FISERV INC
Form 10-Q
August 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the quarterly period ended June 30, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**
For the transition period from ______ to ______

Commission File Number 0-14948

FISERV, INC.

(Exact Name of Registrant as Specified in Its Charter)

WISCONSIN	**39-1506125**
(State or Other Jurisdiction of	**(I. R. S. Employer**
Incorporation or Organization)	**Identification No.)**
255 FISERV DRIVE, BROOKFIELD, WI	**53045**
(Address of Principal Executive Offices)	**(Zip Code)**

(262) 879-5000

(Registrant s Telephone Number, Including Area Code)

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

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of August 4, 2008, there were 164,038,104 shares of common stock, $.01 par value, of the registrant outstanding.

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FISERV, INC. AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

ITEM I. FINANCIAL STATEMENTS

FISERV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(In millions, except per share data)

(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues:				
Processing and services	**$ 950**	$ 655	**$ 1,897**	$ 1,301
Product	**345**	284	**708**	582
Total revenues	**1,295**	939	**2,605**	1,883
Expenses:				
Cost of processing and services	**556**	399	**1,122**	802
Cost of product	**296**	225	**602**	461
Selling, general and administrative	**219**	133	**431**	261
Total expenses	**1,071**	757	**2,155**	1,524
Operating income	**224**	182	**450**	359
Interest expense, net	**62**	11	**130**	20
Income from continuing operations before income taxes	**162**	171	**320**	339
Income tax provision	**63**	66	**124**	131
Income from continuing operations	**99**	105	**196**	208
Income from discontinued operations, net of income taxes		3	**232**	14
Net income	**$ 99**	$ 108	**$ 428**	$ 222
Net income per share - basic:				
Continuing operations	**$ 0.61**	$ 0.63	**$ 1.20**	$ 1.23
Discontinued operations		0.02	**1.42**	0.08
Total	**$ 0.61**	$ 0.65	**$ 2.62**	$ 1.31
Net income per share - diluted:				
Continuing operations	**$ 0.60**	$ 0.62	**$ 1.19**	$ 1.21
Discontinued operations		0.02	**1.41**	0.08
Total	**$ 0.60**	$ 0.64	**$ 2.60**	$ 1.30

Shares used in computing net income per share:				
Basic	**163.4**	167.4	**163.7**	168.7
Diluted	**164.8**	169.9	**165.1**	171.3

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in millions)

(Unaudited)

	June 30, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	**$ 211**	$ 297
Trade accounts receivable, net	**808**	840
Deferred income taxes	**77**	71
Prepaid expenses and other current assets	**381**	353
Assets of discontinued operations held for sale	**1,054**	2,643
Total current assets	**2,531**	4,204
Property and equipment, net	**332**	372
Intangible assets, net	**2,280**	2,324
Goodwill	**4,837**	4,817
Other long-term assets	**122**	129
Total assets	**$ 10,102**	$ 11,846
LIABILITIES AND SHAREHOLDERS EQUITY		
Trade accounts payable	**$ 174**	$ 182
Accrued expenses	**531**	599
Current maturities of long-term debt	**263**	510
Deferred revenues	**336**	351
Liabilities of discontinued operations held for sale	**946**	2,112
Total current liabilities	**2,250**	3,754
Long-term debt	**4,253**	4,895
Deferred income taxes	**582**	571
Other long-term liabilities	**169**	159
Total liabilities	**7,254**	9,379
Commitments and contingencies		
Shareholders equity:		
Preferred stock, no par value: 25.0 million shares authorized; none issued		
Common stock, $0.01 par value: 450.0 million shares authorized; 198.0 million and 198.1 million shares issued	**2**	2
Additional paid-in capital	**701**	700
Accumulated other comprehensive loss	**(44)**	(41)
Accumulated earnings	**3,754**	3,326
Treasury stock, at cost, 33.7 million and 33.0 million shares	**(1,565)**	(1,520)
Total shareholders equity	**2,848**	2,467

Total liabilities and shareholders equity	**$ 10,102**	$ 11,846

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In millions)

