,
- provide a fully integrated range of services,
- cross-sell our services to existing clients,
- leverage our PIN-secured debit infrastructure,
- develop new products and services to meet market needs,
- maintain a highly-efficient operating structure, and
- seek selective acquisitions.

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The Offering

The following information regarding shares outstanding after the offering is based on the number of shares outstanding as of May 25, 2001. It does not include a total of 30,119,469 shares reserved for issuance under the Concord EFS, Inc. 1993 Incentive Stock Option Plan, as amended, the Electronic Payment Services, Inc. 1995 Stock Option Plan, as amended, and the Star Systems, Inc. 2000 Equity Incentive Plan. Under those plans, options for the purchase of 25,452,004 shares were outstanding as of May 25, 2001, of which options for the purchase of 11,865,781 shares were exercisable at that date. Throughout this prospectus, unless we have stated otherwise, we have assumed that the underwriters' over-allotment option for an additional 2,854,000 shares of common stock has not been exercised.

Common stock offered by us....	2,000,000 shares
Common stock offered by selling stockholders.........	17,031,849 shares
Common stock outstanding after the offering................	244,416,094 shares
Use of proceeds..............	For general corporate purposes, including for working capital. We will not receive any of the proceeds from the sale of common stock by the selling stockholders.
Nasdaq National Market symbol......................	"CEFT"

Our principal executive offices are located at 2525 Horizon Lake Drive, Suite 120, Memphis, Tennessee 38133, and our telephone number is (901) 371-8000.

Summary Consolidated Financial Data

The summary consolidated financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes to those financial statements included and incorporated by reference elsewhere in this prospectus. The summary consolidated financial data for the years ended December 31, 1998, 1999 and 2000 have been derived from our audited consolidated financial statements, which are included in this prospectus. The summary consolidated financial data for the years ended December 31, 1996 and 1997 have been derived from audited consolidated financial statements which are not included in this prospectus. The summary consolidated financial data as of March 31, 2001 and for the three months ended March 31, 2000 and 2001 have been derived from our unaudited condensed consolidated financial statements, which are included in this prospectus. The summary consolidated financial data has been restated for all periods presented to reflect the business combinations of Concord with Digital Merchant Systems of Illinois, Inc. and American Bankcard International, Inc. on June 30, 1998, Electronic Payment Services, Inc. on February 26, 1999, National Payment Systems Inc. d/b/a Card Payment Systems (referred to in this prospectus as Card Payment Systems) on January 31, 2000, Cash Station, Inc. on August 21, 2000 and STAR on February 1, 2001, each of which was accounted for as a pooling of interests. The column "As Adjusted" reflects our sale of 2,000,000 shares in this offering at an assumed public offering price of $50.70, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	Year Ended December 31,				
	1996	1997	1998	1999	2000
	(in thousands except per share and per transaction numbers)				
Income Statement Data:					
Revenue.................	$ 436,371	$ 622,573	$ 812,824	$ 1,060,010	$ 1,407,140
Cost of operations......	288,401	421,969	552,469	735,467	1,009,954
Selling, general and administrative expenses...............	67,925	87,257	90,936	92,334	91,995
Acquisition expenses and restructuring charges..	--	--	--	36,189	11,691
Operating income........	80,045	113,347	169,419	196,020	293,500
Interest income (expense), net.........	(10,087)	(1,688)	2,604	16,251	37,243
Equity in earnings (loss) of subsidiary...	(394)	(165)	281	--	--
Income before taxes and minority interest......	69,564	111,494	172,304	212,271	330,743
Income taxes (benefit)..	26,970	45,081	65,709	82,906	120,220
Minority interest in net income of subsidiary...	--	--	--	124	597

Net income (loss)	$ 42,594	$ 66,413	$ 106,595	$ 129,241	$ 209,926	$
Basic earnings (loss) per share	$ 0.21	$ 0.30	$ 0.48	$ 0.56	$ 0.88	$
Diluted earnings (loss) per share	$ 0.20	$ 0.29	$ 0.46	$ 0.54(1)	$ 0.85(1)	$
Basic shares	207,133	222,584	224,235	231,843	239,179	
Diluted shares	213,759	228,381	231,396	239,867	247,997	
Other Data:						
Number of transactions processed (in millions)	3,295	4,404	5,537	6,592	8,004	
Operating income per transaction (2)	$ 0.024	$ 0.026	$ 0.031	$ 0.035	$ 0.038	

	As of March 31, 2001	
	Actual	As Adjusted
	(in thousands, unaudited)	
Balance Sheet Data:		
Working capital	$ 729,383	$ 825,427
Total assets	$1,753,313	$1,849,357
Long-term debt	$ 111,562	$ 111,562
Total stockholders' equity	$1,133,758	$1,229,802

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(1) Excluding acquisition and restructuring charges and related taxes, diluted earnings per share for the years ended 1999 and 2000 and for the three month periods ended March 31, 2000 and 2001 were $0.65, $0.88, $0.17 and $0.24, respectively.

(2) Amounts exclude acquisition and restructuring charges. Including such charges, operating income per transaction in 1996, 1997, 1998, 1999 and 2000 was $0.024, $0.026, $0.031, $0.030 and $0.037, respectively.

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RISK FACTORS

Before you invest in our common stock, you should be aware that there are various risks, including those described below, that could have a material adverse effect on our business, including our operating results and financial condition. The risk factors listed in this section, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. You should carefully consider these risk factors, together with all of the other information included in this prospectus, before you decide whether to purchase shares of our common stock.

If we fail to successfully execute our corporate consolidation plan, our operating results and financial condition could be adversely affected.

In the first quarter of 2001, we initiated a company-wide consolidation plan to integrate our recent acquisitions, including STAR. The plan is intended, among other things, to eliminate operational redundancies and functionally integrate the STAR organization into Concord. We cannot assure you that we will be able to combine our operations without encountering difficulties or experiencing the loss of key employees or customers or that the expected benefits from such combination will be realized. If we are unsuccessful in executing our consolidation plan, our operating results and financial condition could be adversely affected.

If we lose key personnel or are unable to attract additional qualified personnel as we grow, our business could be adversely affected.

We are dependent upon the ability and experience of a number of our key management personnel who have substantial experience with our operations, the rapidly changing electronic payment processing industry and the selected markets in which we offer our services. It is possible that the loss of the services of one or a combination of our senior executives or key managers would have an adverse effect on our operations. Our success also depends on our ability to continue to attract, manage and retain other qualified middle management and technical and clerical personnel as we grow. We cannot assure you that we will continue to attract or retain such personnel.

Loss of key customers could reduce our revenue and net income.

As a result of our competitive business environment, we experience some customer attrition. Customer attrition is due to several factors, including losses to competitors, business acquisitions and mergers and business closures. We cannot assure you that any of our contracts for credit and debit card, ATM processing and/or debit network access services will be renewed or, if renewed, will be renewed on terms as favorable to us as at present. If they are not renewed, we may not be able to reduce our costs in proportion to the lost revenue, because many of our costs are fixed. Increased attrition could therefore have an adverse effect on our revenue and net income.

We face significant competition in each of our lines of business.

The businesses of electronic payment processing and settlement, ATM processing, debit card processing and debit network access services are all highly competitive. The level of competition has increased in recent years, and other service providers have established a sizable market share in some of the service areas in which we compete. In addition, competitors to our network, which consist of other national and regional debit networks, continue to consolidate as large banks merge and combine their debit networks and as shared debit networks continue to combine into larger, super-regional conglomerates. The continued expansion of the national debit networks operated by VISA and MasterCard also places increasing competitive pressure on other networks as banks seek to consolidate their network affiliations. Several of our competitors and potential competitors have greater capital and technological, management and marketing resources than we have, and we cannot assure you that we will continue to be able to compete successfully with such entities. In addition, the competitive pricing pressures that would result from any increase in competition could adversely affect our margins and may have an adverse effect on our operating results and financial condition. See "Business--Competition."

Current or future card association rules and practices could adversely affect our business.

EFS National Bank is a member of the VISA and MasterCard organizations and is a registered processor of Discover, American Express and Diners Club transactions. We compete directly with VISA and MasterCard in the provision of transaction processing services. Further, the rules of the credit card associations are set by member banks or, in the case of Discover, American Express and Diners Club, by the card issuers, and some of those banks and issuers are our competitors with respect to these services. With respect to our EBT business, the governmental issuers of the benefits set the rules governing such transactions, and the financial institutions or processors hired by the government administer them. We cannot assure you that the credit card associations will maintain our registrations or that the current card association or EBT rules allowing us to market and provide transaction processing services will remain in effect. The termination of our member registration or our status as a certified processor, or any changes in card association or EBT rules that limit our ability to provide transaction processing and marketing services, could have an adverse effect on our transaction volumes and revenue or operating costs. In addition, if we were precluded from processing any of these card association transactions, there can be no assurance that our processing clients would continue to use us to process transactions in other networks.

