

FISERV INC
Form 10-Q
July 28, 2006
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D. C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended June 30, 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
(State or other jurisdiction of
incorporation or organization)

255 FISERV DRIVE, BROOKFIELD, WI
(Address of principal executive office)

39-1506125
(I. R. S. Employer
Identification No.)

53045
(Zip Code)

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(262) 879-5000

(Registrant's telephone number, including area code)

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

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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

As of July 24, 2006, there were 174,232,030 shares of common stock, \$.01 par value, of the Registrant outstanding.

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FISERV, INC. AND SUBSIDIARIES

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Table of Contents**PART I. FINANCIAL INFORMATION****ITEM I. FINANCIAL STATEMENTS****FISERV, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share amounts)

(Unaudited)

| | Three Months Ended | | Six Months Ended | |
|---|--------------------|------------|-------------------|--------------|
| | June 30, 2006 | 2005 | June 30, 2006 | 2005 |
| Revenues: | | | | |
| Processing and services | \$ 741,437 | \$ 708,958 | \$ 1,502,481 | \$ 1,402,944 |
| Product | 351,760 | 287,468 | 687,384 | 566,596 |
| Total revenues | 1,093,197 | 996,426 | 2,189,865 | 1,969,540 |
| Expenses: | | | | |
| Cost of processing and services | 487,579 | 453,816 | 973,547 | 894,275 |
| Cost of product | 278,209 | 229,055 | 550,303 | 450,495 |
| Selling, general and administrative | 143,220 | 126,310 | 288,873 | 249,509 |
| Total expenses | 909,008 | 809,181 | 1,812,723 | 1,594,279 |
| Operating income | 184,189 | 187,245 | 377,142 | 375,261 |
| Interest expense - net | (8,774) | (1,280) | (14,880) | (4,942) |
| Realized gain from sale of investment | | | | 43,452 |
| Income from continuing operations before income taxes | 175,415 | 185,965 | 362,262 | 413,771 |
| Income tax provision | 64,435 | 71,968 | 135,071 | 160,129 |
| Income from continuing operations | 110,980 | 113,997 | 227,191 | 253,642 |
| Income (loss) from discontinued operations, net of tax | 6,689 | | 6,689 | (619) |
| Net income | \$ 117,669 | \$ 113,997 | \$ 233,880 | \$ 253,023 |
| Basic net income per share: | | | | |
| Continuing operations | \$ 0.63 | \$ 0.60 | \$ 1.28 | \$ 1.32 |
| Discontinued operations | 0.04 | | 0.04 | |
| Total | \$ 0.67 | \$ 0.60 | \$ 1.32 | \$ 1.32 |
| Diluted net income per share: | | | | |
| Continuing operations | \$ 0.63 | \$ 0.59 | \$ 1.26 | \$ 1.31 |
| Discontinued operations | 0.04 | | 0.04 | |
| Total | \$ 0.66 | \$ 0.59 | \$ 1.30 | \$ 1.30 |

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Shares used in computing net income per share:

| | | | | |
|---------|----------------|---------|----------------|---------|
| Basic | 175,113 | 190,879 | 177,232 | 192,131 |
| Diluted | 177,551 | 193,227 | 179,667 | 194,361 |

See notes to condensed consolidated financial statements.

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FISERV, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

(Unaudited)

| | June 30, 2006 | December 31, 2005 |
|--|---------------------|----------------------|
| Assets | | |
| Cash and cash equivalents | \$ 151,979 | \$ 184,471 |
| Accounts receivable, less allowance for doubtful accounts | 583,224 | 553,402 |
| Prepaid expenses and other assets | 114,035 | 105,782 |
| Investments | 2,463,581 | 2,126,538 |
| Property and equipment, net | 239,287 | 226,013 |
| Intangible assets, net | 601,773 | 593,808 |
| Goodwill | 2,317,329 | 2,249,502 |
| Total | \$ 6,471,208 | \$ 6,039,516 |
| Liabilities and Shareholders Equity | | |
| Accounts payable | \$ 269,128 | \$ 241,751 |
| Accrued expenses | 287,450 | 365,651 |
| Accrued income taxes | 12,792 | 4,266 |
| Deferred revenues | 233,332 | 240,105 |
| Customer funds held and retirement account deposits | 2,321,519 | 1,960,626 |
| Deferred income taxes | 168,392 | 165,992 |
| Long-term debt | 783,095 | 595,385 |
| Total liabilities | 4,075,708 | 3,573,776 |
| Shareholders equity: | | |
| Preferred stock, no par value: 25,000,000 shares authorized; none issued | | |
| Common stock, \$0.01 par value: 450,000,000 shares authorized; 197,803,142 and 197,507,892 shares issued | 1,978 | 1,975 |
| Additional paid-in capital | 702,624 | 693,715 |
| Accumulated other comprehensive income | 2,572 | 1,321 |
| Accumulated earnings | 2,670,857 | 2,436,977 |
| Treasury stock, at cost, 23,111,326 and 15,753,675 shares | (982,531) | (668,248) |
| Total shareholders equity | 2,395,500 | 2,465,740 |
| Total | \$ 6,471,208 | \$ 6,039,516 |

See notes to condensed consolidated financial statements.

Table of Contents**FISERV, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Dollars in thousands)

(Unaudited)

| | Six Months Ended June 30, | |
|--|------------------------------|------------|
| | 2006 | 2005 |
| Cash flows from operating activities: | | |
| Net income | \$ 233,880 | \$ 253,023 |
| Adjustment for discontinued operations | (6,689) | 619 |
| Adjustments to reconcile net income to net cash provided by operating activities from continuing operations: | | |
| Realized gain from sale of investment | | (43,452) |
| Deferred income taxes | 8,520 | 11,210 |
| Share-based compensation expense | 19,313 | 1,211 |
| Excess tax benefit from exercise of options | (3,366) | |
| Depreciation and amortization | 92,901 | 88,169 |
| Changes in assets and liabilities, net of effects from acquisitions and dispositions of businesses: | | |
| Accounts receivable | (13,685) | (24,720) |
| Prepaid expenses and other assets | (5,056) | 620 |
| Accounts payable and accrued expenses | (38,841) | (24,873) |
| Deferred revenues | (10,802) | (7,714) |
| Accrued income taxes | 7,310 | (3,200) |
| Net cash provided by operating activities from continuing operations | 283,485 | 250,893 |
| Cash flows from investing activities: | | |
| Capital expenditures, including capitalization of software costs for external customers | (96,220) | (69,640) |
| Payment for acquisitions of businesses, net of cash acquired | (101,191) | (135,654) |
| Proceeds from sale of businesses, net of expenses paid | (2,153) | 303,944 |
| Cash distribution received from discontinued operations prior to sale | | 68,000 |
| Investments | (336,956) | (173,518) |
| Net cash used in investing activities from continuing operations | (536,520) | (6,868) |
| Cash flows from financing activities: | | |
| Proceeds from (repayments of) long-term debt - net | 187,568 | (14,845) |
| Issuance of common stock and treasury stock | 18,255 | 27,700 |
| Purchases of treasury stock | (349,539) | (263,158) |
| Excess tax benefit from exercise of stock options | 3,366 | |
| Customer funds held and retirement account deposits | 360,893 | 56,730 |
| Net cash provided by (used in) financing activities from continuing operations | 220,543 | (193,573) |
| Change in cash and cash equivalents | (32,492) | 50,452 |
| Beginning balance | 184,471 | 516,127 |
| Ending balance | \$ 151,979 | \$ 566,579 |

