

Fidelity National Information Services, Inc.

Form 10-Q

November 10, 2008

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-Q

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

For the quarterly period ended September 30, 2008

Or

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from

to

Commission File No. 001-16427

Fidelity National Information Services, Inc.

(Exact name of registrant as specified in its charter)

Georgia

*(State or other jurisdiction
of incorporation or organization)*

37-1490331

*(I.R.S. Employer
Identification No.)*

**601 Riverside Avenue
Jacksonville, Florida**

(Address of principal executive offices)

32204

(Zip Code)

(904) 854-8100

(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, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

YES NO

As of October 31, 2008, 189,995,319 shares of the Registrant's Common Stock were outstanding.

FORM 10-Q
QUARTERLY REPORT
Quarter Ended September 30, 2008
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Part I: FINANCIAL INFORMATION

Item I. Consolidated Financial Statements

FIDELITY NATIONAL INFORMATION SERVICES, INC.**AND SUBSIDIARIES****Consolidated Balance Sheets**

(In thousands)

	September 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 238,458	\$ 355,278
Settlement deposits	30,218	21,162
Trade receivables, net of allowance for doubtful accounts of \$38.1 million and \$53.4 million at September 30, 2008 and December 31, 2007, respectively	518,640	825,915
Settlement receivables	41,243	116,935
Other receivables	165,391	206,746
Receivable from FNF	8,627	14,907
Prepaid expenses and other current assets	119,604	168,454
Deferred income taxes	83,317	120,098
Total current assets	1,205,498	1,829,495
Property and equipment, net of accumulated depreciation of \$244.4 million and \$331.5 million at September 30, 2008 and December 31, 2007, respectively	280,502	392,508
Goodwill	4,231,476	5,326,831
Intangible assets, net of accumulated amortization of \$466.2 million and \$611.4 million at September 30, 2008 and December 31, 2007, respectively	853,360	1,030,582
Computer software, net of accumulated amortization of \$356.9 million and \$334.5 million at September 30, 2008 and December 31, 2007, respectively	639,867	775,151
Deferred contract costs	233,574	256,852
Investment in unconsolidated entities		30,491
Long term note receivable from FNF	5,659	6,154
Other noncurrent assets	100,036	146,519
Total assets	\$ 7,549,972	\$ 9,794,583
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 391,061	\$ 606,179
Settlement payables	75,927	129,799
Current portion of long-term debt	93,962	272,014

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Deferred revenues	159,837	246,222
Total current liabilities	720,787	1,254,214
Deferred revenues	88,853	111,884
Deferred income taxes	341,701	394,972
Long-term debt, excluding current portion	2,554,799	4,003,383
Other long-term liabilities	175,248	234,757
Total liabilities	3,881,388	5,999,210
Minority interest	66,293	14,194
Stockholders' equity:		
Preferred stock \$0.01 par value; 200 million shares authorized, none issued and outstanding at September 30, 2008 and December 31, 2007, respectively		
Common stock \$0.01 par value; 600 million shares authorized, 199.4 million and 199.0 million shares issued at September 30, 2008 and December 31, 2007, respectively	1,994	1,990
Additional paid in capital	2,957,937	3,038,203
Retained earnings	1,056,801	899,512
Accumulated other comprehensive earnings	(11,682)	53,389
Treasury stock, \$0.01 par value, 9.2 million and 4.3 million shares at September 30, 2008 and December 31, 2007, respectively	(402,759)	(211,915)
Total stockholders' equity	3,602,291	3,781,179
Total liabilities and stockholders' equity	\$ 7,549,972	\$ 9,794,583

See accompanying notes to consolidated financial statements (unaudited).