(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Cash flows from operating activities:		
Net income	**$ 428**	$ 222
Adjustment for discontinued operations	**(232)**	(14)
Adjustments to reconcile net income to net cash provided by operating activities from continuing operations:		
Deferred income taxes	**6**	(9)
Share-based compensation	**18**	16
Excess tax benefit from exercise of stock options	**(2)**	(10)
Amortization of acquisition-related intangible assets	**82**	15
Depreciation and other amortization	**106**	72
Changes in assets and liabilities, net of effects from acquisitions:		
Trade accounts receivable	**3**	8
Prepaid expenses and other assets	**(2)**	(6)
Trade accounts payable and other liabilities	**(9)**	(19)
Deferred revenues	**(6)**	(17)
Net cash provided by operating activities from continuing operations	**392**	258
Cash flows from investing activities:		
Capital expenditures, including capitalization of software costs	**(92)**	(78)
Payment for acquisitions of businesses, net of cash acquired	**(35)**	(45)
Other investing activities	**(28)**	
Net cash used in investing activities from continuing operations	**(155)**	(123)
Cash flows from financing activities:		
(Repayments of) proceeds from long-term debt, net	**(892)**	128
Issuance of common stock and treasury stock	**25**	31
Purchases of treasury stock	**(94)**	(322)
Excess tax benefit from exercise of stock options	**2**	10
Other financing activities	**(7)**	(7)
Net cash used in financing activities from continuing operations	**(966)**	(160)
Net change in cash and cash equivalents from continuing operations	**(729)**	(25)
Net cash transactions transferred from discontinued operations	**643**	32
Beginning balance	**297**	117
Ending balance	**$ 211**	$ 124
Discontinued operations cash flow information:		
Net cash (used in) provided by operating activities	**$ (193)**	$ 43
Net cash provided by (used in) investing activities	**872**	(82)

Net cash provided by financing activities	**13**	152
Net change in cash and cash equivalents from discontinued operations	**692**	113
Cash and cash equivalents sold	**(26)**	
Net cash transactions transferred to continuing operations	**(643)**	(32)
Beginning balance - discontinued operations	**149**	55
Ending balance - discontinued operations	**$ 172**	$ 136

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Principles of Consolidation

The condensed consolidated financial statements for the three-month and six-month periods ended June 30, 2008 and 2007 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of the condensed consolidated financial statements have been included. Such adjustments consisted of normal recurring items. Interim results are not necessarily indicative of results for a full year. The condensed consolidated financial statements and accompanying notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and accompanying notes of Fiserv, Inc. and its subsidiaries (the Company). These interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

The condensed consolidated financial statements include the accounts of Fiserv, Inc. and all majority owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. Certain amounts reported in prior periods have been reclassified to conform to the current presentation.

2. Recent Accounting Pronouncements

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 141 (revised 2007), *Business Combinations* (SFAS 141(R)), which replaces SFAS No. 141, *Business Combinations*. SFAS 141(R) generally retains the underlying concepts of SFAS 141 because it requires all business combinations to be accounted for at fair value under the acquisition method of accounting, but it changes how the acquisition method of accounting is applied in a number of significant aspects. Acquisition costs will be expensed as incurred; contingent consideration will be recorded at fair value on the date of acquisition; restructuring costs associated with a business combination will be expensed subsequent to the acquisition date; and changes in deferred tax asset valuation allowances and income tax uncertainties after the acquisition date will affect the income tax provision. SFAS 141(R) is effective on a prospective basis for all of the Company s business combinations with an acquisition date on or after January 1, 2009, with the exception of the accounting for valuation allowances on deferred taxes and acquired tax contingencies. Early adoption is not permitted. The Company is currently assessing the impact that the adoption of SFAS 141(R) will have on its financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS 160). SFAS 160 is effective for fiscal years beginning on or after December 15, 2008 and requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements. The amount of net income attributable to the noncontrolling interest will be included in consolidated net income and this statement includes expanded disclosure requirements. The Company does not expect that the adoption of SFAS 160 will have a material impact on its financial statements, although it is still assessing the impact it may have.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 requires specific disclosures about derivative instruments in the financial statements; how derivative instruments are accounted for; and how derivative instruments affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently assessing the impact that the adoption of SFAS 161 will have on its financial statements.