In addition, our STAR network, as a result of the combination of the STAR, MAC and Cash Station networks, is the first regional debit network that may potentially be viewed as achieving national status in terms of size and geographic coverage. Current VISA and MasterCard rules prohibit their members from issuing the debit cards or credit cards of any competing national network, with the exception of each other. These rules also prohibit the coexistence of competing national marks on their credit and branded debit cards. If VISA or MasterCard were to determine that STAR is a competing national network and mark, they could attempt to prohibit their members from issuing STAR-branded cards and/or prohibit the coexistence of the STAR mark with the VISA and/or MasterCard marks on debit and credit cards. If this occurred, we cannot predict whether, when forced to choose between us and other brands, issuing banks would favor us over VISA or MasterCard. Further, we could lose access to the VISA or MasterCard network and cardholders, which could adversely affect our ATM transactions, PIN-secured and signature debit transactions, credit card transactions and prospects for future growth.

In addition, VISA's combined PIN-based and signature debit product called VISA Check Card II could adversely impact our Network Services business if a significant number of financial institutions issue the product or if VISA reinstitutes its original rule prohibiting the placement of competing debit marks on the product.

We must remain current with rapid technological change.

Our ability to provide services is heavily dependent upon our use of and access to computing and telecommunications technology. The transaction payment processing business has been characterized by rapid technological change. We cannot assure you that we will be able to continue to incorporate new developments in payment processing technology or that the costs involved in doing so will not be substantial.

Acquisitions involve risks that could cause our actual growth to differ from our expectations.

We expect to continue to seek selective acquisitions as an element of our growth strategy. It is possible that recent or future acquisitions could have an adverse effect upon our operating results, particularly in the fiscal quarters immediately following the completion of such transactions while the operations of the acquired entities are being integrated into our operations. For example, we may not be able to successfully integrate acquired businesses in a timely manner. We may also incur substantial costs, delays or other operational or financial problems during the integration process. In addition, we could incur additional indebtedness to finance acquisitions.

If additional state taxes are imposed on us, our operating results and financial condition could be adversely affected.

Transaction processing companies like us may be subject to state taxation of certain portions of their fees charged to customers for their services. Application of this tax is an ongoing issue in the industry, and the

states have not yet adopted uniform guidelines implementing these regulations. If we are required to pay these taxes and are unable to pass this tax expense through to our customers, our operating results and financial condition could be adversely affected.

Continued consolidation in the banking and retail industries could adversely affect our growth.

- Our Network Services business could be adversely affected. As banks consolidate, our ability to successfully offer our Network Services will depend in part on whether the institutions that survive those consolidations are willing to outsource their ATM and debit processing to third-party vendors like us and whether those institutions have pre-existing relationships with any of our competitors. Larger institutions with more geographically dispersed customer bases may wish to consolidate their network participation with fewer networks having the broadest geographic coverage and the best service offerings. As regional networks continue to consolidate, we may lose network business if we are unable to continue to offer a range of products that is competitive in terms of geographic distribution as well as quality and breadth of service. Larger banks that continue to participate in our network may also process proportionately fewer ATM transactions through our network as more transactions can be handled within the bank's own internal systems.

- Our Payment Services business could lose customers and fee revenue could decrease. Continued consolidation in the retail industry, which makes up a substantial portion of our customer base for Payment Services, could impede our ability to grow as the survivors of such consolidation may have relationships with competitors or may be more interested in pursuing internal processing options due to their increased scale. Larger merchants with larger transaction volumes may also demand lower fees which could result in lower operating margins for us.

We are subject to the business cycles and credit risk of our merchant customers.

A recessionary economic environment could have a negative impact on our customers, particularly smaller merchants and trucking companies, which could, in turn, negatively impact our financial results. If our customers make fewer sales of their products and services, we will have fewer transactions to process, resulting in lower revenue.

In addition, in a recessionary environment our merchant customers could experience a higher rate of bankruptcy filings which could adversely affect us financially. We bear credit risk for billing disputes between credit card holders and bankrupt merchants. In the event a billing dispute between a credit card holder and a merchant is not resolved in favor of the merchant, the transaction is normally charged back to the merchant, and the purchase price is refunded to the cardholder. However, if that merchant files for bankruptcy or is otherwise unable or unwilling to pay, we must bear the credit risk for the full transaction amount of these chargebacks. Billing disputes would include instances where a customer ordered goods or services on credit, but those goods and services are not delivered by the defunct merchant. We cannot assure you that chargebacks will not increase in the future. Increases in chargebacks that are not paid by merchants could have an adverse effect on our operating results and financial condition.

The outcome of litigation involving VISA and MasterCard could have a negative impact on our business.

VISA and MasterCard have been sued by the Department of Justice (DOJ) for alleged violation of the Federal antitrust laws arising out of their respective functionally identical policies of (1) allowing members in the respective organization to issue cards participating in the other organization's system and (2) prohibiting their members from issuing cards in competing systems other than VISA, MasterCard or Citigroup, the largest owner/member of VISA and MasterCard. The potential impact of this litigation on us depends upon whether or not the DOJ is successful, and if it is successful, the relief ordered by the court. We do not currently issue cards in either system and have not been deemed to operate a competing system by either VISA or MasterCard. If VISA and MasterCard are permitted to prohibit members from issuing cards in competing systems, however, there could be a significant negative impact on us if VISA or MasterCard were then to deem the STAR debit network to be a competing system for these purposes.

VISA and MasterCard also have been sued in a class action case brought by merchants who allege that VISA and MasterCard have (1) unlawfully tied merchant acceptance of VISA and MasterCard signature debit cards to merchant acceptance of VISA and MasterCard credit cards and (2) attempted and conspired to monopolize the market for debit cards, a market in which we compete against VISA and MasterCard. The potential impact of this litigation on us depends upon whether or not the plaintiffs are successful and, if they are successful, the relief ordered by the court or, if they are not successful, the business practices adopted by VISA and MasterCard as a result.

Utility and system interruptions or processing errors could adversely affect our operations.

In order to promptly process transactions, our computer equipment and network servers must be functional on a 24-hour basis, which requires access to telecommunications facilities and the availability of electricity. Further, with respect to certain processing services for the STAR debit network, we are dependent on the systems and services of a third party vendor. Telecommunications services and the electricity supply are susceptible to disruption. Computer system interruptions and other processing errors, whether involving our own systems or our third party vendor's system, may result from such disruptions or from human error or other unrelated causes. Any extensive or long-term disruptions in our processing services could cause us to incur substantial additional expense, which could have an adverse effect on our operations and financial condition.

We may be susceptible to fraud occurring at the merchant level.

Merchant fraud includes recording false sales transactions or false credits by the merchant or its customers. Under some circumstances we bear the risk of incidents of merchant fraud. It is possible that incidents of merchant fraud could increase in the future. Increased incidents of merchant fraud could have an adverse effect on our operating results and financial condition.

Changes in card association fees, products or practices could increase our costs or otherwise limit our operations.

From time to time, VISA, MasterCard, Discover, American Express and Diners Club increase the organization and/or processing fees (known as interchange fees) that they charge. For example, in April 1999 VISA and MasterCard increased their fees by up to 10%. It is possible that competitive pressures will result in our absorbing a portion of such increases in the future, which would increase our operating costs and reduce our profit margin. Furthermore, the rules and regulations of the various card associations and networks prescribe certain capital requirements. Any increase in the capital level required would further limit our use of capital.

Revenue growth in ATM processing could slow because of restrictions on surcharging.

Revenue from "convenience fees" or "surcharges" imposed by owners of ATMs, including Concord, has been a significant factor in the recent growth in our ATM processing business, since such fees have encouraged ATM owners to deploy additional terminals. There have been initiatives at the federal, state and local levels to limit surcharges. To the extent that ATM deployment does not continue to grow at recent rates due to the enactment and successful enforcement of statutory restrictions on surcharges, the availability of fewer favorable retail ATM locations or other factors, demand for our ATM processing services may not continue to grow at recent rates or may decline.

Rules and regulations governing financial institutions and changes to those rules and regulations could limit our business.

We are a financial holding company and a bank holding company subject to regulation under the Bank Holding Company Act of 1956, as amended, and to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve). Our two bank subsidiaries are subject to additional regulation. EFS National Bank is a national banking association established under the National Bank Act and is subject to regulation by

the Office of the Comptroller of the Currency as well as the Federal Reserve. EFS Federal Savings Bank operates under the Home Owners' Loan Act and the rules of the Office of Thrift Supervision, which has primary regulatory and supervisory jurisdiction over it. The Federal Deposit Insurance Corporation insures the domestic deposits of both banks under the Federal Deposit Insurance Act. The restrictions imposed by these and other laws governing the activities of national banks, federal savings banks and their holding companies and related regulations and restrictions imposed by regulatory agencies limit our discretion and the discretion of EFS National Bank, EFS Federal Savings Bank and their affiliates in operating their businesses. These limitations include:

- restrictions on engaging in activities that are not approved by the Federal Reserve as financial in nature or incidental or complementary to a financial activity,

- restrictions on mergers and acquisitions involving companies engaged in activities other than those approved by the Federal Reserve as financial in nature or incidental or complementary to a financial activity,

- narrower constraints on activities, mergers and acquisitions if EFS National Bank or EFS Federal Savings Bank do not remain well capitalized and well managed or do not maintain "satisfactory" ratings under the Community Reinvestment Act,

- minimum capital requirements at both the holding company and bank levels,

- restrictions on dividends by banking entities,

- restrictions on intercompany transactions, and

- restrictions on tie-ins involving the products or services of EFS National Bank or EFS Federal Savings Bank.