Discontinued Operations Cash Flow Information (Revised-Note 1)

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| | | |
|---|----|------------|
| Net cash used in operating activities | \$ | \$ (6,306) |
| Net cash used in investing activities | | (36,749) |
| Net cash provided by financing activities | | 39,600 |
| Total net cash used in discontinued operations | | (3,455) |
| Cash and cash equivalents - beginning of period | | 35,849 |
| Cash and cash equivalents - sold | | 32,394 |
| Cash and cash equivalents - end of period | \$ | \$ |

See notes to condensed consolidated financial statements.

Table of Contents**FISERV, INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****1. Principles of Consolidation**

The condensed consolidated financial statements for the three and six month periods ended June 30, 2006 and 2005 are unaudited. In the opinion of management, all adjustments necessary for a fair presentation of such condensed consolidated financial statements have been included. Such adjustments consisted only of normal recurring items. Interim results are not necessarily indicative of results for a full year. The financial statements and notes are presented as permitted by Form 10-Q and do not contain certain information included in the annual consolidated financial statements and notes of Fiserv, Inc. and subsidiaries (the Company). It is recommended that these interim condensed consolidated financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. The Company revised the presentation of its consolidated statements of cash flows to present separate disclosure of the cash flows from operating, investing and financing activities of the discontinued operations. Certain amounts reported in prior periods have been reclassified to conform to the current presentation.

2. Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. This Interpretation 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. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact, if any, that the adoption of this Interpretation will have on its financial statements.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences (SFAS 43) (EITF 06-2). EITF 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in SFAS 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of the EITF are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment approach upon adoption. The Company is currently evaluating the impact, if any, that the adoption of this EITF will have on its financial statements.

3. Discontinued Operations

On March 24, 2005, the Company completed the sale of its securities clearing businesses to Fidelity Global Brokerage Group, Inc. (Fidelity) for \$344.9 million paid in cash at closing. Prior to completion of the sale, the securities clearing businesses paid a \$68.0 million cash distribution to the Company. The sales proceeds, net of related expenses, including taxes that became due upon the sale of the securities clearing businesses, approximated the Company's carrying value of its investment. In the first quarter of 2005, the Company recorded a net loss on the sale of discontinued operations of \$0.4 million, net of related income taxes of \$48.7 million. The higher income tax expense on the sale of the securities clearing operations was primarily due to a significantly lower tax basis than book basis in the discontinued operations resulting primarily from a tax free exchange in the Company's initial purchase of one of the companies included in discontinued operations. The stock purchase agreement provided that the Company retain the liability associated with the SEC investigation of the Company's former subsidiary, Fiserv Securities, Inc. (FSI). In the second quarter of 2005, FSI settled with the SEC on this matter for \$15.0 million which was fully accrued for in the Company's 2004 financial statements. In the second quarter of 2006, the Company finalized and recognized a \$10.6 million pre-tax gain related to a contingent payment that was received in July from Fidelity based on the securities clearing businesses' achievement of certain revenue targets established in the agreement.

The Company is investigating a matter in an indemnification notice received under the stock purchase agreement regarding FSI's past

maintenance of certain documentation related to FSI's introducing broker dealers' customers. The Company is unable to estimate or predict the ultimate outcome or determine whether this matter will have a material adverse impact on the Company's discontinued operations' results.

The Company's securities clearing businesses are excluded from reported total revenues and total expenses and have been reported as

discontinued operations for all periods presented. The Company reports its cash flows from continuing operations separate from cash

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flows from discontinued operations on its condensed consolidated statements of cash flows. The discontinued operations cash flow

disclosure includes a \$68.0 million cash distribution in 2005 that the securities clearing business made to the Company prior to completion of the sale. Summarized financial information for discontinued operations included in the financial statements is as follows:

| <i>(In thousands)</i> | Three and six months ended June 30, | Three months ended June 30, | Six months ended June 30, |
|--|--|--|--|
| | 2006 | 2005 | 2005 |
| Total revenues | \$ | \$ | \$ 26,391 |
| Total expenses | | | 26,809 |
| Operating loss before income taxes | | | (418) |
| Income tax benefit | | | 162 |
| Gain (loss) on sale of businesses, net of income taxes of \$3,900 and \$48,670, respectively | 6,689 | | (363) |
| Gain (loss) from discontinued operations, net of tax | \$ 6,689 | \$ | \$ (619) |

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4. Long-Term Debt

The Company has available a five-year, \$900.0 million revolving credit facility, maturing on March 24, 2011, of which \$500.0 million was utilized as of June 30, 2006. The Company may increase the maximum aggregate amount of availability under the revolving credit facility up to \$1,250.0 million at the Company's discretion, subject to certain conditions, which include, among other things, the absence of any default under the credit agreement. There are no significant commitment fees or compensating balance requirements under this facility. The Company intends to use the revolving credit facility for general corporate purposes.

The credit agreement contains various restrictions and covenants applicable to the Company and certain of its subsidiaries. Among other requirements, the Company must limit its consolidated indebtedness to no more than three and one-half times the Company's

consolidated net earnings before interest, taxes, depreciation and amortization. The Company was in compliance with all debt covenants at June 30, 2006.

In July 2006, the Company initiated a \$500.0 million unsecured commercial paper notes program. The Company may issue commercial paper, which is exempt from registration under the Securities Act of 1933, with maturities of up to 397 days from the date of issuance and maintains the above revolving credit facility to support 100% of the outstanding commercial paper.

5. Share-Based Compensation

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), Share-Based Payment (SFAS 123R), that requires companies to expense the value of employee stock purchase plans, stock option grants and similar awards. The Company adopted SFAS 123R on January 1, 2006 under the modified prospective method; as such, prior periods do not include share-based compensation expense related to SFAS 123R. The modified prospective method requires the application of SFAS 123R to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of outstanding awards for which service had not been rendered (such as unvested options) that were outstanding as of the date of adoption are recognized as the remaining services are rendered. The Company recognizes the fair value of stock-based compensation awards in cost of processing and services expense and selling, general and administrative expense in the condensed consolidated statement of income on a straight line basis over the vesting period.

The Company's share-based compensation primarily consists of the following:

Stock Options: The Company generally grants stock options to employees and directors at exercise prices equal to the fair market value of the Company's stock at the dates of grant. Stock options are typically granted in the first quarter of the year, generally vest 20% on the date of grant and 20% each year thereafter and expire 10 years from the date of the award. The Company recognizes compensation expense for the fair value of the stock options over the requisite service period of the stock option award.