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**
Consolidated Statements of Earnings
(In thousands, except per share data)
(Unaudited)

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2008	2007	2008	2007
Processing and services revenues (note 3)	\$ 893,844	\$ 712,812	\$ 2,610,720	\$ 2,085,694
Cost of revenues (note 3)	661,995	562,998	1,984,295	1,624,463
Gross profit	231,849	149,814	626,425	461,231
Selling, general, and administrative expenses (note 3)	79,944	72,387	308,846	216,612
Research and development costs	26,155	17,579	73,308	50,002
Operating income	125,750	59,848	244,271	194,617
Other income (expense):				
Interest income	978	719	5,373	1,093
Interest expense	(48,397)	(37,856)	(132,415)	(152,863)
Gain on sale of Covansys stock		182,444		274,488
Other (expense) income, net	(1,884)	3,327	(101)	4,755
Total other (expense) income	(49,303)	148,634	(127,143)	127,473
Earnings before income taxes, equity in (losses) earnings of unconsolidated entities, minority interest, and discontinued operations	76,447	208,482	117,128	322,090
Provision for income taxes	28,071	75,238	37,481	113,802
Earnings before equity in (losses) earnings of unconsolidated entities, minority interest, and discontinued operations	48,376	133,244	79,647	208,288
Equity in (losses) earnings of unconsolidated entities		86	(157)	2,824
Minority interest	(2,751)	41	(2,867)	369
Net earnings from continuing operations	45,625	133,371	76,623	211,481
(Losses) earnings from discontinued operations, net of tax	(2,002)	111,933	109,407	241,330
Net earnings	\$ 43,623	\$ 245,304	\$ 186,030	\$ 452,811

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Net earnings per share	basic from continuing operations	\$ 0.24	\$ 0.69	\$ 0.40	\$ 1.10
Net earnings per share	basic from discontinued operations	(0.01)	0.58	0.57	1.25
Net earnings per share	basic	\$ 0.23	\$ 1.27	\$ 0.97	\$ 2.35
Weighted average shares outstanding	basic	189,541	193,171	192,198	192,609
Net earnings per share	diluted from continuing operations	\$ 0.24	\$ 0.68	\$ 0.39	\$ 1.08
Net earnings per share	diluted from discontinued operations	(0.01)	0.57	0.56	1.23
Net earnings per share	diluted	\$ 0.23	\$ 1.25	\$ 0.96	\$ 2.30
Weighted average shares outstanding	diluted	191,822	196,649	194,261	196,480
Cash dividends paid per share		\$ 0.05	\$ 0.05	\$ 0.15	\$ 0.15

See accompanying notes to consolidated financial statements (unaudited)

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUSIDIARIES
Consolidated Statements of Comprehensive Earnings (Loss)
(In thousands)
(Unaudited)**

	Three month periods ended September 30,		Nine month periods ended September 30,	
	2008	2007	2008	2007
Net earnings	\$ 43,623	\$ 245,304	\$ 186,030	\$ 452,811
Other comprehensive earnings (losses):				
Unrealized gain on Covansys warrants, net of tax (1)				7,647
Unrealized gain (loss) on interest rate swaps, net of tax (2)	4,881	(10,504)	(1,551)	(6,435)
Unrealized gain on other investments, net of tax		115		69
Unrealized (loss) gain on foreign currency translation, net of tax (3)	(102,662)	21,264	(63,520)	41,034
Reclassification adjustments for realized losses on Covansys warrants included in net earnings (4)		(14,319)		(14,319)
Other comprehensive (loss) earnings	(97,781)	(3,444)	(65,071)	27,996
Comprehensive (loss) earnings	\$ (54,158)	\$ 241,860	\$ 120,959	\$ 480,807

(1) Net of income tax expense of \$4.8 million for the nine month ended September 30, 2007.

(2) Net of income tax expense (benefit) of \$2.9 million and (\$6.1) million for the three month periods and (\$0.9) million and (\$3.6) million for the nine month periods ended September 30, 2008 and 2007, respectively.

(3) Net of income tax expense (benefit) of (\$12.9) million and \$1.6 million for the three month periods and (\$10.5) million and \$6.1 million for the nine month periods ended September 30, 2008 and 2007, respectively.

(4) Net of income tax benefit of \$9.0 million for the three month period and \$9.0 million for the nine month ended September 30, 2007, respectively.

