FISERV INC
Form 10-K
February 28, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended: December 31, 2006

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 Incorporation or Organization)	**(I.R.S. Employer Identification No.)**

255 Fiserv Dr., Brookfield, WI 53045

(Address of Principal Executive Offices, Including Zip Code)

Registrant s telephone number, including area code: (262) 879-5000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**
Preferred Stock Purchase Rights	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

The aggregate market value of the common stock of the registrant held by non-affiliates as of June 30, 2006 (the last trading day of the second fiscal quarter) was $7,658,741,024 based on a closing price of $45.36 on the Nasdaq stock market on that date. The number of shares of the registrant s common stock, $0.01 par value per share, outstanding at February 22, 2007 was 170,588,978.

DOCUMENTS INCORPORATED BY REFERENCE

Part II, Item 5 and Part III of this report incorporate information by reference to the registrant s proxy statement for its 2007 annual meeting of shareholders, which proxy statement will be filed with the Securities and Exchange Commission no later than 120 days after the close of the fiscal year ended December 31, 2006.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. Forward-looking statements include those that express a plan, belief, expectation, estimation, anticipation, intent, contingency, future development or similar expression, and can generally be identified as forward-looking because they include words such as believes, anticipates, expects, should or words of similar import. Statements that describe our objectives or goals are also forward-looking statements. The forward-looking statements in this report involve significant risks and uncertainties, and a number of factors, both foreseen and unforeseen, could cause actual results to differ materially from our current expectations. The factors that may affect our results include, among others, changes in customer demand for our products or services, pricing and other actions by competitors, potential impact of initiatives implemented as a result of our strategic review process, general changes in economic conditions and other factors discussed in this report under the heading Risk Factors. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements. Readers are cautioned not to place undue reliance upon forward-looking statements, which speak only as of the date hereof. We undertake no obligation to update forward-looking statements to reflect events or circumstances occurring after the date hereof.

PART I

In this report, all references to we, us, and our refer to Fiserv, Inc., a Wisconsin corporation, and, unless the context otherwise requires, its consolidated subsidiaries.

Item 1. Business

Overview

We provide integrated information management systems and services, including transaction processing, business process outsourcing, document distribution services, and software and systems solutions. We serve more than 18,000 clients worldwide, including banks, credit unions, financial planners and investment advisers, insurance companies and agents, self-insured employers, leasing companies, lenders, savings institutions, retailers and merchants, universities, government bodies, not-for-profit organizations and industrial companies. We operate centers in the United States for full-service financial data processing, software system development, item processing and check imaging, technology support and related product businesses. Our operations are principally located in the United States. In 2006, our international operations contributed approximately 3% of total revenues through business support centers in Argentina, Australia, Canada, China, Colombia, Costa Rica, India, Indonesia, Malaysia, Mexico, the Philippines, Puerto Rico, Poland, Singapore and the United Kingdom.

We were formed through the combination of two major regional data processing firms that began as the data processing operations of their parent financial institutions. Historically, these firms expanded operations by developing a range of services for their parent organizations, as well as other financial institutions. Since we began, we have grown by developing highly specialized services and product enhancements, adding new clients and acquiring firms complementing our organization.

We originally incorporated in Delaware in 1984, and reincorporated as a Wisconsin corporation in 1992. Our headquarters are located at 255 Fiserv Drive, Brookfield, Wisconsin 53045, and our telephone number is (262) 879-5000.

Our Markets

Our operations are classified into three business segments: our financial institution services business segment (our Financial segment); our insurance services segment, which includes health, life and property and

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casualty (our Insurance segment); and our investment support services business segment (our Investment segment). The businesses that make up the Financial segment provide account and transaction processing systems and services to financial institutions, such as banks, thrifts and credit unions, and other financial intermediaries. The businesses that comprise our Insurance segment provide a wide range of services to insurance carriers, agents, distributors, third-party administrators, and self-insured employers. The businesses that comprise our Investment segment provide administrative, custodial and processing services to individual investors, retirement plan and pension administrators, financial planners and investment advisors.

Financial

The market for products and services offered by financial institutions undergoes continuous change. The financial industry regularly introduces and implements new lending, investment, deposit, policy and benefit administration, and payment products. The distinctions among financial services traditionally offered by banking, thrift and credit union organizations as well as by insurance and securities firms continue to narrow, as traditionally different entities seek to serve the same ultimate customers.

Financial institutions diversify and consolidate on an ongoing basis in response to market and regulatory pressures. Although market changes have led to consolidations that have reduced the number of financial institutions in the United States, consolidation has not resulted in a material reduction of the number of customers or financial accounts serviced by the financial industry as a whole.

To stay competitive in this changing marketplace, financial institutions are providing their customers with a wide variety of new products and services that are typically transaction-oriented and fee-based. The growing volume and types of transactions, accounts and payment mechanisms have increased the data processing and other service needs of these institutions. As a result, we believe that the financial services industry is one of the largest users of information technology products and services.

We expect that the financial industry will continue to require: significant commitments of capital and human resources for information systems requirements; application of more specialized systems; and development, maintenance and enhancement of applications software. We believe that economies of scale in data processing operations are essential to justify the required level of expenditures and commitment of human resources.

We provide financial institutions with software to run operations internally or outsource services. Many financial institutions that previously developed their own software systems and maintained their own data processing operations have outsourced their data processing requirements by licensing their software from third-parties or by contracting with third-party processors to reduce costs and enhance their products and services. Outsourcing can involve the licensing of software, which eliminates the costly technical expertise within a financial institution, or the utilization of service bureaus, facilities management or resource management capabilities.

Within the Financial segment, we provide banks, thrifts and credit unions with account, item, lending, and payment processing services and other products to support numerous types of financial transactions and risk management solutions.

Insurance

The insurance industry, like other industries that we serve, has requirements for basic administration services and information processing systems. We provide policy and benefit administration, rating, claims administration, billing and reinsurance administration services to insurance carriers, agents, distributors, third-party administrators, and self-insured employers. The insurance industry is generally comprised of three markets: health, life, and property and casualty. All three of these markets possess a significant and increasing need for information technology and related service solutions.

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Health

Our clients in the health market are traditional insurance carriers, commercial health plans, managed care companies, third-party administrators, and self-insured employers, all of which must administer health plans and process the claims associated with those plans. We provide these customers with a variety of services, including claim adjudication and payment services, customer service, reporting and other related services.

As health care costs continue to rise, payors continue to seek to reduce costs. This may result in existing clients seeking to add services in order to reduce costs and improve efficiencies over the longer term. We have responded to the market demand for cost containment solutions by expanding our service offerings beyond traditional health plan administration to include pharmacy benefits management, care management, and subrogation and fee negotiation services. For example, with our acquisition of CareGain in 2006, we expanded our offerings to include technology and service solutions for the administration of consumer directed health plans that feature health reimbursement accounts, health savings accounts and flexible spending accounts.

Life

Our clients in the life market are insurance companies and intermediaries, such as agents and brokers, who provide life insurance and annuities for individuals. We provide our clients with technology and related services to enable them to process applications; rate, quote, underwrite and issue policies; bill premiums; comply with regulatory requirements; and report results. Because of the ongoing need for new business generation in this market, there is a proliferation of new products. As a result, we expect to experience increased demand for technology and related services that are required to support new products, as well as to maintain service for previously issued products.

Property and Casualty

Our clients in the property and casualty market are insurance companies and intermediaries, such as agents and brokers, who provide property and casualty insurance to businesses and consumers. We provide technology and services to our clients to enable them to process applications; rate, quote, underwrite and issue policies; bill premiums; pay claims; comply with regulatory requirements; and report results.

Property and casualty carriers and agents are faced with increasing competition and seek to use information technology to provide better service to their policyholders as well as to control the costs of their operations. Commoditization of their products and cyclical market conditions put pressure on them to distinguish their products and services. To help them meet this need, we provide a number of products, including agency rating solutions and claims processing technology. For example, with our acquisition of InsureWorx in 2006, we expanded our offerings to include web-based software for workers   compensation coverage providers that integrates underwriting, policy administration, billing, and claims solutions.