Restricted Stock: The Company awards shares of stock to employees and directors that are restricted. During the period of restriction,

the holder of restricted stock has voting rights and is entitled to receive all distributions including dividends paid with respect to the stock. The Company recognizes stock compensation expense relating to the issuance of restricted stock based on the market price on the date of award over the period during which the restrictions expire, which is generally four years from the date of grant, on a straight-line basis.

Employee Stock Purchase Plan: The Company offers an employee stock purchase plan that grants eligible employees the right to

purchase a limited number of shares of common stock each quarter through payroll deductions at 85% of the closing price of the

Company's common stock on the last business day of each calendar quarter. Compensation expense related to the 15% discount under

the employee stock purchase plan is recognized on the purchase date.

During the three months ended June 30, 2006 and 2005, the Company recognized approximately \$5.5 million (\$4.1 million in selling,

general and administrative expenses and \$1.5 million in cost of processing and services) and \$0.4 million (in selling, general and

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administrative expenses) of stock-based compensation expense and \$1.8 million and \$0.1 million in related tax benefits, respectively.

During the six months ended June 30, 2006 and 2005, the Company recognized approximately \$19.3 million (\$15.1 million in selling,

general and administrative expenses and \$4.3 million in cost of processing and services) and \$1.2 million (in selling, general and

administrative expenses) of stock-based compensation expense and \$6.6 million and \$0.5 million in related tax benefits, respectively. As of June 30, 2006, the total remaining unrecognized compensation cost related to non-vested stock options and restricted stock awards, net of forfeitures, was approximately \$36 million.

Prior to January 1, 2006, the Company accounted for its stock options, restricted stock and 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 as of the date of grant and the contractual purchase price of shares was recognized as compensation expense over the vesting period on a straight-line basis. The Company did not recognize compensation expense in its consolidated financial statements for stock options as the exercise price was not less than 100% of the fair value of the underlying common stock on the date of grant or related to the employee stock purchase plan as the plan's discount did not exceed fifteen percent.

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The following table illustrates the effect on net income and net income per share had the Company recognized compensation expense consistent with the fair value provisions of SFAS No. 123 Accounting for Stock-Based Compensation prior to the adoption of SFAS 123R:

| <i>(In thousands, except per share data)</i> | Three Months | | Six Months | |
|--|--------------|----------------|------------|----------------|
| | Ended | | Ended | |
| | June 30, | | June 30, | |
| | 2005 | | 2005 | |
| Net income: | | | | |
| As reported | \$ | 113,997 | \$ | 253,023 |
| Add: reported stock compensation expense - net of tax | | 223 | | 742 |
| Less: fair value stock compensation expense - net of tax | | (3,328) | | (15,247) |
| Pro forma | \$ | 110,892 | \$ | 238,518 |
| Reported net income per share: | | | | |
| Basic | \$ | 0.60 | \$ | 1.32 |
| Diluted | | 0.59 | | 1.30 |
| Pro forma net income per share: | | | | |
| Basic | \$ | 0.58 | \$ | 1.24 |
| Diluted | | 0.57 | | 1.23 |

The fair values of stock options granted were estimated on the date of grant using a binomial option-pricing model with the following assumptions:

| | Three Months Ended | | Six Months Ended | |
|---------------------------------|--------------------|-------|------------------|-------|
| | June 30, | | June 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Expected life (in years) | 3.3 | 6.1 | 4.9 | 5.2 |
| Average risk-free interest rate | 5.2% | 3.8% | 4.6% | 3.7% |
| Expected volatility | 26.2% | 32.2% | 30.4% | 31.9% |
| Expected dividend yield | 0% | 0% | 0% | 0% |

The Company determined the expected life of the stock options using historical data adjusted for known factors that would alter historical exercise behavior including announced retirement dates. The risk-free interest rate is based on the U.S. treasury yield curve in effect as of the grant date. Expected volatility was determined using a weighted average of implied market volatility combined with historical volatility. The Company determined that a blend of historical volatility and implied volatility better reflects future market conditions and better indicates expected volatility than purely historical volatility.

The weighted-average estimated fair value of stock options granted during the six months ended June 30, 2006 and 2005 was \$13.34 and \$13.59 per share, respectively.

The table below presents information related to stock option activity for the six months ended June 30, 2006 and 2005:

Six Months Ended
June 30,

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(In thousands)

| | 2006 | 2005 |
|---|-----------|-----------|
| Total intrinsic value of stock options exercised | \$ 17,276 | \$ 31,832 |
| Cash received from stock option exercises | 8,491 | 21,669 |
| Gross income tax benefit from the exercise of stock options | 6,600 | 11,000 |

A summary of stock option activity for the six months ended June 30, 2006 is as follows:

| | Number of Shares (In thousands) | Weighted Average Exercise Price | Wtd. Avg Remaining Contractual Term (years) | Aggregate Intrinsic Value (In thousands) |
|--------------------------------|---------------------------------------|---------------------------------------|--|---|
| Outstanding, December 31, 2005 | 10,114 | \$ 31.67 | | |
| Granted | 1,543 | 40.95 | | |
| Forfeited | (86) | 36.69 | | |
| Exercised | (963) | 25.99 | | |
| Outstanding, June 30, 2006 | 10,608 | \$ 33.49 | 6.2 | \$ 125,917 |
| Exercisable, June 30, 2006 | 7,706 | \$ 31.22 | 5.2 | \$ 108,963 |

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A summary of restricted stock activity for the six months ended June 30, 2006 is as follows:

| | Number of Shares (In thousands) | Weighted Average Fair Value | Wtd. Avg Remaining Vesting Term (years) | Aggregate Intrinsic Value (In thousands) |
|--------------------------------|---|-----------------------------------|--|---|
| Outstanding, December 31, 2005 | 84 | \$ 43.35 | | |
| Granted | 295 | 40.11 | | |
| Vested | (2) | 42.00 | | |
| Outstanding, June 30, 2006 | 377 | \$ 40.87 | 1.8 | \$ 17,101 |

At June 30, 2006, options to purchase 2.6 million shares were available for grant under the Company's Stock Option and Restricted Stock Plan. At June 30, 2006, there were 0.7 million shares available for grant under the employee stock purchase plan.