See accompanying notes to consolidated financial statements (unaudited)

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**
Consolidated Statement of Stockholders' Equity
(In thousands)
(Unaudited)

	Common Shares	Common Stock	Additional Paid In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Loss)	Treasury Shares	Treasury Stock	Total Stockholders Equity
Balances, December 31, 2007	199,006	\$ 1,990	\$ 3,038,203	\$ 899,512	\$ 53,389	(4,336)	\$ (211,915)	\$ 3,781,179
Net Earnings				186,030				186,030
Issuance of restricted stock	364	4	(4)					
Exercise of stock options			(26,698)			1,164	45,324	18,626
Tax benefit associated with exercise of stock options			139					139
Stock-based compensation			50,594					50,594
LPS spin-off			(104,297)					(104,297)
Cash dividends (\$0.15 per share)				(28,741)				(28,741)
Purchases of treasury stock						(6,045)	(236,168)	(236,168)
Unrealized loss on investments and derivatives, net					(1,551)			(1,551)
Unrealized (loss) gain on foreign currency translation					(63,520)			(63,520)
Balances, September 30, 2008	199,370	\$ 1,994	\$ 2,957,937	\$ 1,056,801	\$ (11,682)	(9,217)	\$ (402,759)	\$ 3,602,291

See accompanying notes to consolidated financial statements (unaudited)

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)**

	Nine month periods ended September 30,	
	2008	2007
Cash flows from operating activities:		
Net earnings	\$ 186,030	\$ 452,811
Adjustment to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	344,520	358,943
Gain on sale of Covansys stock		(274,488)
Amortization of debt issue costs	16,043	29,224
Net loss (gain) on sale of non-strategic businesses	2,496	(71,675)
Stock-based compensation	50,594	27,130
Deferred income taxes	3,096	(26,713)
Income tax benefit from exercise of stock options	(139)	(44,243)
Equity in losses (earnings) of unconsolidated entities	2,273	(1,266)
Minority interest	1,628	1,463
Changes in assets and liabilities, net of effects from acquisitions:		
Net increase in trade receivables	(30,983)	(115,811)
Net increase in prepaid expenses and other assets	(11,388)	(41,571)
Net increase in deferred contract costs	(54,736)	(41,335)
Net decrease in deferred revenue	(9,328)	(11,630)
Net (decrease) increase in accounts payable, accrued liabilities, and other liabilities	(101,457)	15,567
Net cash provided by operating activities	398,649	256,406
Cash flows from investing activities:		
Additions to property and equipment	(57,084)	(85,386)
Additions to capitalized software	(146,725)	(159,285)
Cash received from sale of Covansys stock		430,157
Other investing activities	(4,665)	
Net proceeds from sale of company assets	33,506	81,235
Acquisitions, net of cash acquired	(17,404)	(1,722,257)
Net cash used in investing activities	(192,372)	(1,455,536)
Cash flows from financing activities:		
Borrowings	3,796,198	4,300,300
Debt service payments	(3,839,311)	(2,987,160)
Capitalized debt issuance costs	(12)	(28,052)
Income tax benefits from exercise of stock options	139	44,243

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Stock options exercised	18,626	44,960
Cash transferred in LPS spin-off	(20,770)	
Treasury stock purchases	(236,168)	(80,339)
Dividends paid	(28,741)	(28,931)
Net cash (used in) provided by financing activities	(310,039)	1,265,021
Effect of foreign currency exchange rates on cash	(13,058)	1,432
Net (decrease) increase in cash and cash equivalents	(116,820)	67,323
Cash and cash equivalents, beginning of period	355,278	211,753
Cash and cash equivalents, end of period	\$ 238,458	\$ 279,076
Cash paid for interest	\$ 163,373	\$ 136,483
Cash paid for taxes	\$ 52,872	\$ 227,812

See accompanying notes to consolidated financial statements (unaudited)

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Unless stated otherwise or the context otherwise requires, all references to FIS, we, the Company or the registrant are to Fidelity National Information Services, Inc., a Georgia corporation formerly known as Certegy Inc., which was the surviving legal entity in the Certegy Merger; all references to eFunds are to eFunds Corporation, and its subsidiaries, as acquired by FIS (Note 5); all references to Old FNF are to Fidelity National Financial, Inc. that owned a majority of the Company's shares through November 9, 2006; all references to FNF are to Fidelity National Financial, Inc. (formerly known as Fidelity National Title Group, Inc. (FNT)), formerly a subsidiary of Old FNF but now an independent company; and all references to LPS are to Lender Processing Services, Inc., a former wholly owned subsidiary of FIS which was spun-off as a separate publicly traded company on July 2, 2008 (Note 2) .