Material changes in applicable federal or state regulation of financial institutions could increase our operating costs, change the competitive environment or otherwise adversely affect us. We cannot assure you that these laws and regulations will not be amended or interpreted differently by regulatory authorities, or that new laws and regulations will not be adopted, which could adversely affect our operations, financial condition and prospects.

In addition, we are subject to the financial privacy provisions of the Gramm-Leach-Bliley Act (the GLB Act). As a result, certain consumer financial information that we receive may be subject to limitations on reuse and redisclosure under the GLB Act. Additionally, pending legislation at the state and federal levels may further restrict our information gathering and disclosure practices. Existing and potential future privacy laws may limit our ability to develop new products and services that make use of certain data gathered through our Network Services and Payment Services businesses.

Shares eligible for future sale could adversely affect the market price of our common stock.

Sales of a substantial number of shares of our common stock in the public market following this offering could adversely affect the prevailing market price of the common stock and could impair our ability to raise additional equity capital in the future. Upon completion of this offering, we will have 244,416,094 shares of common stock outstanding (based on outstanding shares as of May 25, 2001, assuming the underwriters do not exercise their over-allotment option and excluding 25,452,004 shares issuable upon exercise of options outstanding as of May 25, 2001). Of these shares, 225,052,837 shares (assuming the selling stockholders sell all of their 17,031,849 shares offered in this offering) will be freely tradable without restriction or further registration under the Securities Act of 1933 (the Securities Act) unless purchased by an "affiliate" of ours, as that term is defined in Rule 144 under the Securities Act, which sales will be subject to the volume limitations and other restrictions set forth in Rule 144.

Of the remaining shares,

- 6,225,000 shares held by the two former stockholders of Card Payment Services are eligible for sale to the public, subject to compliance with the volume limitations and other conditions of Rule 144, and

- 5,328,615 shares held by our directors and executive officers will be eligible for sale in the public market after the applicable lock-up period, subject to compliance with the volume limitations and other conditions of Rule 144.

Furthermore, an additional 30,119,469 shares that may be issued in the future upon exercise of options granted and to be granted under our stock option plans have been registered under the Securities Act and, therefore, will be freely tradable when issued (subject to the volume limitations and other conditions of Rule 144, in the case of shares to be sold by our affiliates). Of these options, 10,379,150 shares are covered by the lock-up period for directors and officers referred to above. Finally, certain former STAR stockholders and former Card Payment Services stockholders will have certain rights to demand registration of the shares owned by them and will have the right, subject to certain restrictions and limitations, to participate in future registered sales of our stock. See "Shares Eligible for Future Sale." In addition, each of the selling stockholders has agreed not to sell or distribute any shares of our common stock except under this offering within seven days prior to, or 90 days beginning on, the effective date of the registration statement of which this prospectus is a part. See "Underwriting."

The price of our common stock could be volatile.

In recent years, there has been and may continue to be significant volatility in the market price for our common stock. See "Price Range of Common Stock." Factors such as changes in quarterly operating results, the gain or loss of significant contracts, the entry of new competitors into our markets, changes in management, announcements of technological innovations or new products by us or our competitors and general events and circumstances beyond our control could have a significant impact on the future market price of our common stock and the relative volatility of such market price. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains or incorporates by reference forward-looking statements made pursuant to the safe harbor provisions of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934 (the Exchange Act). These statements reflect management's expectations, estimates and assumptions, based on information available at the time this prospectus, or any document that is incorporated into this prospectus by reference, was prepared. These forward-looking statements include, but are not limited to, statements regarding future events, plans, goals, objectives and expectations. When used in this prospectus, the words "anticipate," "believe," "estimate," "expect," "plan," "intend," "likely," "will," "should" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements involve risks, uncertainties and other factors which may cause our actual performance or achievements to be materially different from any future results, performance or achievements expressed or implied by those statements. These risks, uncertainties and other factors include, but are not limited to, those set forth in the following sections of this prospectus:

- ""Prospectus Summary--Investment Highlights"
- "Risk Factors"
- ""Management's Discussion and Analysis of Financial Condition and Results of Operations"
- ""Business--Industry Overview," "--Strategy," "--Marketing and Customers"

and "--Competition"

Other risks may be discussed elsewhere in the documents we incorporate into this prospectus by reference. These events and uncertainties are difficult or impossible to predict accurately, and many are beyond our control.

The inclusion of forward-looking statements should not be regarded as a representation that the future expectations, estimates and assumptions we contemplate will be achieved. Furthermore, past performance in operations and share price is not necessarily predictive of future performance. We assume no obligation to release publicly the result of any revisions that may be made to any forward-looking statements to reflect events or circumstances after the date of those statements or to reflect the occurrence of anticipated or unanticipated events. You are cautioned not to rely on forward-looking statements.

USE OF PROCEEDS

We anticipate that we will receive net proceeds of approximately $96.0 million from the sale of the 2,000,000 shares of common stock we are offering, based on an assumed public offering price of $50.70 per share and after deducting underwriting discounts and commissions and estimated offering expenses payable by us. If the underwriters exercise their over-allotment option in full, we anticipate we will receive total net proceeds of approximately $235.0 million. We intend to use our net proceeds from this offering for general corporate purposes, including working capital. We will not receive any of the proceeds from the sale of common stock by the selling stockholders.

PRICE RANGE OF COMMON STOCK

Our common stock trades on the Nasdaq National Market under the symbol "CEFT." The following table sets forth, for the periods presented, the range of high and low sales prices per share of our common stock, as reported on the Nasdaq National Market.

	Common Stock Price	
	High	Low
Year ended December 31, 1999		
First Quarter	$27.96	$16.92
Second Quarter	28.25	18.79
Third Quarter	27.50	19.83
Fourth Quarter	33.50	19.38
Year ended December 31, 2000		
First Quarter	28.00	15.31
Second Quarter	29.13	18.63

Third Quarter	36.50	25.69
Fourth Quarter	48.13	33.00
Year ending December 31, 2001		
First Quarter	49.94	34.00
Second Quarter (through May 31, 2001)	51.40	37.44

On May 31, 2001, the closing price of our common stock as reported on the Nasdaq National Market was $50.70 per share. As of May 25, 2001, we had approximately 575 holders of record of common stock.

DIVIDEND POLICY

We have never paid cash dividends on our capital stock. It is our present policy to retain earnings to finance our operations and growth, and we do not expect to pay any dividends in the foreseeable future.

CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2001 and as adjusted to reflect our sale of common stock in this offering at an assumed public offering price of $50.70, after deducting underwriting discounts and commissions and estimated offering expenses payable by us. You should read this information in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and the notes to those financial statements appearing elsewhere in this prospectus.

	As of March 31, 2001	
	Actual	As Adjusted
	(in thousands)	
Long-term debt	$ 111,562	$ 111,562
Stockholders' equity:		
Common stock, $0.33 1/3 par value per share, 750,000 shares authorized; 242,274 shares issued and outstanding, actual; 244,274 shares issued and outstanding, as adjusted	80,758	81,425
Additional paid-in capital	449,417	544,794
Retained earnings and accumulated other comprehensive income	603,583	603,583
Total stockholders' equity	1,133,758	1,229,802
Total capitalization	$1,245,320	$1,341,364

SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated financial data presented below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and notes to those financial statements included and incorporated by reference elsewhere in this prospectus. The selected consolidated financial data for the years ended December 31, 1998, 1999 and 2000 have been derived from our audited consolidated financial statements, which are included in this prospectus. The selected consolidated financial data for the years ended December 31, 1996 and 1997 have been derived from audited consolidated financial statements which are not included in this prospectus. The selected consolidated financial data as of March 31, 2001 and for the three months ended March 31, 2000 and 2001 have been derived from our unaudited condensed consolidated financial statements, which are included in this prospectus. The selected consolidated financial data has been restated for all periods presented to reflect the business combinations of Concord with Digital Merchant Systems of Illinois and American Bankcard International on June 30, 1998, Electronic Payment Services on February 26, 1999, Card Payment Systems on January 31, 2000, Cash Station on August 21, 2000 and STAR on February 1, 2001, each of which was accounted for as a pooling of interests. The column "As Adjusted" reflects our sale of 2,000,000 shares in this offering at an assumed public offering price of $50.70, after deducting underwriting discounts and commissions and estimated offering expenses payable by us.