6. Shares Used in Computing Net Income Per Share

The computation of the number of shares used in calculating basic and diluted net income per share is as follows:

| <i>(In thousands)</i> | Three months ended June 30, | | Six months ended June 30, | |
|---|--------------------------------|---------|------------------------------|---------|
| | 2006 | 2005 | 2006 | 2005 |
| Weighted-average shares outstanding used for calculation of net income per share-basic | 175,113 | 190,879 | 177,232 | 192,131 |
| Common stock equivalents | 2,438 | 2,348 | 2,435 | 2,230 |
| Total shares used for calculation of net income per share-diluted | 177,551 | 193,227 | 179,667 | 194,361 |
| Weighted-average shares under share-based compensation awards excluded from the calculation of common stock equivalents as the impact was anti-dilutive | 1,508 | 28 | 1,673 | 1,252 |

7. Comprehensive Income

Comprehensive income is comprised of net income, unrealized gains and losses on available-for-sale investment securities, foreign currency translation and fair market value adjustments on cash flow hedges and is as follows:

| <i>(In thousands)</i> | Three months ended June 30, | | Six months ended June 30, | |
|--|--------------------------------|------------|------------------------------|------------|
| | 2006 | 2005 | 2006 | 2005 |
| Net income | \$ 117,669 | \$ 113,997 | \$ 233,880 | \$ 253,023 |
| Components of other comprehensive income - net | (895) | 154 | 1,251 | (29,318) |
| Comprehensive income | \$ 116,774 | \$ 114,151 | \$ 235,131 | \$ 223,705 |

The components of other comprehensive income for the six month period ended June 30, 2005 were negatively impacted by the realized gain on the sale of the Company's remaining ownership of 3.2 million shares of Bisys Group, Inc. common stock in the first quarter of 2005.

Table of Contents**8. Segment Information**

Revenues and operating income for the Company's reportable segments are as follows:

| <i>(In thousands)</i> | Financial | Health | Investment | Total |
|--|--------------|------------|------------|--------------|
| Three months ended June 30, 2006: | | | | |
| Processing and services | \$ 610,024 | \$ 95,710 | \$ 35,703 | \$ 741,437 |
| Product | 158,016 | 193,744 | | 351,760 |
| Total revenues | \$ 768,040 | \$ 289,454 | \$ 35,703 | \$ 1,093,197 |
| Operating income | \$ 159,033 | \$ 17,535 | \$ 7,621 | \$ 184,189 |
| Three months ended June 30, 2005: | | | | |
| Processing and services | \$ 583,744 | \$ 90,498 | \$ 34,716 | \$ 708,958 |
| Product | 130,248 | 157,220 | | 287,468 |
| Total revenues | \$ 713,992 | \$ 247,718 | \$ 34,716 | \$ 996,426 |
| Operating income | \$ 160,157 | \$ 18,867 | \$ 8,221 | \$ 187,245 |
| Six months ended June 30, 2006: | | | | |
| Processing and services | \$ 1,238,137 | \$ 194,292 | \$ 70,052 | \$ 1,502,481 |
| Product | 310,994 | 376,390 | | 687,384 |
| Total revenues | \$ 1,549,131 | \$ 570,682 | \$ 70,052 | \$ 2,189,865 |
| Operating income | \$ 325,202 | \$ 38,288 | \$ 13,652 | \$ 377,142 |
| Six months ended June 30, 2005: | | | | |
| Processing and services | \$ 1,150,373 | \$ 185,108 | \$ 67,463 | \$ 1,402,944 |
| Product | 261,655 | 304,941 | | 566,596 |
| Total revenues | \$ 1,412,028 | \$ 490,049 | \$ 67,463 | \$ 1,969,540 |
| Operating income | \$ 320,305 | \$ 41,133 | \$ 13,823 | \$ 375,261 |

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Recent Accounting Pronouncements**

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation (FIN) No. 48, Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109. This Interpretation 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. This Interpretation is effective for fiscal years beginning after December 15, 2006. The Company is currently assessing the impact, if any, that the adoption of this Interpretation will have on its financial statements.

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) No. 06-2, Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences (SFAS 43) (EITF 06-2). EITF 06-2 provides guidelines under which sabbatical leave or other similar benefits provided to an employee are considered to accumulate, as defined in SFAS 43. If such benefits are deemed to accumulate, then the compensation cost associated with a sabbatical or other similar benefit arrangement should be accrued over the requisite service period. The provisions of the EITF are effective for fiscal years beginning after December 15, 2006 and allow for either retrospective application or a cumulative effect adjustment approach upon adoption. The Company is currently evaluating the impact, if any, that the adoption of this EITF will have on its financial statements.

Results of Operations

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

| | Three months ended June 30, | | | | 2006 vs. 2005 | |
|---|-----------------------------|-----------------|--------------------|------------|-----------------|-------------|
| | <i>(In millions)</i> | | Percentage (1) (2) | | Increase | |
| | 2006 | 2005 | 2006 | 2005 | \$ | % |
| Revenues: | | | | | | |
| Processing and services | \$ 741.4 | \$ 709.0 | 68% | 71% | \$ 32.5 | 5% |
| Product | 351.8 | 287.5 | 32% | 29% | 64.3 | 22% |
| Total revenues | 1,093.2 | 996.4 | 100% | 100% | 96.8 | 10% |
| Expenses: | | | | | | |
| Cost of processing and services (1) | 487.6 | 453.8 | 66% | 64% | 33.8 | 7% |
| Cost of product (1) | 278.2 | 229.1 | 79% | 80% | 49.2 | 21% |
| Sub-total (2) | 765.8 | 682.9 | 70% | 69% | 82.9 | 12% |
| Selling, general and administrative (2) | 143.2 | 126.3 | 13% | 13% | 16.9 | 13% |
| Total expenses (2) | 909.0 | 809.2 | 83% | 81% | 99.8 | 12% |
| Operating Income (2) | \$ 184.2 | \$ 187.2 | 17% | 19% | \$ (3.1) | (2)% |

| | Six months ended June 30, | | | | 2006 vs. 2005 | |
|-------------------------|---------------------------|------------|--------------------|------|---------------|-----|
| | <i>(In millions)</i> | | Percentage (1) (2) | | Increase | |
| | 2006 | 2005 | 2006 | 2005 | \$ | % |
| Revenues: | | | | | | |
| Processing and services | \$ 1,502.5 | \$ 1,402.9 | 69% | 71% | \$ 99.5 | 7% |
| Product | 687.4 | 566.6 | 31% | 29% | 120.8 | 21% |

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| | | | | | | |
|---|-----------------|----------|-------------|------|--------|-----|
| Total revenues | 2,189.9 | 1,969.5 | 100% | 100% | 220.3 | 11% |
| Expenses: | | | | | | |
| Cost of processing and services (1) | 973.5 | 894.3 | 65% | 64% | 79.3 | 9% |
| Cost of product (1) | 550.3 | 450.5 | 80% | 80% | 99.8 | 22% |
| Sub-total (2) | 1,523.9 | 1,344.8 | 70% | 68% | 179.1 | 13% |
| Selling, general and administrative (2) | 288.9 | 249.5 | 13% | 13% | 39.4 | 16% |
| Total expenses (2) | 1,812.7 | 1,594.3 | 83% | 81% | 218.4 | 14% |
| Operating Income (2) | \$ 377.1 | \$ 375.3 | 17% | 19% | \$ 1.9 | 1% |

(1) Each percentage equals the relevant expense amount divided by the related component of total revenues.

(2) Each percentage equals the relevant expense or operating income amount divided by total revenues.