Investment

In the Investment segment, we provide a variety of administrative, custodial and processing services to individual investors, retirement plan and pension administrators, investment advisors and financial planners, and other financial intermediaries. The specific services that we offer include securities custody, transaction processing, client reporting and retirement plan administration.

Our Strategy

Our mission is to be a global leader in transaction-based technology solutions that provides integrated technology and services solutions to enable best-in-class results for our clients.

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Historically, we have pursued this goal by implementing a strategy that focused on new product and service development, improved cost effectiveness of services, aggressive solicitation of new clients, and opportunistic and strategic acquisitions. In 2006, we reviewed and reassessed our operations and identified several ways to refine our historical business strategies. We refer to the strategies and initiatives that emerged from our analysis as Fiserv 2.0.

In implementing our Fiserv 2.0 initiative, we intend to focus on operating businesses where we have: deep industry expertise that enables us to serve the market with high effectiveness; a strong competitive position, currently or via a clear path in the foreseeable future; long-term, trusted, ongoing client relationships which are not based on one-time transactions; differentiated solutions that deliver higher-than-normal value to our clients through integration and innovation; and strong management to execute strategies in a disciplined manner.

Consistent with this focus, we are implementing several strategies that we believe will help us build on our historical business practices to achieve the objectives of Fiserv 2.0:

Enhanced Client Relationship Value. We plan to extend and grow our existing client relationships by, among other matters, implementing tighter integration across our product and services groups, bundling more products and services to deliver improved value propositions, and streamlining our service and support processes.

Acquisitions. We expect to acquire businesses when we identify: a compelling strategic need, such as a product, service or technology that helps fill a specific market requirement; an opportunity to change market dynamics; a way to achieve business scale; or some similar consideration.

Innovation. We will seek to become innovation leaders in our key markets, leveraging our assets and capabilities to be at the forefront of our markets. We expect to explore these opportunities both domestically and abroad.

Operational Excellence. We believe we can improve our performance by using the opportunities created by our size and scale. For example, we expect to improve our performance by more effectively using our consolidated buying power and shared utility structures to provide savings.

Greater Capital Discipline. Finally, we intend to make capital allocation decisions based on the investments that offer the best prospects for long-term growth and profitability for our company taken as a whole. These investments may include, among other matters, repurchases of our own shares, capital improvements, or acquisitions.

Acquisitions

In 2006, we acquired seven businesses with combined annual revenues of more than $115 million and approximately 580 employees. The following is a summary of acquisitions that we made during 2006:

Name of Company Acquired	Business
CareGain, Inc.	CareGain provides software and outsourced solutions that enable health plan managers to create and administer consumer-directed health plans.
InsureWorx, Inc.	InsureWorx offers a modular end-to-end core processing solution for workers compensation insurers and other commercial property and casualty lines of business.
Insurance Wholesalers, Inc.	Insurance Wholesalers provides leads to agents to facilitate term and universal life insurance sales to mortgage holders to cover the amount of the insured s mortgage in the event of a catastrophic event.

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Name of Company Acquired	Business
Innovative Cost Solutions, LLC	Innovative Cost Solutions is a claim resolution company that negotiates health care claims, specifically from non-network providers.
Jerome Group, LLC	The Jerome Group combines digital printing, web-based print-on-demand technologies and direct marketing services into a one-stop source for clients who need to produce highly personalized, measurable campaigns and programs on demand.
P2P Link, LLC	P2P Link provides web-based solutions that allow healthcare providers to communicate with payors regarding workers compensation claims.
Wolters Kluwer s CT Insurance Services and Financial Training businesses	These businesses provide software for securities registration and licensing and study aids for NASD exam preparation.

Principal Solutions and Services

Our operations are classified into three business segments: our Financial segment; our Insurance segment; and our Investment segment. Financial information regarding our business segments is included in Note 7 to the Consolidated Financial Statements on page 50.

Financial

We provide financial services and solutions that are focused on technology needs to more than 10,000 financial institutions, including banks, credit unions, leasing and finance companies, mortgage lenders and savings institutions. Many of the products and services that we provide are sold as an integrated solution to our clients, and may include core processing, lending and item processing, payments processing and a variety of industry products and service solutions.

Core Processing

We deliver core solutions that integrate account servicing and management information functions for our bank, thrift and credit union clients, as well as ancillary value-added solutions and services that complement the core solutions. Core solutions include systems to process various customer deposit and loan accounts, the institution s general ledgers, central information files and other financial information. They also include the extensive security, report generation and other features that these financial institutions require to process transactions for their depositors and other customers, as well as to meet their regulatory compliance requirements and their own management information needs. Core solutions are offered through on-line data transmission connections to our data processing centers, often called service bureaus, or as stand-alone, in-house licensed software for installation on client-owned computer systems.

While many clients contract to obtain all or a majority of their data processing requirements from us, the modular design of many of our service bureau and software solutions allows a client to start with one application, such as a deposit system, and, as needed, add applications and features developed by us and third parties. We support a broad range of terminals and other client-owned peripheral devices manufactured by many different vendors. This support capability reduces our clients initial conversion expenses, enhances existing clients ability to change equipment, and broadens our market.

Bank and Thrift Core Solutions. The principal service bureau solutions used by banks, thrifts and savings institutions include Fiserv VISION, Comprehensive Banking System (CBS) outsourcing,

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Information Technology, Inc. (ITI) Premier II outsourcing, Precision Computer Systems (PCS) Vision outsourcing, and SourceOne. We also offer in-house licensed software solutions to our banking clients, including ITI Premier II, PCS Vision and CBS. The CBS system is available both domestically and internationally through our International Comprehensive Banking System.

Credit Union Core Solutions. The principal core solutions offered primarily to domestic credit unions include: the Summit Spectrum system and its iSpectrum system in Canada; the Galaxy Plus Credit Union System; the Users DataSafe solution; the IntegraSys Premier, CUBE, CUBICS Plus and Charlotte solutions; AFTECH Advantage; XP Systems XP2; several CUSA Technologies systems; and CBS for credit unions in Mexico. Some of these solutions are offered via a service bureau, as an in-house licensed software system, or in both delivery modes.

Lending and Item Processing Solutions

We also offer lending and global item processing solutions to financial institutions and other financial intermediaries. The products and services that we offer include item processing and imaging systems for the item processing needs of core clients, the Fiserv Clearing Network that allows clients to more cost effectively clear both paper and imaged checks in network and via external clearing options such as the Federal Reserve, and treasury and investment management systems. We offer a wide array of solutions through our lending businesses. For example:

Fiserv Fulfillment Services provides Quickclose, valuation services, portfolio analytical services and real estate settlement services.

Fiserv Automotive Solutions provides automobile leasing software products and lease maturity systems.

Fiserv Lending Solutions provides loan origination and tracking systems through its easy LENDER® and UniFi PRO Mortgage software offerings.

DelMar Database services the back office needs of the mortgage banking market.

CredStar provides credit and flood reporting services and systems.

Fiserv Lending Solutions provides MortgageServ, a premier loan servicing platform.

Payments and Financial Industry Products

We provide a number of products and services that can be used in payments businesses as well as risk management solutions and other industry products and services. Our products and services facilitate a wide range of financial transactions for a diverse group of clients which include traditional financial institutions, such as banks, thrifts and credit unions, and the financial departments of retailers and others. Our products and services allow our clients to offer a variety of services to their customers, including home banking, automated teller machine (ATM) access and other treasury and related services of varying complexity and sophistication, such as asset-liability modeling and cash management. Specifically, we offer solutions that allow our clients to offer the electronic funds transfer services of Fiserv EFT, which include the ACCEL network and related ATM access services, as well as internet banking products such as Fiserv eSolutions, bill payment services through BillMatrix and Paytraxx, and credit processing services.