3. Fair Value Measurements

The Company adopted SFAS No. 157, *Fair Value Measurements* (SFAS 157), on January 1, 2008 as it relates to financial assets and liabilities. The impact of this adoption was not material to the Company s financial statements. SFAS 157 will be effective for the Company s nonfinancial assets and liabilities on January 1, 2009. SFAS 157 applies to other accounting pronouncements that require or permit fair value measurements, defines fair value based upon an exit price model, establishes a framework for measuring fair value and expands the applicable disclosure requirements. SFAS 157 indicates, among other things, that a fair value measurement assumes that a transaction to sell an asset or transfer a liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market for the asset or liability.

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SFAS 157 establishes a fair value hierarchy for the pricing inputs used to measure fair value. The Company s assets and liabilities measured at fair value are classified in one of the following categories:

Level 1 Assets or liabilities for which fair value is based on quoted prices in active markets for identical instruments as of the reporting date. At June 30, 2008, none of the Company s assets or liabilities were valued using Level 1 pricing inputs.

Level 2 At June 30, 2008, the fair values of available-for-sale investments of $37 million and liabilities for interest rate hedge contracts of $41 million were based on valuation models for which pricing inputs were either directly or indirectly observable as of the reporting date.

Level 3 In the first quarter of 2008, the Company purchased available-for-sale investments for $34 million, which were valued based on Level 2 pricing inputs as of March 31, 2008. As of June 30, 2008, these investments were valued at $33 million based on valuation models with unobservable pricing inputs and management estimates. The unrealized loss was recorded in other comprehensive income.

Interest Rate Hedge Contracts

To manage exposure to fluctuations in interest rates, the Company maintains a series of interest rate hedge contracts with total notional values of $1.75 billion at June 30, 2008. The fair values of the interest rate hedge contracts of $41 million at June 30, 2008 and December 31, 2007 were recorded in other long-term liabilities in the consolidated balance sheets with a corresponding amount recorded within accumulated other comprehensive loss, net of income taxes of $15 million. In the first six months of 2008, the Company recognized interest expense of $1 million due to hedge ineffectiveness and no amounts were excluded from the assessment of hedge effectiveness. Based on the amounts recorded in shareholders equity as accumulated other comprehensive loss at June 30, 2008, the Company estimates that it will recognize approximately $12 million in interest expense during the next twelve months related to interest rate hedge contracts.

4. Discontinued Operations

Fiserv ISS

In 2007, the Company signed definitive agreements to sell its investment support services segment (Fiserv ISS) in two separate transactions. On February 4, 2008, the Company completed the first transaction by selling Fiserv Trust Company and the accounts of the Company s institutional retirement plan and advisor services operations to TD AMERITRADE Online Holdings, Inc. for $273 million in cash at closing. In 2008, the Company recognized a gain on sale of $131 million, net of income taxes of $73 million, for this transaction.

In the second transaction, Robert Beriault Holdings, Inc., an entity controlled by the current president of Fiserv ISS, has agreed to acquire the remaining accounts and net capital of Fiserv ISS, including the investment administration services business which provides back office and custody services for individual retirement accounts, for net book value. Under the amended purchase agreement, the Company will not retain an interest in this business subsequent to the disposition. This portion of the Fiserv ISS disposition is expected to close by the end of the third quarter of 2008, and is subject to regulatory approval and customary closing conditions.

Fiserv Health

On January 10, 2008, the Company completed the sale of a majority of its health businesses (Fiserv Health) to UnitedHealthcare Services, Inc. for $721 million in cash at closing. In 2008, the Company recognized a gain on sale of $92 million, net of income taxes of $217 million, for this transaction. A final adjustment for net working capital is expected to be determined in the third quarter of 2008.

Other Dispositions

In 2008, the Company recognized gains totaling $9 million, net of income taxes, related to the sale of two businesses in its lending division.