Total Revenues

Total revenues increased \$96.8 million, or 10%, in the second quarter of 2006 compared to 2005 and \$220.3 million, or 11%, in the first six months of 2006 compared to 2005. The internal revenue growth rate was 7% in the second quarter of 2006 and 9% in the first six months of 2006 with the remaining growth resulting from acquisitions. Overall internal revenue growth was primarily derived from sales to new clients, additional sales to existing clients and increases in transaction volumes from existing clients.

Processing and services revenues increased 5% in the second quarter of 2006 compared to 2005 and 7% in the first six months of 2006 compared to 2005. Strong contributors to these increases over prior year periods were an acquisition in the Company's electronic payments area; new client and volume growth in the Company's lending settlement services; and growth in the bank and credit union core processing businesses. Partially offsetting this growth was a decrease in contract termination fees in the Financial segment during the three and six month periods ended June 30, 2006 of \$1.5 million and \$12.5 million, respectively, compared to the comparable prior year periods. The financial segment businesses generally enter into three to five year contracts with clients that contain early contract termination fees. These fees are 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 22% in the second quarter of 2006 compared to 2005 and 21% in the first six months of 2006 compared to 2005 primarily driven by revenue growth in the Company's pharmacy management businesses, along with growth in the bank products and output solutions divisions. The pharmacy management businesses growth was impacted significantly on a year over year basis by the inclusion of prescription product costs in both revenues and expenses of \$166.4 million and \$131.1 million in the second quarters of 2006 and 2005, respectively and \$320.4 million and \$255.2 million in the first six months of 2006 and 2005, respectively.

Table of Contents**Total Expenses**

Total expenses increased \$99.8 million, or 12%, in the second quarter of 2006 compared to 2005 and \$218.4 million, or 14%, in the first six months of 2006 compared to 2005. Total expenses as a percentage of total revenues were 83% for the three and six month periods ended June 30, 2006, compared to 81% for the three and six month periods ended June 30, 2005.

The increases in cost of processing and services as a percentage of processing and services revenues in 2006 compared to the 2005 periods were primarily due to incremental expenses associated with the Company's Australian check processing operations and investments in the Company's lending businesses. Cost of product as a percentage of product revenue remained relatively consistent at 80% in the first six months of 2005 and 2006. Selling, general and administrative expenses were 13% as a percentage of total revenues in the three and six month periods ended June 30, 2006 and 2005 and were negatively impacted by the inclusion of \$13.8 million of incremental share-based compensation expense compared to 2005 recorded as a result of the modified prospective adoption of SFAS 123R on January 1, 2006.

Operating Income and Operating Margin

Operating income decreased \$3.1 million, or 2%, in the second quarter of 2006 compared to 2005 and increased \$1.9 million, or 1%, in the first six months of 2006 compared to 2005. Operating margins for the three and six month periods ended June 30, 2006 were each approximately 2 percentage points lower than the comparable prior year periods that reflected strong results.

The overall operating margin for the first six months of 2006 compared to the comparable period in 2005 was negatively impacted by approximately 1 percentage point due to incremental share-based compensation expense of \$18.1 million related to the adoption of SFAS 123R on January 1, 2006. Growth in the pharmacy services businesses, which are required to include prescription costs in both revenues and expenses under US GAAP, and growth in the Company's output solutions division, which is required to include customer reimbursements in both revenues and expenses under US GAAP, negatively impacted 2006 operating margins by approximately 1 percentage point due to the inclusion of these pass through items which negatively impact operating margins in these businesses. In addition, year to date margins compared to the prior year were negatively impacted due to reduced contract termination fees of \$12.5 million, incremental expenses associated with the Company's Australian check processing operations, and investments in the Company's lending businesses. These negative margin impacts were offset by \$21.5 million of higher margin incremental flood claims processing revenues primarily earned in the first quarter of 2006.

SEGMENT RESULTS

The Company provides information management systems and services to the financial and health benefits industries, including transaction processing outsourcing, business process outsourcing and software and systems solutions. The Company's operations are classified into three business segments: Financial institution outsourcing, systems and services (Financial); Health plan management services (Health); and Investment support services (Investment).

Adjusted revenues presented in the following tables exclude the revenues associated with customer reimbursements and the pass-through portion of prescription product costs as both of these items offset in revenues and expenses. Adjusted revenue is a non-GAAP financial measure that the Company believes is useful to investors because it provides a measurement of growth excluding pass-through revenue and expense as management does not believe these items are necessarily an indicator of the Company's current or future performance.

Adjusted revenues as calculated by the Company are not necessarily comparable to similarly titled measures presented by other companies.

| Revenue (In millions) | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|----------------------------|-----------------------------|----------|------------|------------|---------------------------|----------|------------|------------|
| | Financial | Health | Investment | Total | Financial | Health | Investment | Total |
| 2006 | | | | | | | | |
| Total revenues | \$ 768.0 | \$ 289.5 | \$ 35.7 | \$ 1,093.2 | \$ 1,549.1 | \$ 570.7 | \$ 70.1 | \$ 2,189.9 |
| Less: | | | | | | | | |
| Customer reimbursements | 96.7 | 1.6 | | 98.3 | 199.1 | 3.2 | | 202.3 |
| Prescription product costs | | 166.4 | | 166.4 | | 320.4 | | 320.4 |
| Adjusted revenues | \$ 671.3 | \$ 121.5 | \$ 35.7 | \$ 828.6 | \$ 1,350.0 | \$ 247.0 | \$ 70.1 | \$ 1,667.1 |

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| 2005 | | | | | | | | |
|---------------------------------------|------------------------------------|---------------|-------------------|--------------|----------------------------------|---------------|-------------------|--------------|
| Total revenues | \$ 714.0 | \$ 247.7 | \$ 34.7 | \$ 996.4 | \$ 1,412.0 | \$ 490.0 | \$ 67.5 | \$ 1,969.5 |
| Less: | | | | | | | | |
| Customer reimbursements | 81.9 | 1.4 | | 83.3 | 171.4 | 2.7 | | 174.1 |
| Prescription product costs | | 131.1 | | 131.1 | | 255.2 | | 255.2 |
| Adjusted revenues | \$ 632.1 | \$ 115.2 | \$ 34.7 | \$ 782.0 | \$ 1,240.6 | \$ 232.2 | \$ 67.5 | \$ 1,540.2 |
| Total revenue growth: | 8% | 17% | 3% | 10% | 10% | 16% | 4% | 11% |
| Adjusted revenue growth: | 6% | 5% | 3% | 6% | 9% | 6% | 4% | 8% |
| Operating Income (In millions) | | | | | | | | |
| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
| | Financial | Health | Investment | Total | Financial | Health | Investment | Total |
| 2006 | | | | | | | | |
| Operating income | \$ 159.0 | \$ 17.5 | \$ 7.6 | \$ 184.2 | \$ 325.2 | \$ 38.3 | \$ 13.7 | \$ 377.1 |
| 2005 | | | | | | | | |
| Operating income | \$ 160.2 | \$ 18.9 | \$ 8.2 | \$ 187.2 | \$ 320.3 | \$ 41.1 | \$ 13.8 | \$ 375.3 |
| Operating income growth: (1) | (1)% | (7)% | (7)% | (2)% | 2% | (7)% | (1)% | 1% |
| Operating margin: | | | | | | | | |
| 2006 | 21% | 6% | 21% | 17% | 21% | 7% | 19% | 17% |
| 2005 | 22% | 8% | 24% | 19% | 23% | 8% | 20% | 19% |

- (1) Operating income growth over 2005 was negatively impacted by incremental share-based compensation expense recorded in 2006 due to the modified prospective adoption of SFAS 123R.