	Year Ended December 31,				
	1996	1997	1998	1999	2000
	(in thousands except per share and per transaction numbers)				
Income Statement Data:					
Revenue	$ 436,371	$ 622,573	$812,824	$ 1,060,010	$ 1,407,140
Cost of operations	288,401	421,969	552,469	735,467	1,009,954
Selling, general and administrative expenses	67,925	87,257	90,936	92,334	91,995
Acquisition expenses and restructuring charges	--	--	--	36,189	11,691
Operating income	80,045	113,347	169,419	196,020	293,500
Interest income (expense), net	(10,087)	(1,688)	2,604	16,251	37,243
Equity in earnings (loss) of subsidiary	(394)	(165)	281	--	--
Income before taxes and minority interest	69,564	111,494	172,304	212,271	330,743
Income taxes (benefit)	26,970	45,081	65,709	82,906	120,220
Minority interest in net income of subsidiary	--	--	--	124	597
Net income (loss)	$ 42,594	$ 66,413	$106,595	$ 129,241	$ 209,926
Basic earnings (loss)					

per share	$ 0.21	$ 0.30	$ 0.48	$ 0.56	$ 0.88
Diluted earnings (loss) per share	$ 0.20	$ 0.29	$ 0.46	$ 0.54(1)	$ 0.85(1)
Basic shares	207,133	222,584	224,235	231,843	239,179
Diluted shares	213,759	228,381	231,396	239,867	247,997
Other Data:					
Number of transactions processed (in millions)	3,295	4,404	5,537	6,592	8,004
Operating income per transaction(2)	$ 0.024	$ 0.026	$ 0.031	$ 0.035	$ 0.038

	As of March 31, 2001	
	Actual	As Adjusted
	(in thousands, unaudited)	
Balance Sheet Data:		
Working capital	$ 729,383	$ 825,427
Total assets	$ 1,753,313	$ 1,849,357
Long-term debt	$ 111,562	$ 111,562
Total stockholders' equity	$ 1,133,758	$ 1,229,802

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(1) Excluding acquisition and restructuring charges and related taxes, diluted earnings per share for the years ended 1999 and 2000 and for the three month periods ended March 31, 2000 and 2001 were $0.65, $0.88, $0.17 and $0.24, respectively.

(2) Amounts exclude acquisition and restructuring charges. Including such charges, operating income per transaction in 1996, 1997, 1998, 1999 and 2000 was $0.024, $0.026, $0.031, $0.030 and $0.037, respectively.

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion together with our consolidated financial statements and the notes to those financial statements, which are included in this prospectus. This prospectus contains forward-looking statements that reflect our plans, estimates and beliefs. Our actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in "Risk Factors." In addition to the other information in this prospectus, you should carefully consider the following discussion and the information set forth under "Risk Factors" and "Special Note Regarding Forward-Looking Statements" in evaluating us and our business before purchasing our common stock in this offering.

Overview

Concord EFS, Inc. is a leading, vertically integrated electronic transaction processor. We acquire, route, authorize, capture and settle virtually all types of electronic payment and deposit access transactions for financial institutions and merchants nationwide. Our primary activities consist of Payment Services, which provides payment processing for supermarkets, major retailers, petroleum dealers, convenience stores, trucking companies and independent retailers, and Network Services, which provides ATM processing, debit card processing, deposit risk management and coast-to-coast debit network access principally for financial institutions.

We recently expanded our debit network in our Network Services area through two acquisitions. On February 1, 2001, we completed our acquisition of STAR, the nation's largest PIN-secured debit network, based in Maitland, Florida. The merger was accounted for as a pooling of interests transaction in which we exchanged approximately 24.0 million shares of our common stock for all of STAR's outstanding common stock. On August 21, 2000, we completed our acquisition of Cash Station, a leading Midwest PIN-secured debit network based in Chicago, Illinois. This acquisition was accounted for as a pooling of interests transaction in which we exchanged approximately 2.5 million shares of our stock for all of the outstanding common stock of Cash Station.

Early in 2000 we completed two acquisitions in the Payment Services area. On February 7, 2000, we completed our acquisition of Virtual Cyber Systems, Inc., an Internet software development company. This acquisition, for which we paid approximately $2 million, was accounted for as a purchase transaction and was immaterial to our financial statements. On January 31, 2000, we completed our acquisition of National Payment Services Inc. d/b/a Card Payment Systems, a New York-based reseller of payment processing services. Card Payment Systems provides card-based payment processing services to independent sales organizations, which in turn sell those services to merchants. The acquisition was accounted for as a pooling of interests transaction in which we exchanged 6.2 million shares of our stock for all the outstanding shares of Card Payment Systems' common stock. We incurred acquisition costs of $0.8 million related to this transaction during the first quarter of 2000.

In the first quarter of 2001, we initiated a company-wide consolidation plan in order to address areas of operating redundancies created by our recent acquisitions. The plan includes consolidation of data centers and other facilities to eliminate redundancies, the reassignment or termination of certain employees timed to coincide with the integration of redundant processing platforms and the functional integration of the STAR organization into Concord. During the next 12 months we intend to take steps to capture synergies within our network operations and align our resources across the enterprise for greater efficiency and improved service delivery. During the first quarter of 2001, we incurred a charge of $86.4 million, net of taxes, related to our consolidation plan, including costs incurred in combining operating platforms and facilities, communications conversion costs, asset write-offs, severance and compensation costs, as well as investment banking fees and advisory, legal and accounting fees incurred in the acquisition of STAR.

As a result of our acquisition of STAR, we acquired a majority interest in Primary Payment Systems, Inc., a company providing deposit risk management services to merchants and financial institutions. We own an 85% interest in Primary Payment Systems, with the remainder owned by certain financial institutions and a credit

union service provider. Primary Payment Systems' deposit risk management services provide advance notification of potential losses associated with fraudulent checks or high risk accounts utilizing a national database currently composed of 147 million deposit accounts. This majority-owned subsidiary recently expanded its operations in the deposit risk management area through its acquisition of Wally Industries, Inc., d/b/a WJM Technologies. WJM's front-end tools which screen new deposit accounts before they are opened increase the breadth of Primary Payment Systems' deposit risk management services. Primary Payment Systems anticipates that the addition of WJM will enable it to develop more powerful fraud filters that can be extended to other markets, as well as provide additional cross-selling opportunities and augment customer retention.

The following discussion reflects the business combinations of Concord with Digital Merchant Systems of Illinois and American Bankcard International on June 30, 1998, Electronic Payment Services on February 26, 1999, Card Payment Systems on January 31, 2000, Cash Station on August 21, 2000 and STAR on February 1, 2001, each of which was accounted for as a pooling of interests. As a result, the growth in revenue discussed below reflects internal rates of growth, since each acquired company is treated as a part of Concord for all periods indicated.

Components of Revenue and Expenses

Payment Services and Network Services are our two reportable business segments. These business units are managed separately because they offer distinct products for different end users. All of our revenue is generated in the United States, and no single customer of Concord accounts for a material portion of our revenue. Over 75% of our total revenue is tied to contracts with terms of between three and five years.

The majority of our revenue (60.7% in the first quarter of 2001, 62.8% in 2000 and 60.9% in 1999) is generated from fee income related to Payment Services. Revenue from Payment Services primarily includes discount fees charged to merchants, which are a percentage of the dollar amount of each credit card transaction we process, as well as a flat fee per transaction. The discount fee is negotiated with each merchant and typically constitutes a bundled rate for the transaction authorization, processing, settlement and funds transfer services we provide. The balance of Payment Services revenue is derived from transaction fees for processing debit card and EBT card transactions, check verification and authorization services and sales of POS terminals. We recognize this revenue at the time of the transaction.

The other principal component of our revenue derives from Network Services (39.3% in the first quarter of 2001, 37.2% in 2000 and 39.1% in 1999). Network Services revenue consists of processing fees for driving and monitoring ATMs, processing fees for managing debit card records and access and switching fees for network access. We recognize this revenue at the time of the transaction.

The following table is a listing of revenue by segment for the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,	
	1998	1999	2000	2000	2001
	(in millions)			(in millions)	
Payment Services	$478.9	$ 645.5	$ 883.9	$190.4	$227.8
Network Services	333.9	414.5	523.2	112.5	147.8

Total	$812.8	$1,060.0	$1,407.1	$302.9	$375.6

Cost of operations includes all costs directly attributable to our providing services to our customers. The most significant component of cost of operations is interchange and assessment fees, which are amounts charged by the credit and debit card networks. Interchange and assessment fees are billed primarily as a percentage of dollar volume processed and, to a lesser extent, as a transaction fee. Cost of operations also

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includes telecommunications costs, personnel costs, occupancy costs, depreciation, the cost of equipment leased and sold, the cost of operating our debit network and other miscellaneous merchant supplies and services expenses. We strive to maintain a highly efficient operational structure, which includes efficient marketing, volume purchasing arrangements with equipment and communications vendors and direct membership by our subsidiary, EFS National Bank, in bank card associations and major debit card networks.

The following table lists cost of operations by segment for the periods indicated:

	Year Ended December 31,			Three Months Ended March 31,	
	1998	1999	2000	2000	2001
	(in millions)			(in millions)	
Payment Services	$357.6	$487.6	$ 705.1	$150.8	$185.9
Network Services	194.9	247.9	304.9	71.7	84.4
Total	$552.5	$735.5	$1,010.0	$222.5	$270.3

Our selling, general and administrative expenses include certain salaries and wages and other general administrative expenses (including amortization costs). These costs are not allocated to the reportable segments.

