

Table of Contents

The majority of the *TeleCheck* business involves the guarantee of checks received by merchants. If the check is returned, *TeleCheck* is required to purchase the check from the merchant at its face value and pursue collection from the check writer. A provision for estimated check returns, net of anticipated recoveries, is recorded at the transaction inception based on recent history. The following table presents the accrued warranty and recovery balances:

(in millions)	As of December 31,	
	2014	2013
Accrued warranty balances	\$ 9	\$ 9
Accrued recovery balances	25	27

We establish an incremental liability (and deferred revenue) for the fair value of the check guarantee. The liability is relieved and revenue is recognized when the check clears, is presented to *TeleCheck*, or the guarantee period expires. The majority of the guarantees are settled within 30 days. The incremental liability was approximately \$1 million as of December 31, 2014 and 2013. The following table details the check guarantees of *TeleCheck*.

	Year ended December 31,		
	2014	2013	2012
Aggregate face value of guaranteed checks (in billions)	\$ 36	\$ 39	\$ 43
Aggregate amount of checks presented for warranty (in millions)	253	285	319
Warranty losses net of recoveries (in millions)	67	66	76

The maximum potential future payments under the guarantees were estimated by us to be approximately \$1.2 billion as of December 31, 2014 which represented an estimate of the total uncleared checks at that time.

Income taxes. The determination of our provision for income taxes requires management's judgment in the use of estimates and the interpretation and application of complex tax laws. Judgment is also required in assessing the timing and amounts of deductible and taxable items. We establish contingency reserves for material, known tax exposures relating to deductions, transactions, and other matters involving some uncertainty as to the proper tax treatment of the item. Our reserves reflect our judgment as to the resolution of the issues involved if subject to judicial review. Several years may elapse before a particular matter, for which we have established a reserve, is audited and finally resolved or clarified. While we believe that our reserves are adequate to cover reasonably expected tax risks, issues raised by a tax authority may be finally resolved at an amount different than the related reserve. Such differences could materially increase or decrease our income tax provision in the current and/or future periods. When facts and circumstances change (including a resolution of an issue or statute of limitations expiration), these reserves are adjusted through the provision for income taxes in the period of change. As the result of interest and amortization expenses that we incur, we are currently in a tax net operating loss position. Judgment is required to determine whether some portion or all of the deferred tax assets will not be realized. To the extent we determine that we will not realize the benefit of some or all of our deferred tax assets, then these assets are adjusted through our provision for income taxes in the period in which this determination is made.

We are currently in a tax net operating loss position in several jurisdictions in which we operate, including the United States federal jurisdiction, resulting in significant deferred tax assets. We establish a valuation allowance against our deferred tax assets when, based upon the weight of all available evidence, we believe it is more likely than not that some portion or all of the deferred tax assets will not be realized. We believe that a significant portion of the deferred tax assets will be realized because of the existence of sufficient taxable income within the carryforward period available under the tax law, but have established valuation allowances for those deferred tax assets that in our judgment will not be realized. In making this determination, we have considered the relative impact of all of the available positive and negative evidences regarding future sources of taxable income and tax planning strategies. However, there could be material impact to our effective