Table of Contents**INTERNAL REVENUE GROWTH**

Internal revenue growth percentages are measured as the increase or decrease in total revenues for the current period less acquired revenue from acquisitions divided by total revenues from the prior year period plus acquired revenue from acquisitions. Acquired revenue from acquisitions represents pre-acquisition revenue of acquired companies, less dispositions, for the comparable prior year period. Actual and adjusted internal revenue growth percentages are non-GAAP financial measures that the Company believes are useful to investors because they present internal revenue growth including and excluding customer reimbursements and prescription product costs that must be presented in revenue under GAAP. The following tables set forth the calculation of internal revenue growth percentages:

| | Three months ended June 30, (In millions) | | | 2006 Internal Growth % | 2005 Internal Growth % |
|------------------------------------|--|------------|------------------------|------------------------------|------------------------------|
| | 2006 | 2005 | Increase (Decrease) | | |
| Total Company | | | | | |
| Total revenues | \$ 1,093.2 | \$ 996.4 | \$ 96.8 | | |
| Acquired revenue from acquisitions | | 21.6 | (21.6) | | |
| Total | \$ 1,093.2 | \$ 1,018.1 | \$ 75.1 | 7% | 7% |
| Adjusted revenues (1) | | | | 3% | 7% |
| By Segment: | | | | | |
| Financial | | | | | |
| Total revenues | \$ 768.0 | \$ 714.0 | \$ 54.0 | | |
| Acquired revenue from acquisitions | | 17.2 | (17.2) | | |
| Total | \$ 768.0 | \$ 731.2 | \$ 36.9 | 5% | 5% |
| Adjusted revenues (1) | | | | 3% | 7% |
| Health | | | | | |
| Total revenues | \$ 289.5 | \$ 247.7 | \$ 41.7 | | |
| Acquired revenue from acquisitions | | 4.5 | (4.5) | | |
| Total | \$ 289.5 | \$ 252.2 | \$ 37.3 | 15% | 10% |
| Adjusted revenues (1) | | | | 2% | 4% |
| Investment | | | | | |
| Total revenues | \$ 35.7 | \$ 34.7 | \$ 1.0 | 3% | 10% |

| | Six months ended June 30, (In millions) | | | 2006 Internal Growth % | 2005 Internal Growth % |
|------------------------------------|--|------------|------------------------|------------------------------|------------------------------|
| | 2006 | 2005 | Increase (Decrease) | | |
| Total Company | | | | | |
| Total revenues | \$ 2,189.9 | \$ 1,969.5 | \$ 220.3 | | |
| Acquired revenue from acquisitions | | 47.2 | (47.2) | | |
| Total | \$ 2,189.9 | \$ 2,016.8 | \$ 173.1 | 9% | 6% |
| Adjusted revenues (1) | | | | 5% | 6% |
| By Segment: | | | | | |

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| Financial | | | | | |
|------------------------------------|-------------------|-------------------|----------------|------------|------------|
| Total revenues | \$ 1,549.1 | \$ 1,412.0 | \$ 137.1 | | |
| Acquired revenue from acquisitions | | 38.3 | (38.3) | | |
| Total | \$ 1,549.1 | \$ 1,450.4 | \$ 98.8 | 7% | 4% |
| Adjusted revenues (1) | | | | 6% | 6% |
| Health | | | | | |
| Total revenues | \$ 570.7 | \$ 490.0 | \$ 80.6 | | |
| Acquired revenue from acquisitions | | 8.9 | (8.9) | | |
| Total | \$ 570.7 | \$ 498.9 | \$ 71.7 | 14% | 12% |
| Adjusted revenues (1) | | | | 2% | 4% |
| Investment | | | | | |
| Total revenues | \$ 70.1 | \$ 67.5 | \$ 2.6 | 4% | 9% |

(1) Adjusted internal revenue growth is calculated based on adjusted revenues which excludes customer reimbursements and prescription product pass-through costs. Adjusted internal revenue growth percentage for the three and six month periods ended June 30, 2005 excludes acquired prescription product costs of \$4.3 million and \$7.8 million, respectively.

Table of Contents**Financial**

The Financial segment increased total revenues by \$54.0 million, or 8%, in the second quarter of 2006 compared to 2005 and \$137.1 million, or 10%, in the first six months of 2006 compared to 2005. The internal revenue growth rate in the Financial segment was 5% in the second quarter of 2006 and 7% in the first six months of 2006 with the remaining growth resulting from acquisitions. Adjusted internal revenue growth, excluding the impact of customer reimbursements, was 3% in the second quarter of 2006 compared to 7% in the comparable period of 2005 and 6% in the first six months of 2006 and 2005. Positive contributors to the organic growth rates in 2006 were increased volumes and new clients in the lending division's loan settlement services businesses, new client growth and increased product sales of the Company's Information Technology, Inc.'s banking products and continued solid growth in the credit union businesses. In addition, year to date internal revenue growth rates were positively impacted by high levels of flood claims processing which primarily occurred in the first quarter of 2006. Partially offsetting this growth was an approximate 2 percentage point negative impact due to the loss of a few large client relationships that were announced in 2005 and the negative impact of reduced contract termination fees of \$12.5 million in the first six months of 2006 compared to the same period in 2005.

Operating margins in the Financial segment were 21% and 22% in the second quarter of 2006 and 2005 respectively and were 21% and 23% in the first six months of 2006 and 2005, respectively. The overall operating margins for the three and six months of 2006 compared to the comparable period in 2005 were negatively impacted by approximately 1 percentage point due to a combination of incremental share-based compensation expense related to the adoption of SFAS 123R on January 1, 2006 and revenue growth in the Company's output solutions division, which is required to include customer reimbursements in both revenues and expenses under US GAAP and results in lower incremental operating margins. In addition, year to date margins compared to the prior year were negatively impacted due to reduced contract termination fees of \$12.5 million, incremental expenses associated with the Company's Australian check processing operations, and investments in the Company's lending businesses. These negative margin impacts were offset by \$21.5 million of higher margin incremental flood claims processing revenues primarily earned in the first quarter of 2006.

Health

The Health segment increased total revenue by \$41.7 million, or 17%, in the second quarter of 2006 and \$80.6 million, or 16%, in the first six months of 2006 compared to the comparable periods of 2005. The internal revenue growth rate in this segment was 15% for the second quarter of 2006 and 14% for the first six months of 2006 with the remaining growth resulting from acquisitions. Adjusted internal revenue growth, excluding the impact of prescription product and other customer reimbursement costs, was 2% in the second quarter and first six months of 2006 compared to 4% in the second quarter and first six months of 2005. Revenue growth rates were primarily driven by growth in the pharmacy management businesses.