We also offer complementary and add-on products and services that amplify our core solutions, including a series of treasury management solutions marketed under our BANKLINK® brand, the CCS suite of software (including IntelligEnt call center systems and the InformEnt data warehouse) for data warehousing and data mining, Imagesoft enterprise content management, fraud detection, and image archive systems, IPS-Sendero enterprise risk management and performance measurement systems (including SVAL, ASAP/Spectrum, DecisionServ), Interactive Technologies fee management and billing software, and electronic document management systems and services using our EPSIIA suite of software. Our Personix and Jerome businesses

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provide clients with a variety of document management and distribution products and services, including plastic card manufacturing, personalization and mailing, statement production and mailing, and high-value direct mail solutions, including design and fulfillment. We offer these product and service solutions through multiple delivery channels primarily in the United States.

Insurance

The insurance industry, like other industries that we serve, has requirements for basic administration services and information processing systems. Insurance carriers, health plans, agents, distributors and third-party administrators rely on us for policy, rating, claims, billing and reinsurance administration, as well as for compliance, education and marketing support. We provide services and solutions to more than 2,400 insurance companies, more than 1,200 employer-sponsored health plans, and more than 5,000 agencies and brokerages. Our regulatory and compliance products and services, which we offer to the health, life, and property and casualty segments, include the Tracker unclaimed property system and PATRIOT Manager. Our financial and billing products and services include Annual Statement, General Ledger, and Accounts Payable. Similarly, RegEd offers education and licensing services to distributors of all forms of insurance. More broadly, we make information technology outsourcing services available for all our product sets.

Health

We provide a variety of services for the administration of health plans to clients nationwide. These services include claim adjudication and payment, customer service, reporting and related services. In addition to providing these services to self-funded employers, we provide these services through outsourcing arrangements to other health plan sponsors such as insurance companies and HMOs. Through the operating units described below, we also offer additional complementary services to our health plan administration customers and others: CareGain provides technology that enables flexible and cost effective administration of consumer driven health plans; Avidyn Health offers care management services ranging from traditional services, such as utilization management and case management, to newer disease management, population health and prevention programs; ppoONE provides technology services to a variety of health care organizations for data management and claim repricing; JW Hutton provides subrogation services; and Innovative Cost Solutions provides claim resolution for non-network providers.

Innoviant and Innoviant Pharmacy offer pharmacy benefit management (PBM) and pharmacy mail order services. Our PBM business is responsible for designing, implementing and administering benefit plans aimed at reducing the cost of prescription drug use. When a prescription is presented by a member to a retail pharmacy within the PBM s network, the PBM is solely responsible for confirming member eligibility, performing a drug authorization review, communicating plan provisions to the pharmacy, directing payment to the pharmacy and billing the client for the amount that the PBM is contractually obligated to pay for the prescription dispensed as specified within client contracts.

Life

We offer a broad range of products and services targeted at the life insurance market. These products and services include administration systems such as ID3, Life Portraits and LifeSuites systems for life, annuity and long-term care requirements. Our regulatory and compliance products and services include, among others, DataTrax, InsuranceTrax, and AdvertisingTrax, and our financial and billing products and services include, among others, Fiserv Advanced Billing.

In the area of distribution products and services, Emerald Publications provides marketing and sales-related materials and services to the life insurance and financial planning industry. ReliaQuote is a life insurance broker targeting the term life insurance marketplace. Insurance Wholesalers generates lists of mortgage holders and provides those leads to insurance agents.

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Property and Casualty

We offer a wide range of products and services targeted at the property and casualty insurance market. Our administration systems products and services include PolicySTAR, Specialty and Claims Workstation. Our regulatory and compliance products and services include DataTrax, InsuranceTrax, AdvertisingTrax and PATRIOT Manager, and our financial and billing products and services include FRS and URS reinsurance systems and Fiserv Advanced Billing.

Third Party Solutions and Direct Comp Rx assist employers, insurers and retail pharmacies with the management and processing of workers compensation prescriptions. In the area of distribution products and services, Fiserv FSC markets various comparative rating solutions for independent insurance agents and property and casualty carriers. Additionally, we offer complete business process outsourcing services for flood and related property insurance.

Investment

We provide a variety of administrative, custodial and processing services to individual investors, retirement plan and pension administrators, investment advisors and financial planners, and other financial intermediaries. The services we offer include securities custody, transaction processing, client reporting and retirement plan administration. Fiserv Trust Company, our principal trust company subsidiary, is one of the largest independent trust companies in the United States.

The specific services that we offer to financial intermediaries and their clients include: Advisor Services, which provides trust and asset custody and back office services to investment advisers and other fee-compensated financial professionals; Institutional Retirement Plan Services, which provides custody and electronic trading support services for daily valuation of qualified retirement plan assets; and Investment Administration Services, which provides trust and custodial services that support the administration of self-directed individual retirement plans.

Servicing the Market

The markets for our account and transaction processing services have specific needs and requirements, with strong emphasis placed by clients on software flexibility, product quality, service reliability, comprehensiveness and integration of product lines, timely introduction of new products and features, cost effectiveness and service excellence. Through our multiple product and service offerings, we believe that we successfully service these needs for clients ranging in size from start-ups to some of the largest financial services providers.

We offer clients a selection of information management and data processing services designed to meet the specific needs of the ever-changing financial services and insurance industries. We believe that our financial strength and primary focus on the financial services and insurance industries helps our business development, client service and product support teams remain responsive to the technology needs of our markets.

Our mission is to provide integrated technology and services solutions that enable best-in-class results for our clients. This principle is backed by our dedication to providing excellent client service and support no matter what size our client is.

We believe that our commitment of substantial resources to training and technical support helps us to retain clients. We conduct the majority of our new and ongoing client training in our technology centers, where we maintain fully equipped demonstration and training facilities that contain equipment used in the delivery of our services. In addition, we provide local and on-site training services, and many of our business units provide eLearning, or on-line, education to clients.

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Product Development

To meet the changing technology needs of our clients, we continually develop, maintain and enhance our systems. In 2006, product development expenses represented approximately 6% of our total revenues.

Our network of development and financial information technology centers apply the expertise of multiple teams to design, develop and maintain specialized processing systems around our multiple technology platforms. The applications of our account processing systems meet the preferences and diverse requirements of the various international, national, regional or local market-specific financial service environments of our clients. In developing our products, we stress interaction with and responsiveness to the needs of our clients, including customization of software to meet client needs. We have adopted web services and service-oriented architecture principles in our software development practices so that we and our clients can benefit from current technology. We provide dedicated solutions that are designed, developed, maintained and enhanced according to each client s goals for service quality, business development, asset and liability mix, and local market positioning as well as other user-defined parameters.

Intellectual Property

We regard our software as proprietary and utilize a combination of trade secrecy laws, internal security practices and employee non-disclosure agreements for protection. We believe that legal protection of our software, while important, is less significant than the knowledge and experience of our management and personnel and their ability to develop, enhance and market new products and services. We believe that we possess all proprietary rights necessary to conduct our business.

Competition

Financial

The market for information technology products and services within the financial industry is highly competitive. Our principal competitors include internal data processing departments, data processing affiliates of large companies or large computer hardware manufacturers, independent computer service firms, and processing centers owned and operated as user cooperatives. Some of these competitors possess substantially greater financial, sales and marketing resources than we do. Competition for in-house data processing and software departments is intensified by the efforts of computer hardware vendors which encourage the growth of internal data centers and consulting service providers who assist these departments with the design and implementation of customized software solutions.

Competitive factors for processing services include product quality, service reliability, product line comprehensiveness and integration, timely introduction of new products and features, and price. We believe that we compete favorably in each of these categories. In addition, we believe that our position as an independent vendor, rather than as a cooperative, an affiliate of a larger corporation or a hardware vendor, is a competitive advantage.

We compete with vendors that offer similar transaction processing products and services to financial institutions and other financial intermediaries, including Fidelity National Information Services, Inc., Metavante Corporation, Jack Henry and Associates, Inc. and Open Solutions, Inc. There has been significant consolidation among providers of information technology products and services to financial institutions, and we believe this consolidation will continue in the future.