(1) Basis of Presentation

The unaudited financial information included in this report includes the accounts of FIS and its subsidiaries prepared in accordance with generally accepted accounting principles and the instructions to Form 10-Q and Article 10 of Regulation S-X. All adjustments considered necessary for a fair presentation have been included. This report should be read in conjunction with the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The preparation of these Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates. Certain reclassifications have been made in the 2007 Consolidated Financial Statements to conform to the classifications used in 2008.

We are a leading provider of technology solutions, processing services, and information-based services to the financial services industry. On July 2, 2008, we completed the spin-off of our former Lender Processing Services operating segment into a separate publicly traded company, referred to as LPS. Subsequent to the spin-off, we have continued to operate under the historical operating segment of Transaction Processing Services (Note 17). We are currently reviewing our organizational and management structure. Upon completion of this review, we may redefine our reporting segments, if appropriate. Corporate overhead costs and other operations that are not included in our Transaction Processing Services segment are included in Corporate and Other.

(2) Discontinued Operations

During 2008 and 2007, we discontinued certain operations in the Transaction Processing Services and Lender Processing Services segments, which are reported as discontinued operations in the Consolidated Statements of Earnings for the three and nine month periods ended September 30, 2008 and 2007, in accordance with Statement of Financial Accounting Standards (SFAS) No. 144 Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144).

LPS

On July 2, 2008 (the spin-off date), all of the shares of the common stock, par value \$0.0001 per share (the Common Stock) of LPS, previously a wholly-owned subsidiary of FIS, were distributed to FIS shareholders through a stock dividend (the spin-off). FIS and LPS are distinct and unique businesses that serve different customers, operate in different markets, and attract different investors. The spin-off allows us to provide more flexibility and dedicated management focus with respect to our product development, capital investment and strategic initiatives of FIS. At the time of the distribution, LPS consisted of substantially all the assets, liabilities, businesses and employees related to FIS Lender Processing Services segment as of the spin-off date. In the spin-off, FIS contributed all of its interest in such assets, liabilities, businesses and employees to LPS in exchange for shares of the Common Stock and \$1,585.0 million aggregate principal amount of LPS debt obligations, which we used to retire the \$1,585.0 Term Loan B. Upon the distribution, FIS shareholders received one-half share of the Common Stock of LPS for every share of FIS common stock held as of the close of business on June 24, 2008. FIS shareholders collectively received 100% of the Common Stock of LPS, which became a stand-alone public company trading under the symbol LPS on the New York Stock Exchange. The results of operations of the former Lender Processing Services segment of FIS are

reflected as discontinued operations in the Consolidated Statements of Earnings, for the three and nine month periods ended September 30, 2008 and 2007, in accordance with SFAS No. 144.

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**FIDELITY NATIONAL INFORMATION SERVICES, INC.
AND SUBSIDIARIES**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) Continued

LPS had revenues of \$10.1 million and \$424.4 million during the three month periods and \$923.2 million and \$1,248.0 million during the nine month periods ended September 30, 2008 and 2007, respectively. LPS had earnings before taxes of \$1.8 million and \$111.8 million during the three month periods and \$188.4 million and \$315.9 million during the nine month periods ended September 30, 2008 and 2007, respectively.

The following table summarizes the major categories of LPS assets and liabilities disposed of in the July 2, 2008 spin-off:

Assets:	
Total current assets	397,604
Goodwill, net	1,086,606
Other intangible assets, net	103,347
Other non-current assets	354,869

Li