Operating margins in the Health segment were 6% and 8% in the second quarter of 2006 and 2005, respectively and were 7% and 8% in the first six months of 2006 and 2005, respectively. Prescription product costs negatively impacted operating margins in the Health segment by approximately 8 percentage points and 9 percentage points in the second quarter of 2006 and 2005, respectively, and approximately 9 percentage points in the first six months of 2006 and 2005. The decrease in operating income for 2006 compared to the comparable periods in 2005 was primarily due to \$2.5 million of incremental expenses related to investments in areas such as the Company's consumer-directed health care initiatives. These investments are expected to continue through the remainder of 2006.

Investment

The Investment segment had revenue growth of \$1.0 million in the second quarter of 2006 and \$2.6 million in the first six months of 2006, representing revenue growth of 3% and 4% for the three and six month periods ended June 30, 2006, respectively, which was primarily derived from continued new client growth. Operating margins in the Investment segment were 21% and 24% in the second quarter of 2006 and 2005, respectively, and were 19% and 20% in the first six months of 2006 and 2005, respectively. Margins in the second quarter compared to the prior year period were negatively impacted by the segment's mix of revenue with a lower level of higher margin investment income during the second quarter of 2006.

DISCONTINUED OPERATIONS

On March 24, 2005, the Company completed the sale of its securities clearing businesses to Fidelity Global Brokerage Group, Inc. (Fidelity) for \$344.9 million paid in cash at closing. Prior to completion of the sale, the securities clearing businesses paid a \$68.0 million cash distribution to the Company. The sales proceeds, net of related expenses, including taxes that became due upon the sale of the securities clearing businesses, approximated the Company's carrying value of its investment. In the first quarter of 2005, the Company recorded a net loss on the sale of discontinued operations of \$0.4 million, net of related income taxes of \$48.7 million. The higher income tax expense on the sale of the securities

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clearing operations was primarily due to a significantly lower tax basis than book basis in the discontinued operations resulting primarily from a tax free exchange in the Company's initial purchase of one of the companies included in discontinued operations. The stock purchase agreement provided that the Company retain the liability associated with the SEC investigation of the Company's former subsidiary, Fiserv Securities, Inc. (FSI). In the second quarter of 2005, FSI settled with the SEC on this matter for \$15.0 million which was fully accrued for in the Company's 2004 financial statements. In the second quarter of 2006, the Company finalized and recognized a \$10.6 million pre-tax gain related to a contingent payment that was received in July from Fidelity based on the securities clearing businesses' achievement of certain revenue targets established in the agreement.

The Company is investigating a matter in an indemnification notice received under the stock purchase agreement regarding FSI's past maintenance of certain documentation related to FSI's introducing broker dealers' customers. The Company is unable to estimate or predict the ultimate outcome or determine whether this matter will have a material adverse impact on the Company's discontinued operations' results.

INTEREST EXPENSE - NET

Net interest expense increased in the first six months of 2006 compared to the first six months of 2005 primarily due to rising interest rates and increased average borrowings outstanding. In addition, during 2005 the Company earned interest income on the proceeds received from the sale of the securities clearing businesses.

Table of Contents**REALIZED GAIN FROM SALE OF INVESTMENT**

In the first six months of 2005, the Company recorded a pre-tax realized gain of \$43.5 million, or \$0.14 per share after tax, from the sale of its remaining ownership of 3.2 million shares of Bisys Group, Inc. common stock in the first quarter of 2005.

INCOME TAX PROVISION

The effective income tax rate on continuing operations was 37.3% for the first six months of 2006 and 38.7% for the first six months of 2005. The income tax rate on continuing operations for the remainder of 2006 is expected to be 38.5%. The lower 2006 year to date effective tax rate on continuing operations was primarily driven by a one-time tax benefit of \$3.1 million, or \$0.02 per share, in the second quarter of 2006 primarily due to a change in a state tax law during the quarter.

NET INCOME PER SHARE - DILUTED

Net income per share-diluted for the second quarter of 2006 was \$0.66 compared to \$0.59 in the second quarter of 2005 with net income per share-diluted from continuing operations contributing \$0.63 and \$0.59 for the second quarter of 2006 and 2005, respectively. Net income per share-diluted for the first six months of 2006 and 2005 was \$1.30 with net income per share-diluted from continuing operations contributing \$1.26 and \$1.31 for the six month period ended June 30, 2006 and 2005, respectively. The three and six month periods ended June 30, 2006 were negatively impacted by the prospective adoption of SFAS 123R which resulted in \$0.02 and \$0.07 of incremental per-share expense, respectively, as the prospective method of adoption does not restate prior periods for share-based compensation expense. In addition, the first six months of 2005 net income per share-diluted included \$0.14 per share due to the one-time realized gain on the sale of the Company's investment in Bisys Group, Inc recorded in the first quarter of 2005.

LIQUIDITY AND CAPITAL RESOURCES

Free cash flow is measured as net cash provided by operating activities from continuing operations less capital expenditures including capitalization of software costs for external customers, as reported in the Company's condensed consolidated statements of cash flows. Free cash flow is a non-GAAP financial measure that the Company believes is useful to investors because it provides another measure of available cash flow after the Company has satisfied the capital requirements of its operations. The following table summarizes free cash flow for the Company during the six month periods ended June 30:

(In millions)

| | 2006 | 2005 |
|---|-----------------|-----------------|
| Net cash provided by operating activities from continuing operations | \$ 283.5 | \$ 250.9 |
| Capital expenditures, including capitalization of software costs for external customers | (96.2) | (69.6) |
| Free cash flow | \$ 187.3 | \$ 181.3 |

Year to date cash flow from operations increased 13% over the prior year to \$283.5 million. The Company's free cash flow of \$187.3 million increased 3% compared to the six months ended June 30, 2005 and was impacted by a higher level of capital expenditures in the first six months of 2006. Capital expenditures were \$96.2 million for the first six months of 2006 which is an increase of \$26.6 million over the same period in 2005. The increase was primarily due to a series of investments to support future client growth across the Company's businesses including investments in the output solutions division, Check 21 infrastructure, flood processing business and several lending division initiatives. In the first six months of 2006, the Company used its free cash flow of \$187.3 million and borrowings under its credit facility to repurchase \$349.5 million of stock under its share repurchase program. Further, the Company made payments of \$101.2 million related to the acquisition of businesses and contingent payments on previous acquisitions during the six month period ended June 30, 2006.

Long-term debt as of June 30, 2006 included \$500.0 million borrowed under the Company's \$900.0 million revolving credit facility that matures on March 24, 2011. The Company may increase the maximum aggregate amount of availability under the revolving credit facility up to \$1,250.0 million at the Company's discretion, subject to certain conditions, which include, among other things, the absence of any default under the credit agreement. The Company must, among other requirements under the facility, limit its total debt to no more than three and one-half times the Company's earnings before interest, taxes, depreciation and amortization. At June 30, 2006, the Company had \$783.1 million of long-term debt.