Results of Operations

The following table shows, for the periods indicated, the percent of revenue represented by certain items on our consolidated statements of income:

	Year Ended December 31,			Three Months Ended March 31,	
	1998	1999	2000	2000	2001
Revenue	100.0%	100.0%	100.0%	100.0%	100.0 %
Cost of operations	68.0	69.4	71.8	73.5	71.9
Selling, general and					

administrative expenses........	11.2	8.7	6.4	7.2	6.3
Acquisition and restructuring charges........................	--	3.4	0.9	0.3	33.5
Operating income (loss).........	20.8	18.5	20.9	19.0	(11.7)
Interest income, net............	0.3	1.5	2.6	2.5	3.3
Equity in earnings of subsidiary.....................	0.1	--	--	--	--
Income (loss) before taxes and minority interest..............	21.2	20.0	23.5	21.5	(8.4)
Income taxes (benefit)..........	8.1	7.8	8.6	7.8	(1.5)
Net income (loss)...............	13.1%	12.2%	14.9%	13.7%	(6.9)%

First Quarter 2001 Compared to First Quarter 2000

Revenue increased 24.0% to $375.6 million in 2001 from $302.9 million in 2000. In 2001, Payment Services accounted for 60.7% of revenue, and Network Services accounted for 39.3%. Revenue from Payment Services increased 19.7%, due primarily to increased transaction volumes. The increased volumes resulted from the addition of new merchants and the widening acceptance of debit and EBT card transactions at new and existing merchants. Network Services revenue increased 31.3% over 2000 as a result of an increase in the number of ATMs driven, the addition of new network and processing customers and increases in transaction volumes. The increased transaction volumes resulted primarily from increased use of our network debit cards for payment at the point of sale.

Cost of operations decreased in 2001 to 71.9% of revenue compared to 73.5% in 2000. This decrease was due primarily to a decrease, as a percent of revenue, in certain operating costs, such as telecommunications, payroll expenses and depreciation and amortization expenses.

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Selling, general and administrative expenses decreased, as a percent of revenue, to 6.3% in 2001 from 7.2% in 2000. Overall, selling, general and administrative expenses increased to $23.8 million from $21.8 million in the first quarter of 2000.

Acquisition expenses and restructuring charges increased to $125.4 million in 2001 from $0.8 million in 2000. In the first quarter of 2001, we initiated a company-wide consolidation plan in order to address areas of operating redundancies created by our recent acquisitions. The plan includes consolidation of data centers and other facilities to eliminate redundancies, the reassignment or termination of certain employees timed to coincide with the integration of redundant processing platforms and the functional integration of the STAR organization into Concord. During the next 12 months we intend to take steps to capture synergies within our network operations and align our resources across the enterprise for greater efficiency and improved service delivery. During the first quarter of 2001, we incurred a charge of $86.4 million, net of taxes, related to our consolidation plan, including costs incurred in combining operating platforms and facilities, communications conversion costs, asset write-offs, severance and compensation costs, as well as investment banking fees and advisory, legal and accounting fees incurred in the acquisition of STAR.

We accrued charges of $63.9 million for combining various STAR processing platforms and facilities that will be closed and consolidated. We also accrued

$16.0 million for duplicate products and systems such as abandoned products and internal systems that do not support our new network strategy. Various data center services contracts were terminated as part of the overall restructuring, for which we accrued $19.1 million. The consolidation of products, services, processing platforms and facilities created personnel duplications. As a result, we accrued compensation and severance packages of $9.8 million to diminish redundancies and consolidate operational groups. In addition to these charges we also incurred legal, accounting and advisory fees totaling $15.6 million in connection with the STAR merger.

Excluding acquisition and restructuring charges, operating income as a percent of revenue increased to 21.7% in 2001 from 19.3% in 2000. This increase resulted from improved economies of scale and declining selling, general and administrative expenses as a percentage of revenue.

Net interest income improved as a percent of revenue to 3.3% in 2001 compared to 2.5% in 2000. The improvement was the result of returns we received on our investing available cash from operations, which increased interest income by 56.5% over 2000.

Our overall tax rate decreased to (17.9%) for the three months ended March 31, 2001 compared to 36.2% for the same period in 2000. Excluding acquisition and restructuring charges, the tax rate was 35.5% in 2001 compared to 35.9% for the same period in 2000.

Net income, as a percent of revenue, decreased to (6.9%) for the three months ended March 31, 2001 from 13.7% for the same period in 2000. The primary factor in this net margin decrease was the acquisition and restructuring charges. Excluding these charges and related tax items, net income, as a percent of revenue, increased to 16.1% for the three months ended March 31, 2001 compared to 13.9% for the same period in 2000.

Calendar 2000 Compared to Calendar 1999

Revenue increased 32.7% to $1,407.1 million in 2000 from $1,060.0 million in 1999. In 2000, Payment Services accounted for 62.8% of revenue, and Network Services accounted for 37.2%. Revenue from Payment Services increased 36.9%, due primarily to increased transaction volumes and cross-selling settlement processing to several of our higher volume merchants who were previously using only acquirer processing services. The increased volumes resulted from the addition of new merchants and the widening acceptance of debit and EBT card transactions by new and existing merchants. Network Services revenue increased 26.2% over 1999 as a result of an increase in the number of ATMs driven, the addition of new network and processing customers, increases in transaction volumes and the full year impact of in-house processing of our signature debit service. The increased transaction volumes resulted primarily from increased use of our network debit cards for payment at the point of sale.

Cost of operations increased in 2000 to 71.8% of revenue compared to 69.4% in 1999. This increase was due primarily to lower-margin revenue that was added between the fourth quarter of 1999 and the third quarter of 2000. This lower-margin revenue resulted principally from cross-selling settlement processing to several of our higher volume merchants, who command lower transaction pricing. Lower-margin revenue was also the result of additional interchange fees due to this cross-selling and processing our signature debit service in-house. This new, lower-margin revenue was partially offset by a decrease, as a percent of revenue, in certain other operating costs, such as payroll expenses and depreciation and amortization expenses.

Selling, general and administrative expenses decreased, as a percent of revenue, to 6.4% in 2000 from 8.7% in 1999. Within selling, general and administrative expenses, increases in salaries and wages were offset by lower legal and other expenses.

Acquisition expenses and restructuring charges decreased to $11.7 million in 2000 from $36.2 million in 1999. The charges incurred in 2000 included $3.0 million in advisory, legal and accounting fees incurred in the acquisitions of Card Payment Systems and Cash Station. An additional $4.2 million in compensation and severance costs and $4.5 million in network deconversion costs were incurred in the Cash Station acquisition.

Excluding acquisition and restructuring charges, operating income as a percent of revenue declined slightly to 21.8% in 2000 from 21.9% in 1999, due to lower-margin revenue. This lower-margin revenue, which resulted from lower revenue per transaction and additional interchange fees, partially masked an increase in operating income per transaction, which resulted from improved economies of scale and declining selling, general and administrative expenses.

Excluding acquisition and restructuring charges, operating income per transaction increased to $0.038 per transaction in 2000 from $0.035 per transaction in 1999, an increase of 8.6% year over year. This growth in operating income per transaction was the result of declines in our cost per transaction outpacing declines in our revenue per transaction.

Net interest income improved as a percent of revenue to 2.6% in 2000 compared to 1.5% in 1999. This improvement was the continued result of our using proceeds from our June 1999 stock offering to reduce our debt by $146.1 million at that time, which lowered interest expense by 17.2% as compared to 1999. The improvement was also the result of returns we received on our investing available cash from operations plus the remaining $61.7 million of the stock offering proceeds in various securities, which increased interest income by 63.6% over 1999.

Our overall tax rate decreased to 36.3% in 2000 from 39.1% in 1999. Excluding the acquisition charges and related tax component write-off, the tax rate was 36.2% in 2000 compared to 36.7% in 1999.

Net income, as a percent of revenue, increased to 14.9% in 2000 from 12.2% in 1999. The primary factor in this net margin improvement was the decrease in acquisition and restructuring charges. Excluding these charges and related tax items, net income, as a percent of revenue, increased to 15.5% in 2000 compared to 14.8% in 1999.

Calendar 1999 Compared to Calendar 1998

Revenue increased 30.4% to $1,060.0 million in 1999 from $812.8 million in 1998. In 1999, Payment Services accounted for 60.9% of revenue, and Network Services accounted for 39.1%. Revenue from Payment Services increased 34.8%, due primarily to increased transaction volumes and cross-selling settlement processing to several of our higher volume merchant clients. The increased volumes resulted from the addition of new merchants and the widening acceptance of debit and EBT card transactions at new and existing merchants. Network Services revenue increased 24.1% over 1998 as a result of an increase in the number of ATMs driven, the addition of new network and processing customers, increases in transaction volumes and in-

house processing of our signature debit service. The increased transaction volumes resulted primarily from increased use of our network debit cards for payment at the point of sale.

Cost of operations increased in 1999 to 69.4% of revenue compared to 68.0% in 1998. This increase was due primarily to the addition of lower-margin revenue beginning in the fourth quarter of 1999 from cross-selling settlement processing to several of our higher volume merchants who command lower transaction pricing. Lower-margin revenue was also the result of additional interchange fees due to cross-selling and processing our signature debit service in-house. This new, lower-margin revenue was largely offset by a decrease, as a percent of revenue, in certain other operating costs, such as payroll expenses and depreciation and amortization expenses.

Selling, general and administrative expenses decreased, as a percent of revenue, to 8.7% in 1999 from 11.2% in 1998. Although these expenses were up on an absolute basis as a result of increases in salaries and wages, they were partially offset by lower legal and other expenses.