Insurance

The market for information technology products and services is highly competitive in the insurance market. We face competition from internal information technology departments, service affiliates of large companies, and independent technology and service firms. We compete with information technology firms such as Accenture Ltd., CGI Group, Inc., Choicepoint, Inc., Computer Sciences Corporation, DST Systems, Inc., Electronic Data Systems Corp., IBM, Insurance Services Office, Inc., Perot Systems Corp., SAP AG, and Vertafore, Inc., which

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offer large-scale solutions and professional delivery. Some of these competitors possess substantially greater financial, sales and marketing resources than we do. We also compete with a number of local and regional firms which compete on the basis of their flexibility and local presence.

Investment

Several trust companies, including Sterling Trust Company, PENSCO Trust Company, AST Trust Company and Reliance Trust Company, compete with us in custody services for retirement account administration. With respect to the provision of services to financial advisors and pension administrators, Charles Schwab & Co. and Fidelity Investments are our most significant competitors.

Government Regulation

Our data processing subsidiaries are not directly subject to federal or state regulations specifically applicable to financial institutions such as banks, thrifts and credit unions. However, as a provider of services to these financial institutions, our data processing operations are examined on a regular basis by the Federal Deposit Insurance Corporation, the Federal Reserve Bank, the National Credit Union Association, the Office of Thrift Supervision, the Office of the Comptroller of the Currency and various state regulatory authorities. In addition, independent auditors annually review many of our operations to provide internal control evaluations for our clients auditors and regulators.

The insurance markets in which we operate are principally regulated under state law. However, there is also significant federal legislation with which we or our clients may be required to comply, including the National Flood Insurance Program, the Fair Credit Reporting Act, the Employee Retirement Income Security Act, the Health Insurance Portability and Accountability Act, and the Gramm-Leach-Bliley Act. From time to time, in order to comply with our obligations under state and federal laws, we may be required to comply with annual reporting and licensing requirements and to implement operating policies and procedures to protect, among other matters, the privacy and security of patients health care information. In addition to state and federal regulation, various clients require periodic audits of their health plan administrator to confirm compliance with standards of performance and we may be required to forfeit a portion of our fees if we fail to meet the required performance levels.

Fiserv Trust Company (formerly known as First Trust Corporation and Lincoln Trust Company), a trust company chartered under Colorado law, and Trust Industrial Bank, both of which are subsidiaries, are subject to the regulations of the Colorado Division of Banking. The Federal Deposit Insurance Corporation covers customer deposits of Fiserv Trust Company.

Employees

We have approximately 23,000 employees, many of whom are specialists in our information management centers and related product and service companies. This service support network includes employees with backgrounds in computer science and the financial and insurance industries, often complemented by management and other employees with direct experience in banks, credit unions, insurance companies and agencies, mortgage firms, savings and other financial services, and health services business environments.

Our employees provide expertise in: sales and marketing; account management and client services; computer operations, network control and technical support; programming, software development, modification and maintenance; conversions and client training; business process outsourcing; and financial planning and related support services.

In supporting international markets, our employees often speak the same language as our clients and seek to understand any differences in the style of doing business, as well as the product requirements and regulations unique to each client and its specific market.

None of our employees are represented by a union. There have been no work stoppages, strikes or, to our knowledge, attempts to organize. The service nature of our business makes our employees an important corporate

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asset. Although the market for qualified personnel is competitive, we have not experienced significant difficulty with hiring or retaining our staff of top industry professionals. In assessing potential acquisition candidates, the quality and stability of the prospective company s staff are emphasized.

We attribute our ability to attract and retain quality employees to, among other things, our growth and dedication to state-of-the-art software development tools and hardware technologies.

Available Information

Our website address is www.fiserv.com. We are not including the information provided on our website as a part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available free of charge (other than an investor s own Internet access charges) through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and amendments to these reports, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the Securities and Exchange Commission.

Item 1A. Risk Factors

You should carefully consider each of the risks described below, together with all of the other information contained in this Annual Report on Form 10-K, before making an investment decision with respect to our securities. If any of the following risks develop into actual events, our business, financial condition or results from operations could be materially and adversely affected and you may lose all or part of your investment.

We operate in a competitive business environment, and if we are unable to compete effectively, our results of operations and financial condition may be adversely affected.

The market for our services is competitive. Our competitors vary in size and in the scope and breadth of the services they offer. Some of our competitors have substantial resources. Since many of our larger potential clients have historically developed their key applications in-house, we often compete against our potential clients in-house capacities. In addition, we expect that the markets in which we compete will continue to attract new competitors and new technologies including international providers of similar products and services to ours having a lower cost structure. We cannot provide any assurance that we will be able to compete successfully against current or future competitors or that competitive pressures faced by us in the markets in which we operate will not materially and adversely affect our business, financial condition and results of operations.

If we fail to adapt our products and services to changes in technology or in the marketplace, or if our ongoing efforts to upgrade our technology are not successful, we could lose clients.

The markets for our products and services are characterized by constant technological changes, frequent introductions of new products and services and evolving industry standards. Our ability to enhance our current products and services and to develop and introduce new products and services that address the increasingly sophisticated needs of our clients and their customers will significantly affect our future success. We may not be successful in developing, marketing or selling new products and services that meet these changing demands. In addition, we may experience difficulties that could delay or prevent the successful development, introduction or marketing of these services, or our new services and their enhancements may not adequately meet the demands of the marketplace or achieve market acceptance. We continually engage in significant efforts to upgrade our applications. If we are unsuccessful in completing or gaining market acceptance of our upgrade efforts, it would likely have a material adverse effect on our ability to retain existing clients or attract new ones.

If we are unable to renew client contracts at favorable terms, we could lose clients and our results of operations and financial condition may be adversely affected.

Failure to achieve favorable renewals of client contracts could negatively impact our business. Our contracts with our clients for core services generally run for a period of three to five years in our Financial segment and

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provide for termination fees upon early termination. At the end of the contract term, clients have the opportunity to renegotiate their contracts with us and to consider whether to engage one of our competitors to provide products and services. If we are not successful in achieving high renewal rates with favorable terms, our revenues from such renewals and the associated earnings could be negatively impacted.

Our acquisition strategy subjects us to risks, including increased debt, assumption of unforeseen liabilities and difficulties in integrating operations.

A major contributor to our growth in revenues and earnings since our inception has been our ability to identify, acquire and integrate similar or complementary businesses. We anticipate that we will continue to seek to acquire complementary businesses, products and services. We may not be able to identify suitable acquisition candidates in the future, which could adversely affect our future growth. Businesses we acquire may not perform as well as expected or be more difficult to integrate and manage than expected, which could adversely affect our business and financial results. We may not be able to fully integrate all aspects of acquired businesses successfully or fully realize the potential benefits of bringing them together. In addition, the process of integrating these acquisitions may disrupt our business and divert our resources. These risks may arise for a number of reasons:

- We may not be able to find suitable businesses to acquire at affordable valuations or on other acceptable terms;
- We face competition for acquisitions from other potential acquirers;
- We may need to borrow more money from lenders or sell equity or debt securities to the public to finance future acquisitions and the terms of these financings may be adverse to us;
- Changes in accounting, tax, securities or other regulations could increase the difficulty or cost for us to complete acquisitions;
- We may incur unforeseen obligations or liabilities in connection with acquisitions;
- We may need to devote unanticipated financial and management resources to an acquired business;
- We may not realize expected operating efficiencies or product integration benefits from an acquisition;
- We could enter markets where we have minimal prior experience; and
- We may experience decreases in earnings as a result of non-cash impairment charges.

Security breaches or computer viruses could harm our business by disrupting our delivery of services and damaging our reputation.

As part of our transaction processing businesses, we electronically receive, process, store and transmit sensitive business information of our clients. Unauthorized access to our computer systems could result in the theft or publication of confidential information or the deletion or modification of records or could otherwise cause interruptions in our operations. These concerns about security are increased when we transmit information over the Internet. Computer viruses have also been distributed and have rapidly spread over the Internet. Computer viruses could infiltrate our systems, disrupting our delivery of services and making our applications unavailable. Any inability to prevent security breaches or computer viruses could have a negative impact on our reputation and could cause our present and potential clients to choose service providers other than us.