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The Company was in compliance with all debt covenants as of June 30, 2006.

In July 2006, the Company initiated a \$500.0 million unsecured commercial paper notes program. The Company may issue commercial paper, which is exempt from registration under the Securities Act of 1933, with maturities of up to 397 days from the date of issuance and maintains the above revolving credit facility to support 100% of the outstanding commercial paper.

The Company's current policy is to retain earnings to support future business opportunities, rather than to pay dividends. During the third quarter of 2005, the Company's Board of Directors authorized the repurchase of 10.0 million shares of the Company's common stock. The Company completed repurchases under this authorization during the first quarter of 2006. In the first quarter of 2006, the Board of Directors authorized the repurchase of up to an additional 10.0 million shares of the Company's common stock. During the first six months of 2006, the Company repurchased 8.2 million shares for \$349.5 million and as of June 30, 2006, 4.9 million shares remained authorized for repurchase under the current authorization. Shares repurchased under the existing stock repurchase plan are made through open market transactions as market conditions warrant. Shares acquired have historically been held for issuance in connection with acquisitions and employee stock option and purchase plans.

The Company believes that its cash flow from operations together with other available sources of funds will be adequate to meet its operating requirements, debt repayments, contingent payments in connection with business acquisitions and ordinary capital spending needs in 2006. At June 30, 2006, the Company had \$411.1 million available for borrowing and \$152.0 million in cash and cash equivalents. In the event that the Company makes significant future acquisitions, however, it may raise funds through additional borrowings or the issuance of securities.

Historically, the Company's growth has been accomplished, to a significant degree, through the acquisition of businesses that are complementary to its operations. Management believes that a number of acquisition candidates are available that would further enhance the Company's competitive position and plans to pursue them vigorously. In addition, management is engaged in an ongoing program to reduce expenses related to acquisitions and existing operations by eliminating operating redundancies. The Company's approach has been to move slowly in achieving this goal in order to minimize the amount of disruption experienced by its clients and the potential loss of clients due to this program.

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Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain matters discussed herein are forward-looking statements intended to qualify for the safe harbor from liability established by the Private Securities Litigation Reform Act of 1995. These forward-looking statements can generally be identified as such because the context of the statement will include words such as believes, anticipates, or expects, or words of similar import. Similarly, statements that describe future plans, objectives or goals of the Company are also forward-looking statements. Such forward-looking statements are subject to certain assumptions, risks and uncertainties, which could cause actual results to differ materially from those currently anticipated. Factors that could affect results include, among others, economic, competitive, governmental, regulatory and technological factors affecting the Company's operations, markets, services and related products, prices, level of contract termination fees, anticipated tax rates and other factors discussed in the Company's prior filings with the Securities and Exchange Commission. Shareholders, potential investors and other readers are urged to consider these factors carefully in evaluating the forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements. The Company assumes no obligation to

update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's quantitative and qualitative disclosures about market risk are incorporated by reference to Item 7A of the Company's Annual Report on Form 10-K for the year ended December 31, 2005 and have not materially changed since that report was filed.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of disclosure controls and procedures.

As required by Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act), management, with the participation of the Company's chief executive officer and chief financial officer, evaluated the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on this evaluation, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2006.

Changes in internal controls over financial reporting.

There was no change in the Company's internal control over financial reporting that occurred during the quarter ended June 30, 2006 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

The table below sets forth information with respect to purchases made by or on behalf of the Company or any affiliated purchaser (as defined in Rule 10b-18(a)(3) under the Securities Exchange Act of 1934) of shares of Company common stock during the three months ended June 30, 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) |
|--------------------|---|---|---|---|
| April 1 - 30, 2006 | 1,557,201 | \$ 41.97 | 1,557,201 | 6,126,386 |
| May 1 - 31, 2006 | 660,000 | \$ 44.09 | 660,000 | 5,466,386 |
| June 1 - 30, 2006 | 591,640 | \$ 44.28 | 591,640 | 4,874,746 |
| Total | 2,808,841 | \$ 42.96 | 2,808,841 | |

(1) On February 21, 2006, the Board of Directors authorized the repurchase of up to 10.0 million shares of the Company's common stock. As of June 30, 2006, the Company had the authority to repurchase 4,874,746 shares under that program. The repurchase authorization does not expire.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At the Company's Annual Meeting of Shareholders held on May 24, 2006, the Company's shareholders considered and acted as shown with respect to the following matters:

| | For | Withheld |
|---|-------------|-----------------|
| 1. ELECTION OF DIRECTORS: | | |
| TO SERVE A THREE-YEAR TERM EXPIRING IN 2009: | | |
| D.P. Kearney | 160,594,703 | 2,596,550 |
| J.W. Yabuki | 156,743,943 | 6,447,310 |
| TO SERVE A ONE-YEAR TERM EXPIRING IN 2007: | | |
| L.W. Seidman | 156,632,639 | 6,558,614 |
| The other directors of the Company whose terms in office continued after the 2006 Annual Meeting of Shareholders are as follows: terms expiring at the 2007 Annual Meeting - Kenneth R. Jensen, Kim M. Robak and Thomas C. Wertheimer; and terms expiring at the 2008 Annual Meeting - Donald F. Dillon, Gerald J. Levy and Glenn M. Renwick. | | |

| | For | Against | Abstain |
|--|-------------|----------------|----------------|
| 2. RATIFICATION OF THE SELECTION OF DELOITTE & TOUCHE LLP AS THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM OF THE COMPANY FOR 2006: | 155,897,507 | 6,145,428 | 1,148,318 |

| | For | Against | Abstain | Broker Non-Vote |
|--|------------|----------------|----------------|----------------------------|
| | 67,311,616 | 68,366,935 | 2,228,662 | 25,284,040 |

3. SHAREHOLDER PROPOSAL REGARDING THE VOTE STANDARD FOR
DIRECTOR ELECTION

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ITEM 6. EXHIBITS

The exhibits listed in the accompanying exhibit index are filed as part of this Quarterly Report on Form 10-Q.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Fiserv, Inc.
(Registrant)

Date: July 28, 2006

By: /s/ Thomas J. Hirsch
THOMAS J. HIRSCH
Executive Vice President, Chief
Financial Officer, Treasurer and
Assistant Secretary

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EXHIBIT INDEX

| Exhibit Number | Exhibit Description |
|-----------------------|---|
| 10 | Form of Key Executive Employment and Severance Agreement, effective May 1, 2006, between the Company and each of Thomas J. Hirsch and Alfred P. Moore (filed as Exhibit 10.4 to the Company's Form 10-K dated February 27, 2002 and incorporated herein by reference (File No. 000-14948)). |
| 31.1 | Certification of the Chief Executive Officer, dated July 28, 2006 |
| 31.2 | Certification of the Chief Financial Officer, dated July 28, 2006 |
| 32 | Certification of the Chief Executive Officer and Chief Financial Officer, dated July 28, 2006 |