In 1999 we incurred acquisition and restructuring charges of $36.2 million relating to our acquisition of Electronic Payment Services. Acquisition-related expenses were $10.5 million, consisting primarily of investment banking fees, as well as legal, accounting, registration and other fees and expenses. The remaining $25.7 million was for restructuring charges as described below, in millions:

Communications conversion costs	$12.4
Asset write-offs	8.2
Signature debit conversion to in-house	2.8
Severance and other expenses	2.3
Total	$25.7

In order to create a single communications infrastructure for our transaction processing businesses, we adopted a plan to convert Electronic Payment Services' communications network to Concord's and accrued $12.4 million related to this conversion plan.

We incurred asset write-offs of $8.2 million. We de-emphasized certain geographic areas of the MAC network, causing impairment to the related intangible assets of approximately $2.8 million. In addition, after review of certain Electronic Payment Services customer lists and the undiscounted cash flows estimated to be generated by the related intangible assets, we recognized an impairment loss of approximately $3.6 million. The remainder of the write-off was for assets that are no longer used or supported under revised marketing and business plans.

Prior to its acquisition by Concord, Electronic Payment Services used a third party for its signature debit processing services. During 1999 we adopted a plan to take this process in-house, incurring additional restructuring charges of $2.8 million.

Relating to our reallocation of resources in connection with the MAC network described above, we charged approximately $0.2 million for Electronic Payment Services employees who were terminated as the related facilities were closed. We incurred an additional charge of $2.1 million for certain other Electronic Payment Services employees who were terminated due to the reorganization of management of the combined company.

Excluding acquisition and restructuring charges, operating income as a percent of revenue increased to 21.9% in 1999 from 20.8% in 1998 due to declines in selling, general and administrative expenses as a percent of revenue.

Operating income (excluding acquisition and restructuring charges) increased on a per transaction basis to $0.035 per transaction in 1999 from $0.031 per transaction in 1998, an improvement of 12.9% year over year. This growth in operating income per transaction was the result of declines in our cost per transaction outpacing declines in our revenue per transaction.

Net interest income increased as a percent of total revenue to 1.5% in 1999 compared to 0.3% in 1998. This improvement resulted primarily from two factors. Interest income increased by 47.4% over 1998 due to returns received on our investment in various securities of available cash flow from operations plus approximately $61.7 million in proceeds from our June 1999 stock offering. We also reduced our long-term and short-term debt by $146.1 million with proceeds from the same offering, producing a 24.0% decrease in interest expense in 1999 compared to 1998.

Our overall tax rate increased to 39.1% in 1999 from 38.1% in 1998. This increase resulted from certain nondeductible acquisition costs and a tax component write-off of $1.3 million incurred for impaired state tax net operating losses of Electronic Payment Services in 1999. Excluding the pre-tax charges and the tax component write-off, our tax rate decreased to 36.7% in 1999 from 38.1% in 1998.

Net income, as a percent of revenue, decreased in 1999 to 12.2% from 13.1% in 1998. The primary factors in this decrease in net margin were the acquisition and restructuring charges related to the acquisition of Electronic Payment Services and the tax rate increase in 1999. Excluding these charges and related tax items, net income as a percent of revenue increased to 14.8% in 1999 compared to 13.1% in 1998.

Liquidity and Capital Resources

We have consistently generated significant cash resources from operating activities. In 2000, 1999 and 1998 operating activities generated cash of $333.5 million, $236.9 million and $193.8 million, respectively. Cash generated from operating activities may vary due to fluctuations in accounts receivable and accounts payable balances which are affected by increases in settlement volume from one year to the next, as well as the timing of settlements.

We generally hold a significant amount of cash and securities because of the equity requirements of the credit card associations, which are calculated on settlement dollar volume, and because of the liquidity requirements associated with conducting settlement operations and owning ATM machines. During fiscal 2000, 1999 and 1998 we invested approximately $171.5 million, $191.4 million and $88.0 million, respectively, in securities, net of sales and maturities. We also invested $87.1 million, $67.6 million and $70.7 million, respectively, in capital expenditures, which were primarily for communications equipment, POS terminals, new computer equipment and capitalized software. We expect capital expenditures in the current year to be comparable to that of prior years.

In addition to net cash provided by operating activities, we have historically financed ourselves through issuances of equity, the exercise of stock options and borrowings. We issued 10.1 million shares of common stock in June 1999 and received proceeds of $207.8 million. Of those proceeds, we invested $61.7 million in securities and reduced long-term and short-term debt by $146.1 million.

Stock issued upon exercises of options under Concord's incentive stock option plan provided $26.9 million of additional capital in 2000. As of May 25, 2001, there were approximately 25.5 million stock options outstanding, approximately 46.6% of which were exercisable. Although we cannot estimate the timing or amount of future cash flows from the exercise of stock options, we expect this to continue to be a source of funds.

We have lines of credit with financial institutions totaling $55.0 million. As of December 31, 2000 and 1999, no amounts were outstanding on these lines of credit. As of December 31, 2000, we had $99.0 million of notes payable outstanding to, and $23.7 million in unused lines of credit with, the Federal Home Loan Bank. In addition to these advances, notes payable of $14.3 million were outstanding.

We hold securities with a market value of approximately $649.4 million that are available for operating needs or as collateral to obtain additional short-term financing, if needed. As of year-end, securities carried at approximately $110.4 million were pledged as collateral for the Federal Home Loan Bank advances.

Net loans made by our bank subsidiaries as of December 31, 2000 and 1999 were $78.7 million and $30.9 million, respectively.

Since 1998, we have made several strategic acquisitions. Our February 2001 acquisition of the STAR network is an example of our practice of using our stock to make these acquisitions. Any future acquisitions may involve the issuance of our stock or payment of cash. If additional acquisitions are made, we may incur acquisition costs and restructuring charges in connection with combining operations as in the case of STAR, Cash Station and Electronic Payment Services.

We believe that our available credit and cash generated by operations are adequate to meet our capital and operating needs.

Effects of Inflation

Our assets are primarily monetary, consisting of cash, assets convertible into cash, securities owned and receivables. Because of their liquidity, these assets are not significantly affected by inflation. We believe that replacement costs of equipment, furniture and leasehold improvements will not materially affect operations. However, the rate of inflation affects our expenses, such as those for employee compensation and telecommunications, which may not be readily recoverable in the price of services offered by us.

Quantitative and Qualitative Disclosures about Market Risk

Our securities are subject to risk resulting from interest rate fluctuations to the extent that there is a difference between the amount of our interest-bearing assets and the amount of interest-bearing liabilities that are prepaid, mature or reprice in specific periods. This risk is mitigated by the fact that approximately 82.6% of the market value of securities owned were funded through equity rather than debt. The principal objective of our asset/liability activities is to provide maximum levels of net interest income while maintaining acceptable levels of interest rate and liquidity risk and facilitating our funding needs. We use an interest rate sensitivity model as the primary quantitative tool in measuring the amount of interest rate risk that is present at the end of each month.

The following tables provide comparative information about our financial instruments that are sensitive to changes in interest rates. These tables present principal cash flows and related weighted-average interest rates by expected maturity dates. Additionally, we have assumed our securities are similar enough to aggregate them for presentation purposes. If tax-equivalent yields of municipal securities had been used, the weighted-average interest rates would have been higher.

	December 31, 2000							
	2001	2002	2003	2004	2005	Thereafter	Total	Fair Value at December 31, 2000
	(in millions, except for percentages)							
Assets:								
Securities available for sale	$ 36.7	$20.0	$41.5	$24.5	$13.0	$577.1	$712.8	$625.6
Average interest rate	6.3%	6.4%	6.4%	6.5%	5.0%	6.6%	--	--
Loans	$ 6.6	$ 3.2	$ 1.4	$ 0.6	$ 1.3	$ 66.5	$ 79.6	$ 73.9
Average interest rate	9.6%	9.9%	6.4%	10.5%	8.8%	8.1%	--	--
Liabilities:								
Deposits	$106.8	$10.2	$ 6.2	$ 0.8	$ 1.8	--	$125.8	$126.1
Average interest rate	4.9%	6.6%	6.8%	6.4%	6.8%	--	--	--
Long-term debt	$ 3.4	$ 3.4	$17.5	--	--	$ 89.0	$113.3	$111.1
Average interest rate	6.2%	6.2%	5.8%	--	--	5.6%	--	--

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	December 31, 1999							
	2000	2001	2002	2003	2004	Thereafter	Total	Fair Value at December 31, 1999
	(in millions, except for percentages)							
Assets:								
Securities available for sale	$71.8	$38.9	$32.5	$22.2	$25.0	$290.7	$481.1	$447.4
Average interest rate	6.6%	6.7%	6.7%	6.2%	6.4%	5.9%	--	--
Loans	$ 6.3	$ 0.5	$ 0.1	$ 1.8	$ 0.7	$ 22.0	$ 31.4	$ 30.1
Average interest rate	7.6%	8.0%	9.4%	6.7%	10.3%	7.7%	--	--
Liabilities:								
Deposits	$90.9	$ 6.5	$ 2.6	$ 0.2	$ 0.3	--	$100.5	$100.6
Average interest rate	4.2%	5.7%	5.6%	5.3%	5.8%	--	--	--
Long-term debt	$ 3.4	$ 3.4	$21.3	$17.5	--	$ 47.0	$ 92.6	$ 89.8
Average interest rate	6.4%	6.4%	6.1%	5.9%	--	5.4%	--	--

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BUSINESS

Overview

Concord EFS, Inc. is a leading, vertically integrated electronic transaction processor. We acquire, route, authorize, capture and settle virtually all types of electronic payment and deposit access transactions for financial institutions and merchants nationwide. Our primary activities consist of Network Services, which provides ATM processing, debit card processing, deposit risk management and coast-to-coast debit network access principally for financial institutions, and Payment Services, which provides payment processing for supermarkets, major retailers, petroleum dealers, convenience stores, trucking companies and independent retailers. In 2000, we processed approximately 8.0 billion transactions. We are ranked as a market leader in several important categories, including:

in our Network Services business:

- #1 in the number of ATMs driven--we drive 16% of all ATMs in the United States,
- #1 in the number of ATMs carrying a specific regional debit network brand--more than 50% of the ATMs in the United States carry our STAR, MAC or Cash Station brand, and
- #1 in the number of PIN-secured debit payment transactions processed through a debit network--we process 50% of all PIN-secured debit payment transactions through our combined debit network, and

in our Payment Services business:

- #1 in the number of PIN-secured debit payment transactions acquired by a payment processor--we acquire 20% of all PIN-secured debit payment transactions,
- #4 in the total number of credit, debit and EBT card payment transactions processed--we process 9% of all credit, debit and EBT card payment transactions, and
- #4 in the total dollar volume of credit and signature debit card payment transactions processed--we process 6% of all dollar volume for credit and signature debit card payments.