Consolidation in the financial services industry could adversely affect our revenues by eliminating some of our existing and potential clients and could make us more dependent on a more limited number of clients.

There has been and continues to be merger, acquisition and consolidation activity in the financial services industry. Consolidations of financial institutions in the future could reduce the number of our clients and potential clients. If our clients merge with or are acquired by other entities that are not our clients, or that use fewer of our services, they may discontinue or reduce their use of our services. In addition, it is possible that the

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larger financial institutions resulting from mergers or consolidations could decide to perform internally some or all of the services that we currently provide or could provide. Any of these developments could have a material adverse effect on our business and results of operations.

Operational failures in our outsourcing or transaction processing facilities could harm our business and reputation.

An operational failure in our outsourcing or transaction processing facilities could cause us to lose clients. Damage or destruction that interrupts our provision of services could damage our relationship with clients and may cause us to incur substantial additional expense to repair or replace damaged equipment. We have installed back-up systems and procedures to prevent or reduce disruption. A prolonged interruption of our services or network that extends for more than several hours could cause us to experience data loss or a reduction in revenues as a result of such interruption. In addition, a significant interruption of service could have a negative impact on our reputation and could cause our present and potential clients to choose service providers other than us.

Our ability to compete in the health plan administration business requires us to arrange for network provider services with third parties over whom we have no control.

In order to provide administrative services to our clients who sponsor self-insured health plans, we must, in most cases, arrange for these clients to have access to a third party provider network. In any particular market, provider networks could refuse to contract with us or only do so on terms that would not allow us to compete with our competitors. If these provider networks refuse to contract with us or only do so on terms that place us at a competitive disadvantage, our ability to compete or be profitable in those areas could be adversely affected. In addition, the large, national health insurance carriers with which we compete for administration services have their own proprietary networks. These networks, in some instances, allow our competitors to offer our target clients access to a health care network that offers better discount rates than we have access to, which may result in us being required to offer lower prices for administrative services in order to compete for clients.

We may experience software defects, development delays or installation difficulties, which would harm our business and reputation and expose us to potential liability.

Our services are based on sophisticated software and computing systems, and we may encounter delays when developing new applications and services. Further, the software underlying our services has occasionally contained and may in the future contain undetected errors or defects when first introduced or when new versions are released. In addition, we may experience difficulties in installing or integrating our technologies on platforms used by our clients. Defects in our software, errors or delays in the processing of electronic transactions or other difficulties could result in interruption of business operations, delay in market acceptance, additional development and remediation costs, diversion of technical and other resources, loss of clients, negative publicity or exposure to liability claims. Although we attempt to limit our potential liability through disclaimers and limitation of liability provisions in our license and client agreements, we cannot be certain that these measures will successfully limit our liability.

If we fail to comply with regulations imposed on providers of services to financial institutions, as a trust company or as an administrator of health services, or if the national flood program is amended or substantially changed, our businesses could be harmed.

Our financial services data processing subsidiaries are not directly subject to federal or state regulations specifically applicable to financial institutions such as banks, thrifts and credit unions. However, as a provider of services to these financial institutions, our data processing operations are examined on a regular basis by various federal and state regulatory authorities. In addition, our trust subsidiaries are subject to the regulations of the Colorado Division of Banking and the FDIC.

Our health plan management services subsidiaries are subject to extensive regulatory oversight at both the federal and state levels covering licensing and other day-to-day operating policies and procedures. In addition,

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most of our health plan management services businesses are subject to Health Insurance Portability and Accountability Act regulations that govern the privacy and security of health information to protect against the unauthorized use or disclosure of health information.

Our flood processing services business depends on administration of the National Flood Insurance Program by the federal government. Substantive changes to the current National Flood Insurance Program could have an adverse impact on our revenues or costs of doing business.

If we fail to comply with these regulations, we could be exposed to suits for breach of contract or to governmental proceedings, our client relationships and reputation could be harmed and we could be inhibited in our ability to obtain new clients. In addition, the future enactment of more restrictive laws or rules on the federal or state level, or, with respect to our international operations, in foreign jurisdictions on the national, provincial, state or other level, could have an adverse impact on our results of operations or financial condition.

Misappropriation of our intellectual property and proprietary rights could impair our competitive position.

Our ability to compete depends upon proprietary systems and technology. We actively seek to protect our proprietary rights. Nevertheless, unauthorized parties may attempt to copy aspects of our services or to obtain and use information that we regard as proprietary. Policing unauthorized use of our proprietary rights is difficult. The steps we have taken may not prevent misappropriation of technology. Agreements entered into for that purpose may not be enforceable. Effective patent, trademark, service mark, copyright and trade secret protection may not be available in every country in which our applications and services are made available. Misappropriation of our intellectual property or potential litigation concerning such matters could have a material adverse effect on our results of operations or financial condition.

If our applications or services are found to infringe the proprietary rights of others, we may be required to change our business practices or pay significant costs and monetary penalties.

As our information technology applications and services develop, we may become increasingly subject to infringement claims. Any claims, whether with or without merit, could:

- be expensive and time-consuming to defend;
- cause us to cease making, licensing or using applications that incorporate the challenged intellectual property;
- require us to redesign our applications, if feasible;
- divert management s attention and resources; and
- require us to enter into royalty or licensing agreements to obtain the right to use necessary technologies.

Third parties may assert infringement claims against us in the future with respect to our current or future applications and services.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

We currently operate full-service data centers, software system development centers and item processing and back-office support centers in over 200 cities. We own 15 facilities and all other buildings in which centers are located are subject to leases expiring through 2007 and beyond. In addition, we maintain our own national data communication network consisting of communications processors and leased lines.

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We believe our facilities and equipment are generally well maintained and are in good operating condition. We believe that the computer equipment that we own and our various facilities are adequate for our present and foreseeable business needs. We periodically upgrade our mainframe capability. We maintain our own, and contract with multiple service providers to provide, processing back-up in the event of a disaster. We also maintain copies of data and software used in our business in locations that are separate from our facilities.

Item 3. Legal Proceedings

In the normal course of business, we and our subsidiaries are named as defendants in lawsuits in which claims are asserted against us. Other than as described below, in the opinion of management, the liabilities, if any, which may ultimately result from such lawsuits are not expected to have a material adverse effect on our consolidated financial statements.

In February 2007, a class was certified by the United States District Court for the Central District of California in a lawsuit that was filed in 2005 against the Fiserv Trust Company (Fiserv Trust). The suit alleges that Fiserv Trust, which serves as a custodian and administrator of investment accounts, knew or should have known that third parties were perpetrating an alleged Ponzi scheme and that it breached its contractual and common law duties and aided and abetted the scheme by not advising the plaintiffs to avoid investing in the alleged scheme. The lawsuit was brought on behalf of a class of investors who maintained self-directed individual retirement accounts administered by Fiserv Trust and others who invested in the alleged scheme, including investors that were never customers of Fiserv Trust, and seeks compensatory damages of $120 million and punitive damages. Fiserv Trust has filed a petition for permission to appeal the class certification order. There is a related action in California Superior Court in San Diego, California seeking compensatory damages of approximately $7 million and punitive damages. We believe that the suits are without merit and intend to contest them vigorously. Nevertheless, we are unable to estimate or predict the ultimate outcome of these matters or to determine whether these matters will have a material adverse impact on our Investment Support Services segment results or our consolidated financial statements.

Item 4. Submission of Matters to a Vote of Security Holders

During the fourth quarter of the fiscal year covered by this report, no matter was submitted to a vote of our security holders.