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The assets and liabilities, results of operations and cash flows of Fiserv ISS, Fiserv Health and the other dispositions have been reported as discontinued operations in the accompanying condensed consolidated financial statements for all periods presented. Summarized financial information for discontinued operations was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	**2008**	**2007**	**2008**	**2007**
Total revenues	**$ 25**	$ 272	**$ 85**	$ 544
Income (loss) before income taxes	**(1)**	4	**1**	22
Income tax provision		(1)	**(1)**	(8)
Gain on sale, net of income taxes	**1**		**232**	
Income from discontinued operations	**$**	$ 3	**$ 232**	$ 14

Assets and liabilities of discontinued operations are presented separately as assets and liabilities of discontinued operations held for sale in the accompanying condensed consolidated balance sheets and consisted of the following:

(In millions)	**June 30, 2008**	**December 31, 2007**
Cash and cash equivalents	**$ 172**	$ 149
Trade accounts receivable, net	**12**	95
Prepaid expenses and other assets	**8**	47
Investments	**857**	1,888
Property and equipment, net	**5**	24
Intangible assets, net		440
Assets of discontinued operations held for sale	**$ 1,054**	$ 2,643
Trade accounts payable and other liabilities	**$ 148**	$ 201
Retirement account deposits	**798**	1,911
Liabilities of discontinued operations held for sale	**$ 946**	$ 2,112

Fiserv ISS accepts retirement account deposits from customers and invests the funds in securities. Such amounts due to customers represent the primary source of funds for Fiserv ISS investments which primarily consist of GNMA, FNMA and FHLMC mortgage-backed pass-through securities and collateralized mortgage obligations rated AAA by Standard and Poor s.

5. Share-Based Compensation

The Company recognized $10 million and $18 million of share-based compensation during the three and six months ended June 30, 2008, respectively, and $5 million and $16 million of share-based compensation during the three and six months ended June 30, 2007, respectively. The Company s annual grant of share-based awards generally occurs in the first quarter. Stock options granted in 2008 generally vest over a three year period beginning on the first anniversary of the grant date. During the six months ended June 30, 2008, the Company granted 1.4 million stock options and 0.3 million restricted stock units at weighted-average estimated fair values of $20.57 and $53.86, respectively. During the six months ended June 30, 2007, the Company granted 0.9 million stock options and 0.1 million shares of restricted stock at weighted-average estimated fair values of $20.91 and $54.26, respectively. During the six months ended June 30, 2008 and 2007, stock options to purchase 1.5 million shares and 2.5 million shares, respectively, were exercised.

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6. Shares Used in Computing Net Income Per Share

Basic weighted-average outstanding shares used in calculating net income per share were 163.4 million and 167.4 million for the three months ended June 30, 2008 and 2007, respectively, and were 163.7 million and 168.7 million for the six months ended June 30, 2008 and 2007, respectively. Diluted weighted-average outstanding shares used in calculating net income per share were 164.8 million and 169.9 million for the three months ended June 30, 2008 and 2007, respectively, and included 1.4 million and 2.5 million common stock equivalents, respectively. For the six months ended June 30, 2008 and 2007, diluted weighted-average outstanding shares used in calculating net income per share were 165.1 million and 171.3 million, respectively, and included 1.4 million and 2.6 million common stock equivalents, respectively. For the three months ended June 30, 2008 and 2007, stock options for 2.5 million shares and 0.9 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive. For the six months ended June 30, 2008 and 2007, 2.1 million shares and 0.5 million shares, respectively, were excluded from the calculation of diluted weighted-average outstanding shares because their impact was anti-dilutive.

7. Comprehensive Income

Comprehensive income was as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(In millions)	**2008**	**2007**	**2008**	**2007**
Net income	**$ 99**	$ 108	**$ 428**	$ 222
Other comprehensive income (loss):				
Fair market value adjustments on cash flow hedges, net of income taxes	**38**		**1**	
Other, net	**(5)**	1	**(4)**	
Other comprehensive income (loss)	**33**	1	**(3)**	
Comprehensive income	**$ 132**	$ 109	**$ 425**	$ 222

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8. Business Segment Information