We have attained our leadership position as a result of being one of the few fully integrated electronic transaction solutions providers and by focusing on selected industries moving rapidly to cashless commerce. Our portfolio of debit, credit, EBT, check and ATM services allows us to offer virtually any electronic payment or deposit access product needed by merchants and financial institutions. We believe that our strong internal growth rates and high rate of recurring revenues reflect our ability to satisfy and retain our existing customers and to acquire new customers.

In 2000, our revenue was $1,407.1 million and our operating income was $293.5 million. Between 1996 and 2000, our operating income grew at a compound annual rate of 38.4%. Over this same period, our operating margin expanded from 18.3% to 20.9%.

Industry Overview

The electronic transaction processing industry provides financial institutions and other ATM deployers with processing and network access services and provides merchants with credit, debit and EBT payment processing services. Independent sources report the following trends in the U.S. processing industry:

Growth of PIN-secured debit at the point of sale. PIN-secured debit transactions at the point of sale are estimated to have grown at a compound annual rate of 36% between 1995 and 2000 (as projected for 2000) to a total of 3.6 billion transactions. We believe this growth is due to the increased acceptance of PIN-secured debit at merchant locations and these merchants' preference for PIN-secured debit due to its lower cost per transaction relative to other non-cash payment methods. According to a cost study performed in 2000 by the Food Marketing Institute, the average cost of a PIN-secured debit transaction is $0.34, compared to $0.36 for checks and $0.72 for credit and signature debit transactions. The Nilson Report, Issue No. 726, projects that PIN-secured debit card transactions will grow at a compound annual rate of 18%, reaching 6.2 billion transactions in 2005.

Percent of United States Payment Transactions

[PERCENT OF UNITED STATES PAYMENT TRANSACTIONS CHART]

Opportunity to replace cash and check payments. The percentage of total payment transactions in which cash or checks were used as the method of payment decreased from 77% in 1995 to 72% in 1999 and is expected to further decrease to 61% by 2005. We believe that PIN-secured and signature debit transactions are viable alternatives to these payment methods. Since the absolute number of transactions utilizing cash and check payment methods is still sizable (for example, it is estimated that in 1999, 29.4 billion transactions were paid by check and 46.6 billion transactions were paid in cash), a significant opportunity exists for PIN-secured and signature debit payments to replace these payment methods.

ATM usage. ATM transaction volume is estimated to have grown at a compound annual rate of 6% between 1995 and 2000 (as projected for 2000) to a total of 13.2 billion transactions. The number of installed ATMs in the United States is estimated to have grown to 273,000 in 2000 (as projected for 2000) from 122,706 in 1995, a 17% compound annual growth rate. The number of off-premise ATMs is estimated to have grown 33% during the same period. We believe this growth has been largely driven by the enhanced profit potential at off-premise locations, resulting from ATM surcharging and the lower cost of limited function machines installed off-premise. Off-premise locations refer to sites other than bank branches.

Consolidation of regional debit networks. The number of regional debit networks in the United States is estimated to have fallen from approximately 100 in 1989 to approximately 35 in 2001 (as projected for 2001). These debit networks began as bank-owned institutions serving financial institutions and their customers in relatively small geographic regions. As acceptance increased and as financial institutions merged, competing networks also merged to create multi-state networks with broad brand coverage. This consolidation allows networks to extend their geographical reach and serve financial institutions, consumers and merchants nationwide.

Increased use of credit cards. Consumer expenditures on credit cards are estimated to have increased to $1,274 billion in 2000 (as projected for 2000) from $744 billion in 1995, representing a compound annual growth rate of 11%. The Nilson Report, Issue No. 730, projects that credit card purchase volume will continue to grow at a compound annual rate of 8% over the next five years, reaching $1,905 billion in 2005.

Demographic trends. In 1999, STAR commissioned a survey of approximately 8,500 consumers which was conducted by The Applied Management & Planning Group, an independent marketing research firm. According to the study, consumers between the ages of 21 and 44 are the greatest users of ATMs and PIN-secured debit for payment, with greatest usage among consumers age 25 to 34. As these consumers age, we expect that they will continue to use the payment technology to which they have grown accustomed, while younger consumers will begin using ATMs and PIN-secured debit payments as their age and income increase.

Strategy

Our strategy is to grow our Network Services and Payment Services businesses by providing a fully integrated range of processing services at competitive prices targeted to select markets with high growth characteristics. We have developed and continue to pursue the following initiatives to capitalize on our competitive position and increase our share of the market for transaction processing services:

- Focus on markets which are switching rapidly to electronic payment cards. We target markets in which the use of cash and checks has historically been high, such as supermarkets and gas stations. We believe that these markets will grow faster than the overall electronic payment processing industry in the acceptance and usage of credit and debit cards.

- Utilize a multi-faceted sales approach to target selected vertical markets. We seek to penetrate our selected markets through a segmented sales approach in which 50 corporate sales people sell directly to medium and large companies, 400 independent sales people sell to small and medium sized companies, and 800 third party independent sales organizations and agent banks sell to smaller merchants. Our direct sales force is organized along key customer industry lines with specialization in the petroleum, supermarket, major retail and hospitality industries. We believe that this vertical sales approach provides us with broad access to potential new customers.

- Provide a fully integrated range of services. We believe that our vertically integrated structure allows us to be a highly efficient provider of electronic payment processing services. By providing a wide range of relevant services, we are able to customize services, to offer competitive prices and to capitalize on the complete revenue opportunity with each of our clients. Further, for PIN-secured debit transactions for which we are both the acquiring processor and the debit card processor, we are able to capture all of the applicable fees associated with each transaction, thereby maximizing our per transaction revenue opportunity.

- Cross-sell our services to existing clients. With the acquisitions of STAR and Cash Station, we now provide network access to 6,200 financial institution customers. This creates an opportunity to increase revenue and profits by cross-selling our ATM processing and debit card processing products to these existing financial institution customers, especially STAR and Cash Station members, which are under-penetrated with our processing services as compared to MAC network members.

- Leverage our PIN-secured debit infrastructure. As a coast-to-coast debit network, we believe that we have significant opportunities to add additional services on our network. For example, we believe that most Internet-based transactions are currently fulfilled using established credit card payment methodologies. As the use of PIN-secured debit cards for retail purchases continues to rise, we believe that debit card usage on the Internet will also increase. We are also developing services to take advantage of our existing ATM network and card base, such as person-to-person payments and advertising distribution via ATMs.

- Develop new products and services to meet market needs. We strive to offer our customers new payment alternatives and other products that will help them reduce their costs or improve revenues. Examples include electronic check conversion, which is designed to reduce the number of checks written for payment, and gift cards and loyalty programs, which are value-added services to increase sales.

- Maintain a highly-efficient operating structure. We strive to maintain a highly-efficient operating structure, including an emphasis on low overhead and cost control efforts. Additionally, through our banking subsidiary, EFS National Bank, we are able to participate directly in bank card associations and regional and national ATM and debit card networks, to cost-effectively settle electronic transactions and to substantially reduce our automated clearing house (ACH) and wire transfer fees. We have been successful in leveraging the efficiency of our operating structure and efficiency improvements in telecommunications and other technologies. Between 1998 and 2000, we have improved our operating income per transaction at a compound annual rate of 10.7%, excluding acquisition and restructuring charges.

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- Seek selective acquisitions. We will continue to look for opportunities to grow our business through selective acquisitions that will allow us to increase our customer base, increase profitable transaction volume and reduce costs. For example, the acquisitions of STAR and Cash Station enabled us to increase our volume of PIN-secured debit transactions at the point of sale. We have also increased our volume of credit transactions processed through the acquisition of Card Payment Services.

Services

Network Services. Network Services includes terminal driving and monitoring for ATMs, transaction routing and authorization via the combined STAR, MAC and Cash Station debit network as well as other debit networks, deposit risk management and real-time card management and authorization for PIN-secured debit and signature debit cards. In addition, we operate the network switch that connects a coast-to-coast network of ATMs and POS locations that accept debit cards issued by our member financial institutions. Our network access services include transaction switching and settlement. In 2000, we processed 1.8 billion PIN-secured debit transactions and 3.2 billion ATM transactions.