EXECUTIVE OFFICERS OF THE REGISTRANT

The names of our executive officers as of February 27, 2007, together with their ages, positions and business experience are described below:

Name	Age	Title
Jeffery W. Yabuki	46	President and Chief Executive Officer
Norman J. Balthasar	60	Senior Executive Vice President and Chief Operating Officer
James W. Cox	43	Executive Vice President and Head of Mergers and Acquisitions
Michael D. Gantt	55	Executive Vice President and Group President, Insurance Group
Rahul Gupta	47	Executive Vice President and Group President, Payments and Industry Products
Thomas J. Hirsch	43	Executive Vice President, Chief Financial Officer, Treasurer and Assistant Secretary
Thomas A. Neill	58	Executive Vice President and Group President, Depository Institution Core Processing
Charles W. Sprague	57	Executive Vice President, General Counsel, Chief Administrative Officer and Secretary
Thomas W. Warsop III	40	Executive Vice President and Group President, Financial Institutions

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Mr. Yabuki has served as a director and as our President and Chief Executive Officer since 2005. Previously, Mr. Yabuki served as Senior Executive Vice President and Chief Operating Officer for H&R Block, Inc. from 2002 to 2005; from 2001 to 2002, he served as Executive Vice President of H&R Block; and from 1999 to 2001, he served as the President of H&R Block International. Prior to that, from 1987 to 1999, Mr. Yabuki held various executive positions with American Express Company, including President and Chief Executive Officer of American Express Tax and Business Services, Inc.

Mr. Balthasar has served as Senior Executive Vice President and Chief Operating Officer since 2002. Prior to that, he served as President and Chief Operating Officer of our Financial Institution Group, from 2000 to 2002, and as Executive Vice President and President of our Savings and Community Bank Group, from 1996 to 1999. Mr. Balthasar has been with us or one of our predecessor companies since 1974.

Mr. Cox has served as Executive Vice President and Head of Mergers and Acquisitions since May 2006. From 2003 to 2006, he served as President of our Health Solutions Group, and joined us in 2001 with the acquisition of Trewit, Inc., where he was President. Prior to that, Mr. Cox was a partner in Lund Koehler Cox & Arkema, a public accounting and consulting firm.

Mr. Gantt has served as President of our Insurance Group since December 2006. From 2004 to December 2006, he was President of our Bank Systems Group. Prior to that, from 2003 to 2004, Mr. Gantt served as Chairman, President and Chief Executive Officer of Ephinay Corporation. He joined us in 2000 and served as Executive Vice President and Chief Operating Officer of our Insurance Solutions Group, and, from 2001 to 2003, as President of the group. Prior to that, he was Senior Vice President and Group Manager for Policy Management Systems Corporation s Claims and Risk Management Group.

Mr. Gupta joined us in December 2006 as President of our Payments and Industry Products Group. Prior to that, from 2002 to 2006, he served in various capacities, including most recently as President, U.S. Operations, at eFunds Corporation, a publicly-traded payments and risk management solutions provider. In addition to working for eFunds, Mr. Gupta has more than 20 years of experience in financial technology management with firms such as Price Waterhouse Management Consultants, Fidelity Investments and i2 Technologies, Inc.

Mr. Hirsch has served as Executive Vice President, Chief Financial Officer and Treasurer since July 2006. Prior to such appointments, Mr. Hirsch served as our Senior Vice President and Controller since 2002. He joined us in 1994 as a Divisional Assistant Controller, became Corporate Assistant Controller in 1996, Corporate Vice President in 1997, and Corporate Controller in 1999. Prior to joining us, Mr. Hirsch was an audit manager with Deloitte & Touche LLP.

Mr. Neill has served as President of our Depository Institution Core Processing Group since December 2006. Prior to that, from 2000 to December 2006, he served as President of our Credit Union and Industry Products Group and, from 1993 to 2000, as President of the Products and Services Division and President of the Industry Products and Services Group.

Mr. Sprague has served as Executive Vice President, General Counsel and Secretary since 1994 and Chief Administrative Officer since 1999. He has been involved with our corporate and legal concerns since we were formed in 1984.

Mr. Warsop joined us in January 2007 as President of our Financial Institutions Group. Prior to that, Mr. Warsop served for 17 years in various capacities at Electronic Data Systems Corp. (EDS), a publicly-traded global technology services company. Mr. Warsop most recently served as Vice President, US Financial Services. He also served as a Vice President with EDS in the United Kingdom and as president of EDS s Business Process Outsourcing unit in Asia Pacific.

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PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Price Information

Our common stock is traded on the Nasdaq Global Select Market under the symbol FISV. Set forth below is the high and low sales price of our common stock during the periods presented.

	2006		2005	
Quarter Ended	**High**	**Low**	**High**	**Low**
March 31	$ 45.46	$ 40.29	$ 40.58	$ 36.33
June 30	46.28	40.58	44.25	38.94
September 30	48.25	42.10	46.85	42.06
December 31	53.60	46.92	46.89	41.05

At December 31, 2006, our common stock was held by 3,482 shareholders of record. It is estimated that an additional 67,000 shareholders own our stock through nominee or street name accounts with brokers. The closing sale price of our common stock on February 26, 2007 was $54.18 per share. We have never paid dividends on our common stock and we do not anticipate paying dividends in the foreseeable future. For additional information regarding our expected use of capital, refer to the discussion in this report under the heading Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Issuer Purchases of Equity Securities

The table below sets forth information with respect to purchases made by or on behalf of us or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of our common stock during the three months ended December 31, 2006.

Period	**Total Number of Shares Purchased**	**Average Price Paid Per Share**	**Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs**(1)	**Maximum Number of Shares that May Yet be Purchased Under the Plans or Programs**(1)
October 1-31, 2006	300,708	$ 48.67	300,708	2,940,746
November 1-30, 2006	1,382,900	51.29	1,382,900	1,557,846
December 1-31, 2006	1,200,000	52.24	1,200,000	357,846
Total	2,883,608	51.41	2,883,608	

(1) On February 21, 2006, our board of directors authorized the repurchase of up to 10 million shares of our common stock. As of December 31, 2006, we had the authority to purchase up to 357,846 shares under this program. On January 31, 2007, our board of directors authorized the repurchase of up to 10 million additional shares of our common stock. Neither repurchase authorization expires.

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Stock Performance Graph

The stock performance graph and related information presented below is not deemed to be soliciting material or to be filed with the Securities and Exchange Commission or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following graph compares the cumulative total shareholder return on our common stock for the five years ended December 31, 2006 with the S&P 500 Index and the NASDAQ Computer and Data Processing Services Index. The graph assumes that $100 was invested on December 31, 2001 in our common stock and each index and that all dividends were reinvested. No cash dividends have been declared on our common stock. The comparisons in the graph are required by the Securities and Exchange Commission and are not intended to forecast or be indicative of possible future performance of our common stock.

Information About Our Equity Compensation Plans

Information regarding the securities authorized for issuance under our equity compensation plans required by Item 5 is incorporated by reference to our definitive proxy statement for our 2007 annual meeting of stockholders, which will be filed with the Securities and Exchange Commission no later than 120 days after the end of our fiscal year ended December 31, 2006.

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Item 6. Selected Financial Data

The following data, which has been affected by acquisitions and dispositions, should be read in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this Annual Report on Form 10-K.

(In thousands, except per share data)	2006	2005	2004	2003	2002
Total revenues	**$ 4,544,151**	$ 4,059,478	$ 3,729,746	$ 2,925,367	$ 2,389,392
Income from continuing operations	**443,225**	511,357	394,898	308,823	259,331
Income (loss) from discontinued operations, net of tax	**6,689**	5,081	(17,256)	6,189	6,806
Net income	**449,914**	516,438	377,642	315,012	266,137
Net income (loss) per share basic:					
Continuing operations	**$ 2.53**	$ 2.71	$ 2.03	$ 1.60	$ 1.36
Discontinued operations	**0.04**	0.03	(0.09)	0.03	0.04
Total	**$ 2.57**	$ 2.74	$ 1.94	$ 1.63	$ 1.39
Net income (loss) per share diluted:					
Continuing operations	**$ 2.50**	$ 2.68	$ 2.00	$ 1.58	$ 1.33
Discontinued operations	**0.04**	0.03	(0.09)	0.03	0.03
Total	**$ 2.53**	$ 2.70	$ 1.91	$ 1.61	$ 1.37
Total assets	**$ 6,207,923**	$ 6,039,516	$ 8,383,349	$ 7,214,175	$ 6,438,705
Long-term debt	**747,256**	595,385	505,327	699,116	482,824
Shareholders equity	**2,425,622**	2,465,740	2,564,422	2,199,808	1,827,669

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations

Overview

Management s discussion and analysis of financial condition and results of operations is provided as a supplement to the accompanying consolidated financial statements and footnotes to help provide an understanding of our financial condition, the changes in our financial condition and our results of operations. Our discussion is organized as follows:

Recent developments. This section provides a general description of recent events and significant developments that we believe are important in understanding our results of operations and financial condition.