The Company acquired CheckFree Corporation (CheckFree) for a purchase price of $4.4 billion on December 3, 2007. In connection with the integration of CheckFree and the significant expansion of our payments related businesses, along with associated organizational changes, the Company reclassified its reporting segments for all periods presented to align them with how the chief operating decision maker of the Company currently manages the business. As a result, effective January 1, 2008, the Company s continuing operations were classified into four business segments: Financial Institutions Services (Financial), Payments and Industry Products (Payments), Insurance Services (Insurance), and Corporate and Other. The Financial segment provides: core account processing solutions; item processing; deposit automation; loan origination and servicing products; cash management; and consulting services for financial institutions. The Payments segment provides: electronic transaction processing services, including electronic funds transfer and debit processing, internet banking, electronic bill payment and presentment services and biller services; card and print personalization services; risk and transaction management products; and investment account processing services. The Insurance segment provides: core policy claims and billing administration systems for life and property and casualty insurance carriers and agencies; workers compensation transaction processing and administration services for pharmacies and insurance carriers; and flood claims processing and program administration. The Corporate and Other segment consists primarily of unallocated corporate overhead expenses, amortization of acquisition-related intangible assets and intercompany eliminations. Revenues and operating income for the Company s reporting segments were as follows:

(In millions)	Financial	Payments	Insurance	Corporate and Other	Total
Three Months Ended June 30, 2008					
Processing and services revenue	**$ 511**	**$ 380**	**$ 62**	**$ (3)**	**$ 950**
Product revenue	**47**	**134**	**176**	**(12)**	**345**
Total revenues	**$ 558**	**$ 514**	**$ 238**	**$ (15)**	**$ 1,295**
Operating income	**$ 143**	**$ 134**	**$ 20**	**$ (73)**	**$ 224**
Three Months Ended June 30, 2007					
Processing and services revenue	$ 466	$ 126	$ 63	$	$ 655
Product revenue	49	107	134	(6)	284
Total revenues	$ 515	$ 233	$ 197	$ (6)	$ 939
Operating income	$ 132	$ 50	$ 18	$ (18)	$ 182
Six Months Ended June 30, 2008					
Processing and services revenue	**$ 1,014**	**$ 770**	**$ 120**	**$ (7)**	**$ 1,897**
Product revenue	**93**	**273**	**367**	**(25)**	**708**
Total revenues	**$ 1,107**	**$ 1,043**	**$ 487**	**$ (32)**	**$ 2,605**
Operating income	**$ 281**	**$ 274**	**$ 36**	**$ (141)**	**$ 450**
Six Months Ended June 30, 2007					
Processing and services revenue	$ 924	$ 252	$ 125	$	$ 1,301
Product revenue	101	231	262	(12)	582
Total revenues	$ 1,025	$ 483	$ 387	$ (12)	$ 1,883
Operating income	$ 256	$ 106	$ 34	$ (37)	$ 359

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9. Subsidiary Guarantors of Long-Term Debt

Certain of the Company s 100% owned domestic subsidiaries (Guarantor Subsidiaries) jointly and severally, and fully and unconditionally guarantee the Company s indebtedness under its revolving credit facility, senior term loan, and the senior notes due in 2012 and 2017. The following condensed consolidating financial information is presented on the equity method and reflects the summarized financial information for: (a) the Company; (b) the Guarantor Subsidiaries on a combined basis; and (c) the Company s non-guarantor subsidiaries on a combined basis.

FISERV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED JUNE 30, 2008

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Revenues:					
Processing and services	$	$ 614	$ 356	$ (20)	$ 950
Product		138	213	(6)	345
Total revenues		752	569	(26)	1,295
Expenses:					
Cost of processing and services	2	361	216	(23)	556
Cost of product	1	114	186	(5)	296
Selling, general and administrative	28	108	83		219
Total expenses	31	583	485	(28)	1,071
Operating income (loss)	(31)	169	84	2	224
Interest expense (income), net	55	(15)	22		62
Income (loss) from continuing operations before income taxes	(86)	184	62	2	162
Income tax provision (benefit)	(33)	71	24	1	63
Income (loss) from continuing operations	(53)	113	38	1	99
Equity in earnings of consolidated entities	152			(152)	
Income from discontinued operations, net of income taxes					
Net income	$ 99	$ 113	$ 38	$ (151)	$ 99

FISERV, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATING STATEMENT OF INCOME

THREE MONTHS ENDED JUNE 30, 2007

(In millions)	Parent Company	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated

Revenues:									
Processing and services	$	$	414	$	250	$	(9)	$	655
Product									