Our debit network has been built primarily through the acquisition of a number of regional debit networks, giving us the only non-bankcard association, coast-to-coast debit network. In 1999, through our acquisition of Electronic

Payment Services, we acquired the MAC network, which is concentrated in the Northeastern United States. In 2000, we acquired the Cash Station network, which is concentrated in the Midwest. Most recently, in February 2001, we acquired STAR, whose network spans the Western, Southwestern and Southeastern United States. As a result of these acquisitions, our 6,200 financial institution customers deploy over 180,000 ATMs nationwide that carry at least one of our brands (STAR, MAC or Cash Station).

In addition, through the estimated 800,000 branded POS locations connected to our combined network, we switch 50% of the total United States PIN-secured debit transactions at the point of sale. We believe that we enjoy a significant competitive advantage by owning a coast-to-coast debit network with the strength of the STAR brand that allows us to effectively cross-sell our services to both Network Services and Payment Services customers.

As a result of our acquisitions of STAR, MAC and Cash Station, we can now capture all of the fees associated with a PIN-secured debit payment transaction, as illustrated below.

[graphic illustrating fee opportunity in a PIN-secured debit payment transaction]

As shown, for PIN-secured debit transactions using our combined STAR, MAC and Cash Station debit network and for which we are both the acquiring processor and the debit card processor, we receive (1) a fee from the merchant for acquiring the transaction, (2) a network acquirer fee from the merchant plus a fee from the card issuing financial institutions for running the transaction through our network switch, and (3) a fee from the card issuer for obtaining the authorization. For PIN-secured debit transactions which use our network, but where we do not have an acquiring relationship with the merchant, we still earn a network acquirer fee plus a fee for switching the transaction through our network. Most other payment processors do not have the ability that we do to earn all of these fees on each transaction.

We hold an 85% ownership interest in Primary Payment Systems, which we believe is an industry leader in deposit account fraud detection systems. Through Primary Payment Systems, we have extended our services to provide deposit risk management services to our customers. Our deposit risk management products will provide the financial services and retail industries with comprehensive tools to reduce deposit account and securities account fraud and its related expense. Primary Payment Systems' products are marketed to financial institutions directly by Primary Payment Systems as well as through our STAR network. Primary Payment Systems also provides us with access to a number of financial institution customers who are customers of Primary Payment Systems but not our debit network. Primary Payment Systems recently increased the breadth of its deposit risk management services with the acquisition of Wally Industries, Inc., d/b/a WJM Technologies. WJM provides front-end tools to help financial institutions validate and protect against fraudulent deposit accounts before they are opened and activated. Through its Early Warning(R) software product, WJM screens new banking customer relationships. Primary Payment Systems anticipates that the addition of WJM will enable it to develop more powerful fraud filters that can be extended to other markets, as well as provide additional cross-selling opportunities and augment customer retention.

Payment Services. Payment Services provides the systems and processing that allow retail clients to accept virtually any type of electronic payment, including all card types--credit, debit, EBT, prepaid and proprietary cards--as well as a variety of check-based options. We focus on providing payment processing services to selected segments, with specialized systems designed for supermarkets, gas stations, convenience stores and restaurants. In 2000, we processed 3.0 billion of these payment transactions. Payment Services also includes providing payment cards that enable drivers of trucking companies to purchase fuel and obtain cash advances at truck stops. Our services are completely turn-key, providing merchants with POS terminal equipment, transaction routing and authorization, settlement, funds movement and sponsorship into all credit card associations (such as VISA and MasterCard) and debit networks (such as STAR, Pulse and NYCE).

We have benefited from the shift in payments from cash and checks to debit cards and EBT. We have also realized growth in transactions as a result of our merchants expanding into additional locations and the growth in our independent sales organization partners. We believe our end-to-end product has provided us with a competitive advantage. For PIN-secured debit transactions for which we are both the acquiring processor and the debit card processor, we are able to capture all of the applicable fees associated with each transaction, thereby maximizing our per transaction revenue opportunity. We believe we are the leading provider of payment services to the grocery and petroleum industries.

As a fully integrated transaction processor, we are able to provide our Payment Services customers with all of these services:

[graphic illustrating services Concord provides its Payment Services customers]

- Equipment--We sell or lease POS terminal equipment through volume purchasing arrangements with equipment vendors.

- Front-End/Software--We provide the systems and software for POS applications that support a variety of non-cash payment types, including credit, debit, EBT, check authorization, electronic check conversion and gift cards.

- Communications Network--We manage and monitor the telecommunications networks that connect the terminals with our host and with the credit, debit and EBT gateways connected to us. We support all major telecommunications options, including frame relay, dial-up, satellite, wireless and DSL.

- Transaction Authorization--We connect to all major credit card associations, debit networks and magnetic-stripe EBT programs, allowing us to route transactions to the appropriate network for authorization and then relay this information back to the terminal to complete the transaction.

- Merchant Accounting--We perform the merchant accounting function which aggregates transaction information by merchant for submission to the appropriate networks and for merchant-level settlement and reporting.

- Settlement/Reporting--The credit card associations settle with our subsidiary EFS National Bank, which acts as the merchant's sponsoring bank.

- Funds Movement--Through EFS National Bank, we move the funds from the networks to the merchant's bank via ACH transfers.

We believe that our ownership of EFS National Bank provides us with a number of competitive advantages in Payment Services:

- We are a member of the credit and debit card associations and therefore do not have to pay another financial institution to sponsor us.

- We settle our transactions directly through the Federal Reserve and thus do not have to pay a third-party vendor.

- We perform services such as ACH and wire transfer internally and therefore do not have to pay another financial institution for such services.

Marketing and Customers

We market our services and products on a nationwide basis to supermarkets, gas stations, convenience stores, restaurants, independent retailers, financial institutions and trucking companies. We market both directly through our internal sales force and indirectly through independent sales organizations and their representatives. Our sales force includes 50 corporate sales people who sell directly to medium and large companies, 400 independent sales people who sell to small and medium sized companies and 800 third party independent sales organizations and agent banks who sell to smaller merchants. Our strategy is to use our in-house marketing expertise to target the large to mid-sized companies within these selected industries and to use the extensive market penetration of independent sales organizations to extend our sales reach into the small, independent firms nationwide. Our relationship with independent sales organizations was augmented by our acquisition, early in 2000, of Card Payment Systems, which provides card-based payment processing services to independent sales organizations.

As an integrated services provider, we have natural cross-selling opportunities within our client base. We acquired Electronic Payment Services in 1999, Cash Station in 2000 and STAR in 2001. Our acquisition of Electronic Payment Services granted us the opportunity to cross-sell settlement processing services to the approximately 80,000 merchant customer locations that primarily received only authorization services from Electronic Payment Services. Our acquisitions of Cash Station and STAR increased our client base to an estimated 800,000 branded POS locations and 6,200 financial institution customers, and afford us the opportunity to cross-sell ATM and card processing services to those Cash Station and STAR POS locations and financial institutions that primarily use third-party processors or process internally.

We market our debit network services under three different brand names: STAR, MAC and Cash Station. We intend to consolidate all of our brands under the STAR brand name by 2004. We believe this will add to the name recognition of STAR as a coast-to-coast EFT brand.

We have historically had success in marketing through key trade association relationships, such as our endorsement by the National Grocers Association as the recommended provider of electronic services to grocers, and our partnership with the Food Marketing Institute to develop and promote new payment products to the supermarket industry. Management is committed to the cultivation of such trade association relationships and the development of arrangements with other service providers.

We are also an authorized issuer of payment cards and processor of card transactions with the major truck stop chains, which provides a substantial advantage in selling our card payment systems to trucking companies. Our relationships with the truck stop owners also affords us an opportunity to place ATMs at truck stops, which in turn provides a further advantage in selling our integrated processing and banking services to trucking companies and truck drivers.

Our established presence in supermarket chains, grocery stores, convenience stores and other small and mid-sized retailers gives us an advantage in establishing relationships with EBT providers, whose benefits are primarily accessed at such retail locations.

Our customers are among the leaders in their industries. Our Network Services customers include some of the largest financial institutions in the United States. Our largest Network Services customers are Bank of America, Bank One, Key Bank, PNC Bank and Wells Fargo. Our largest Payment Services customers are Food Lion, PETsMART, Sunoco, SUPERVALU and Texaco.

Competition

The businesses of electronic payment processing and settlement, ATM processing, debit card processing and debit network access services are all highly competitive. Our principal competitors include national and major regional banks, local processing banks, non-bank processors and other independent service organizations, some of which have substantially greater capital and technological, management and marketing resources than we have. We also compete with other electronic payment processing organizations and debit networks. The recent trend of consolidation in the banking industry in the United States has resulted in fewer

opportunities for merchant portfolio acquisitions, as many small banks have been acquired by large banks, some of which compete with us in the provision of processing services.

In our Network Services segment, management estimates that:

- the three largest ATM processors, of which we are the largest, drive approximately 27% of total ATMs in the United States,
- the three largest regional debit networks, of which we are the largest, process 70% of all PIN-secured debit payment transactions, and
- VISA and MasterCar