Critical accounting policies. This section contains a discussion of the accounting policies that we believe are important to our financial condition and results of operations and that require significant judgment and estimates on the part of management in their application. In addition, all of our significant accounting policies, including the critical accounting policies, are summarized in Note 1 to the accompanying consolidated financial statements.

Recent accounting pronouncements. This section provides a discussion of recent accounting pronouncements that we believe are important in understanding our results of operations and financial condition.

Non-GAAP financial measures. This section provides a discussion of non-GAAP financial measures which we use in this report.

Results of operations. This section provides an analysis of our results of operations presented in the accompanying consolidated statements of income by comparing the results for the year ended December 31, 2006 to the results for the year ended December 31, 2005 and comparing the results for the year ended December 31, 2005 to the results for the year ended December 31, 2004.

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Liquidity and capital resources. This section provides an analysis of our cash flows and a discussion of our outstanding debt and commitments that existed as of December 31, 2006. Included in the discussion of outstanding debt is a discussion of our financial capacity to fund our future commitments and a discussion of other financing arrangements.

Recent Developments

Historically, our operations consisted of three business segments based on the services provided by each: financial institution outsourcing, systems and services; health plan management services; and investment support services. As part of our Fiserv 2.0 initiative, we are focused on providing products and services in a more integrated manner. Accordingly, in December 2006, we announced a reorganization of our businesses to provide for a more streamlined structure. The new organization allows us to provide integrated technology-based solutions to each of the three main areas of the insurance industry: health, life, and property and casualty. As a result of this reorganization, we have modified our reporting segments such that our new reporting segments are: Financial Institution Services (Financial); Insurance Services (Insurance); and Investment Support Services (Investment).

Critical Accounting Policies

Our consolidated financial statements and accompanying notes have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires our management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. We continually evaluate the accounting policies and estimates that we use to prepare the consolidated financial statements. We base our estimates on historical experience and assumptions believed to be reasonable under current facts and circumstances. Actual amounts and results could differ materially from these estimates.

The majority of our revenues are generated from monthly account and transaction-based fees. Revenue is recognized when the related services have been rendered. Revenues are primarily recognized under service agreements that are long-term in nature, generally three to five years, and that do not require management to make significant judgments or assumptions. Given the nature of our business and the rules governing revenue recognition, our revenue recognition practices do not contain significant estimates that materially affect our results of operations. Additional information about our revenue recognition policies is included in Note 1 to the consolidated financial statements.

We review the carrying value of goodwill and indefinite-lived intangible assets by comparing the underlying carrying value or reporting unit carrying value to their fair values. As of the most recent impairment assessment in the fourth quarter of 2006, we determined that the carrying amounts of goodwill and indefinite-lived intangible assets do not exceed their respective fair values. We are required to perform this comparison, which involves a number of assumptions, at least annually, or more frequently if circumstances indicate possible impairment. Given the significance of goodwill and intangible asset balances, an adverse change in fair value could result in an impairment charge, which could be material to our financial statements.

We do not participate in, nor have we created, any off-balance sheet variable interest entities or other off-balance sheet financing, other than operating leases. In addition, we do not enter into any derivative financial instruments for speculative purposes and use derivative financial instruments for managing our exposure to changes in interest rates and managing our ratio of fixed to floating-rate long-term debt.

Recent Accounting Pronouncements

Statement of Financial Accounting Standard (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R), requires companies to expense the value of employee stock option grants and similar awards. We adopted SFAS 123R on January 1, 2006 under the modified prospective method. Accordingly, prior periods

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do not include share-based compensation expense related to SFAS 123R. Share-based compensation expense was $28.5 million and $4.0 million during 2006 and 2005, respectively. Prior to January 1, 2006, we accounted for stock options, restricted stock and our employee stock purchase plan in accordance with the intrinsic value provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Under APB 25, the difference between the quoted market price on the date of grant and the contractual purchase price of shares was recognized as compensation expense over the vesting period. As a result, we did not recognize compensation expense in the consolidated financial statements for stock options because the exercise price was not less than 100% of the fair value of the underlying common stock on the date of grant.

In September 2006, the Financial Accounting Standards Board (the FASB) issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). SFAS 158 requires companies to recognize the funded status of pension and other postretirement benefit plans on sponsoring employers balance sheets and to recognize changes in the funded status in the year the changes occur. The recognition provisions of SFAS 158 became effective for fiscal years ending after December 15, 2006. The adoption of SFAS 158 did not have a material impact on our financial statements.

In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We expect that the adoption of FIN 48 will not have a material impact on our financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the impact that the adoption of SFAS 157 will have on our financial statements.

Non-GAAP Financial Measures

In this report, we use two non-GAAP financial measures, internal revenue growth percentage and free cash flow. We use these measures to monitor and evaluate our performance, and they are presented in this report because we believe that they are useful to investors in evaluating our financial results. Non-GAAP financial measures should not be considered to be a substitute for the reported results prepared in accordance with GAAP. The methods that we use to calculate non-GAAP financial measures are not necessarily comparable to similarly titled measures presented by other companies.

Internal revenue growth percentage is measured as the increase or decrease in total revenue for the current year less acquired revenue from acquisitions divided by total revenues from the prior year plus acquired revenue from acquisitions. Acquired revenue from acquisitions represents pre-acquisition revenue of acquired companies, less dispositions, for the prior year. Acquired revenue from acquisitions was $111.3 million ($69.3 million in the Financial segment and $42.1 million in the Insurance segment) and $67.5 million ($44.5 million in the Financial segment and $23.0 million in the Insurance segment) in 2006 and 2005, respectively. Internal revenue growth percentage is a non-GAAP financial measure that we believe is useful to investors because it allows them to see the portion of our revenue growth that is attributed to acquired companies as compared to internal revenue growth.

Free cash flow is measured as net cash provided by operating activities from continuing operations less capital expenditures. Free cash flow is a non-GAAP financial measure that we believe is useful to investors because it shows our available cash flow after we have satisfied the capital requirements of our operations.

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Results of Operations

Components of Revenue and Expenses

The following summary describes the components of revenues and expenses as presented in our consolidated statements of income. A description of our revenue recognition policies is included in Note 1 to the consolidated financial statements.

Processing and Services

Processing and services revenues are primarily generated from account and transaction-based fees under contracts that generally have terms of three to five years. Revenue is recognized when the related transactions are processed and services have been rendered. Processing and services revenues are most reflective of our core business performance because a significant amount of our total operating profit is generated by these services. Cost of processing and services includes costs directly associated with providing services to clients and includes the following: personnel; equipment and data communication; infrastructure costs, including costs to maintain applications; customer support; depreciation; and other operating expenses.

Product

Product revenue is primarily derived from our pharmacy businesses, software license fees and integrated print and electronic communications. A significant amount of product revenue is derived from our pharmacy businesses within the Insurance segment because we include, in both revenues and expenses, the prescription product costs associated with these businesses. We do not manufacture or generally distribute prescription pharmaceuticals, but we are considered to be a principal under Emerging Issues Task Force (EITF) No. 99-19, Reporting Revenue Gross as a Principal versus Net as an Agent, as more fully described in Note 1 to the consolidated financial statements. Therefore, we record these revenues and expenses on a gross basis. Prescription product costs included in both product revenues and cost of product were $753.1 million, $540.0 million and $439.6 million in 2006, 2005 and 2004, respectively. Cost of products, in addition to pharmacy product costs, include personnel, infrastructure costs and other costs directly associated with product revenue.

We also include customer reimbursements, such as postage and telecommunication costs, in processing and services revenue, product revenue, cost of processing and services, and cost of product in accordance with EITF 01-14, Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred. These costs, which are pass-through expenses to clients and which are included in both revenues and expenses, were $416.1 million, $351.0 million and $379.2 million in 2006, 2005 and 2004, respectively.

Selling, General and Administrative Expenses

Selling, general and administrative expenses primarily consist of: salaries, wages and related expenses paid to sales personnel, administrative employees and management; advertising and promotional costs; and other selling and administrative expenses.

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Results of Operations

The following table presents certain amounts included in our consolidated statements of income, the relative percentage that those amounts represent to revenues, and the percentage change in those amounts from year to year. This information should be read along with the consolidated financial statements and notes thereto.

	Years ended December 31, (In millions)			Percentage Years Ended December 31,			Percentage Increase	
							2006 vs. 2005	2005 vs. 2004
	2006	2005	2004	2006	2005	2004		
Revenues:								
Processing and services	$ 3,026.5	$ 2,891.6	$ 2,739.7	67%	71%	73%	5%	6%
Product	1,517.7	1,167.9	990.0	33%	29%	27%	30%	18%
Total revenues	4,544.2	4,059.5	3,729.7	100%	100%	100%	12%	9%
Expenses:								
Cost of processing and services(1)	1,959.3	1,855.2	1,822.7	65%	64%	67%	6%	2%
Cost of product(1)	1,251.3	942.7	796.0	82%	81%	80%	33%	18%
Sub-total(2)	3,210.5	2,798.0	2,618.7	71%	69%	70%	15%	7%
Selling, general and administrative(2)	589.4	516.1	451.5	13%	13%	12%	14%	14%
Total expenses(2)	3,799.9	3,314.1	3,070.2	84%	82%	82%	15%	8%
Operating Income(2)	$ 744.3	$ 745.4	$ 659.6	16%	18%	18%	0%	13%

(1) Each percentage of revenue equals the relevant expense amount divided by the related component of total revenues.
(2) Each percentage of revenue equals the relevant expense or operating income amount divided by total revenues.

Total Revenues

Total revenues increased $484.7 million, or 12%, in 2006 compared to 2005, and $329.7 million, or 9%, in 2005 compared to 2004. The internal revenue growth rate was 9% in 2006 and 7% in 2005 with the remaining growth resulting from acquisitions. Overall internal revenue growth is primarily derived from sales to new clients, cross-sales to existing clients and increases in transaction volumes from existing clients. The improvement in the total revenue growth rate for 2006 compared to 2005 was primarily due to increased prescription revenue from new clients in the Insurance segment s pharmacy management and workers compensation businesses.

Processing and services revenues increased 5% in 2006 and 6% in 2005 compared to the prior year periods. These increases were driven by sales to new clients, cross-sales to existing clients, increases in transaction volumes from existing clients and incremental revenue attributable to several acquisitions. Partially offsetting these increases in 2006 were a $34.5 million decrease in contract termination fees and the impact of the loss of two clients in 2005. Contract termination and assignment fees were $23.4 million, $57.9 million and $36.4 million in 2006, 2005 and 2004, respectively. The Financial segment businesses generally enter into three to five year contracts with clients that contain early contract termination fees. These fees can be generated when an existing client is acquired by another financial institution and can vary significantly from period to period based on the number and size of clients that are acquired and how early in the contract term a client is acquired.

Product revenues increased 30% in 2006 compared to 2005 and 18% in 2005 compared to 2004 primarily due to new clients in the Insurance segment s pharmacy management and workers compensation businesses

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along with growth in card fulfillment and print services within the output solutions division. The revenue growth in the pharmacy management and workers compensation businesses in the Insurance segment was impacted significantly by the inclusion of prescription product costs in revenues and expenses of $753.1 million, $540.0 million and $439.6 million in 2006, 2005 and 2004, respectively.

Total Expenses

Total expenses increased $485.8 million, or 15%, in 2006 compared to 2005 and $243.9 million, or 8%, in 2005 compared to 2004. These increases were primarily driven by the significant increase in prescription product costs.

Cost of processing and services as a percentage of processing and services revenues were relatively consistent in 2006 as compared to 2005 and the slight increase from 64% in 2005 to 65% in 2006 was primarily caused by a decrease of $34.5 million in 2006 of higher margin contract termination fee revenue. These fees, which were significantly higher in 2005 than 2006, do not generate substantial incremental cost when received. Cost of processing and services as a percentage of processing and services revenues decreased in 2006 and 2005 from 67% in 2004 due primarily to changes in the mix of our businesses, including acquisitions and the impact of operating efficiencies.

Cost of product as a percentage of product revenue was 82% in 2006, 81% in 2005 and 80% in 2004. The increases in cost of product were primarily driven by the significant increase in prescription product costs in 2006 and 2005 as discussed above.

Selling, general and administrative expenses have remained relatively consistent as a percentage of total revenues in 2006, 2005 and 2004. Selling, general and administrative expenses in 2006 were negatively impacted by the inclusion of $17.3 million of incremental share-based compensation expense as a result of the prospective adoption of SFAS 123R on January 1, 2006, and $9.0 million related to the write-down of assets and facility shutdown costs in our lending division.

Operating Income and Operating Margin

Operating income decreased $1.1 million in 2006 compared to 2005 and operating margins decreased to 16% in 2006 from 18% in 2005 and 2004. Operating income and margin in 2006, as compared to 2005, was negatively impacted by a $34.5 million decrease in higher margin contract termination fees, a $24.5 million increase in share-based compensation expense related to the prospective adoption of SFAS 123R on January 1, 2006, operating losses associated with the Australian check processing operations and charges of $9.0 million related to the write-down of assets and facility shutdown costs in the lending division. Partially offsetting these decreases in operating income and margin were increases in higher margin revenues in the electronic payments and flood insurance processing businesses, continued strong operating results in bank and credit union core processing and improvements in overall operating efficiencies.

In addition, operating margins in 2006 and 2005 were negatively impacted by the significant revenue growth in the pharmacy management and workers compensation businesses, which generate operating margins in the low- to mid-single digits. The negative impact on operating margins due to the inclusion of prescription product costs in revenue and expense was approximately 3 percentage points in 2006 and 2005 and 2 percentage points in 2004.

Segment Results

In connection with organizational changes in 2006, we reclassified our reportable segments for all periods presented to align them with how our chief operating decision maker currently manages the business. As a result, our continuing operations are classified into three business segments: Financial Institution Services (Financial);

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Insurance Services (Insurance); and Investment Support Services (Investment). The historical business segment information presented below has been restated to conform to our new business segment reporting structure.

Years ended December 31,

(Dollars in millions)	**Financial**	**Insurance**	**Investment**	**Total**
Total revenues:				
2006	$ 2,877.4	$ 1,529.6	$ 137.1	$ 4,544.2
2005	2,650.0	1,275.0	134.4	4,059.5
2004	2,451.4	1,152.8	125.5	3,729.7
Operating income:				
2006	$ 565.0	$ 154.3	$ 25.0	$ 744.3
2005	581.1	139.2	25.0	745.4
2004	514.1	124.9	20.6	659.6
Operating income growth (decline)(1):				
2006	(3)%	11%	0%	0%
2005	13%	12%	22%	13%
Operating margin:				
2006	20%	10%	18%	16%
2005	22%	11%	19%	18%
2004	21%	11%	16%	18%

(1) Represents operating income growth (decline) compared to the prior period.

Financial

The Financial segment increased total revenues by $227.4 million, or 9%, in 2006 and $198.6 million, or 8%, in 2005. The internal revenue growth rate in the Financial segment was 6% in 2006 and 2005 with the remaining growth in each year resulting from acquisitions. Internal revenue growth in this segment was primarily driven by increased volumes and new clients in the electronic payments and loan settlement services businesses along with new client growth and increased sales in the banking and credit union core processing businesses and card fulfillment businesses. In 2006, internal revenue growth was negatively impacted by a $34.5 million decrease in contract termination fees and the loss of two clients in 2005. In 2005, internal revenue growth was positively impacted by a $21.5 million increase in contract termination fees.